

# G 固生堂

## GUSHENG TANG HOLDINGS LIMITED

### 固生堂控股有限公司

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

Stock Code : 2273

## GLOBAL OFFERING



Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

**BofA SECURITIES**



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

**CICC 中金公司**



Joint Bookrunner and Joint Lead Manager

**ICBC 工銀國際**

Joint Lead Manager

**富途證券**

## IMPORTANT

**IMPORTANT:** If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



## GUSHENG TANG HOLDINGS LIMITED

### 固生堂控股有限公司

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

#### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 27,878,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 2,787,800 Shares (subject to reallocation)
Number of International Offer Shares	: 25,090,200 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$29.00 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	: US\$0.0001 per Share
Stock Code	: 2273

*Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*



*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*



*Joint Bookrunner and Joint Lead Manager*



*Joint Lead Manager*



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix V—Documents Delivered to the Registrar of Companies in Hong Kong and on Display," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between us and the Joint Representatives (for themselves and on behalf of the Underwriters) on or about Friday, December 3, 2021 and, in any event, not later than Monday, December 6, 2021. The Offer Price will not be more than HK\$29.00 per Offer Share and is expected to be not less than HK\$25.80 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$29.00 per Offer Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$29.00 per Offer Share. If, for any reason, the Offer Price is not agreed between us and the Joint Representatives (for themselves and on behalf of the Underwriters) on or before Monday, December 6, 2021, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the websites of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.gstzy.cn](http://www.gstzy.cn). See "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for more details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (1) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors." The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting." It is important that you refer to that section for further details.

November 30, 2021

---

## IMPORTANT

---

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be made for a minimum of 100 Hong Kong Offer Shares and in multiples of that number of Hong Kong Offer Shares as set out in the table below. You are required to pay the amount next to the number of Hong Kong Offer Shares you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK\$		HK\$		HK\$		HK\$
100	2,929.23	2,000	58,584.47	10,000	292,922.33	300,000	8,787,669.90
200	5,858.45	2,500	73,230.59	20,000	585,844.66	400,000	11,716,893.20
300	8,787.67	3,000	87,876.70	30,000	878,766.99	500,000	14,646,116.50
400	11,716.89	3,500	102,522.82	40,000	1,171,689.32	600,000	17,575,339.80
500	14,646.12	4,000	117,168.93	50,000	1,464,611.65	700,000	20,504,563.10
600	17,575.34	4,500	131,815.05	60,000	1,757,533.98	800,000	23,433,786.40
700	20,504.57	5,000	146,461.17	70,000	2,050,456.31	900,000	26,363,009.70
800	23,433.79	6,000	175,753.40	80,000	2,343,378.64	1,000,000	29,292,233.00
900	26,363.01	7,000	205,045.63	90,000	2,636,300.97	1,393,900 <sup>(1)</sup>	40,830,443.58
1,000	29,292.23	8,000	234,337.86	100,000	2,929,223.30		
1,500	43,938.35	9,000	263,630.10	200,000	5,858,446.60		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and such an application is liable to be rejected.

---

## EXPECTED TIMETABLE<sup>1</sup>

---

If there is any change in the following expected timetable, we will issue an announcement on the respective websites of the Company at [www.gstzy.cn](http://www.gstzy.cn) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

Hong Kong Public Offering commences ..... 9:00 a.m. on Tuesday,  
November 30, 2021

Latest time to complete electronic applications under  
the **HK eIPO White Form** service through one of the  
ways below<sup>(2)</sup>

- the **IPO App**, which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at [www.hkeipo.hk/IPOApp](http://www.hkeipo.hk/IPOApp) or [www.tricorglobal.com/IPOApp](http://www.tricorglobal.com/IPOApp)
- the designated website [www.hkeipo.hk](http://www.hkeipo.hk) ..... 11:30 am on Friday,  
December 3, 2021

Application lists open<sup>(3)</sup> ..... 11:45 am on Friday,  
December 3, 2021

Latest time to give **electronic application instructions**  
to HKSCC<sup>(4)</sup> ..... 12:00 noon on Friday,  
December 3, 2021

Latest time to complete payment of **HK eIPO White Form**  
applications by effecting Internet banking transfer(s)  
or PPS payment transfer(s) ..... 12:00 noon on Friday,  
December 3, 2021

If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close<sup>(3)</sup> ..... 12:00 noon on Friday, December 3, 2021

Expected Price Determination Date<sup>(5)</sup> ..... Friday, December 3, 2021

(1) Announcement of:

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and

---

## EXPECTED TIMETABLE<sup>1</sup>

---

- the basis of allocations of the Hong Kong Offer Shares to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese),

on or before<sup>(9)</sup> .....Thursday, December 9, 2021

- (2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels (see the section headed "How to Apply for Hong Kong Offer Shares—11. Publication of Results" in this prospectus) from<sup>(9)</sup> ..... Thursday, December 9, 2021

Announcement of (1) and (2) above to be published on the website of the Company at [www.gstzy.cn](http://www.gstzy.cn) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before<sup>(9)</sup> .....Thursday, December 9, 2021

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available at the "IPO Results" function in the **IPO App** or at [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) (or [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result)) with a "search by ID" function<sup>(9)</sup> ..... Thursday, December 9, 2021

Dispatch/Collection of Share certificates or deposit of Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(6)(7)(9)</sup> .....Thursday, December 9, 2021

Dispatch/Collection of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(6)(8)(9)</sup> .....Thursday, December 9, 2021

Dealings in the Shares on the Stock Exchange expected to commence<sup>(9)</sup> .....9:00 a.m. on Friday, December 10, 2021

---

*Notes:*

- (1) All times and dates refer to Hong Kong local times and dates unless otherwise stated.
- (2) You will not be permitted to submit your application under the **HK eIPO White Form** service through the **IPO App** or the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website at or prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a "black" rainstorm warning signal, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions is/are in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 3, 2021, the application lists will not open on that day. For further information please refer to the section headed "How to Apply for Hong Kong Offer Shares—10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares—6. Applying through the **CCASS EIPO** service" in this prospectus.

---

## EXPECTED TIMETABLE<sup>1</sup>

---

- (5) The Price Determination Date is expected to be on or around Friday, December 3, 2021, and in any event will not be later than Monday, December 6, 2021. If, for any reason, the Offer Price is not agreed among the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company on or before Monday, December 6, 2021, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) Applicants who have applied with the **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques and Share certificates (as applicable) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 9, 2021 or such other date as notified by us in the newspapers. Applicants being individuals who are eligible to personal collection must not authorise any other person to make collection on their behalf. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.
- Applicants who have applied for Hong Kong Offer Shares through the **CCASS EIPO** service should refer to the section headed "How to Apply for Hong Kong Offer Shares—14. Despatch/Collection of Share Certificates and Refund Monies—Personal Collection—(b) If you apply through the **CCASS EIPO** service" in this prospectus. Share certificates (if applicable) and/or refund cheques (if applicable) for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates (if applicable) and/or refund cheques (if applicable) will be dispatched by ordinary post, at the risk of the applicants, to the addresses specified in the relevant applications shortly after the expiry of the time for collection at the date of dispatch of refund cheque as described in the sections headed "How to Apply for Hong Kong Offer Shares—13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares—14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.
- (7) Share certificates for the Hong Kong Offer Shares are expected to be issued on Thursday, December 9, 2021 but will only become valid certificates of title provided that the Global Offering becomes unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.
- (8) Refund cheques will be issued (where applicable) and e-Auto Refund payment instructions will be dispatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's identification document number, or, if the application is made by joint applicants, part of the identification document number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's identification document number before encashment of the refund cheques. Inaccurate completion of an applicant's identification document number may invalidate or delay encashment of the refund cheque.
- (9) In case a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Tuesday, November 30, 2021 to Friday, December 10, 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) despatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

**For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus, respectively.**

---

## CONTENTS

---

### IMPORTANT NOTICE TO INVESTORS

*We have issued this prospectus solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should only rely on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, Joint Representatives, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.*

	<u>Page</u>
<b>Expected Timetable</b> . . . . .	i
<b>Contents</b> . . . . .	iv
<b>Summary</b> . . . . .	1
<b>Definitions</b> . . . . .	21
<b>Glossary of Technical Terms</b> . . . . .	42
<b>Forward-Looking Statements</b> . . . . .	50
<b>Risk Factors</b> . . . . .	51
<b>Waivers from Strict Compliance with the Listing Rules</b> . . . . .	106
<b>Information about this Prospectus and the Global Offering</b> . . . . .	109
<b>Directors and Parties Involved in the Global Offering</b> . . . . .	113
<b>Corporate Information</b> . . . . .	118
<b>Industry Overview</b> . . . . .	120
<b>Regulatory Overview</b> . . . . .	134
<b>History, Reorganization and Corporate Structure</b> . . . . .	168
<b>Contractual Arrangements</b> . . . . .	203
<b>Business</b> . . . . .	220
<b>Directors and Senior Management</b> . . . . .	316
<b>Relationship with Our Controlling Shareholders</b> . . . . .	333
<b>Connected Transactions</b> . . . . .	337
<b>Share Capital</b> . . . . .	342
<b>Substantial Shareholders</b> . . . . .	345

---

## CONTENTS

---

	<u>Page</u>
<b>Financial Information</b> . . . . .	348
<b>Cornerstone Investors</b> . . . . .	417
<b>Future Plans and Use of Proceeds</b> . . . . .	423
<b>Underwriting</b> . . . . .	430
<b>Structure of the Global Offering</b> . . . . .	441
<b>How to Apply for Hong Kong Offer Shares</b> . . . . .	451
<b>Appendix I—Accountants’ Report</b> . . . . .	<b>I-1</b>
<b>Appendix II—Unaudited Pro Forma Financial Information.</b> . . . . .	<b>II-1</b>
<b>Appendix III—Summary of the Constitution of the Company and Cayman Companies Act</b> . . .	<b>III-1</b>
<b>Appendix IV—Statutory and General Information</b> . . . . .	<b>IV-1</b>
<b>Appendix V—Documents Delivered to the Registrar of Companies in Hong Kong and on Display</b> . . . . .	<b>V-1</b>



---

## SUMMARY

---

*This summary is an overview of the information contained in this prospectus and does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, we provide customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs. We ranked eighth among all the private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020, with a market share of 0.6% in terms of revenue in this highly fragmented market, according to Frost & Sullivan.

Our history can be traced back to 2010 when Guangdong Gushengtang was established by Mr. Tu, our principal founder, executive Director, chairman of the Board and chief executive officer. Since our inception in 2010, we have been focusing on the expansions of our offline medical service network. We continuously utilize our accumulated offline TCM healthcare resources to provide healthcare solutions. The TCM healthcare services that we provide include pre-consultation preparations, high-quality consultation and diagnosis, physiotherapies, TCM prescription and decocting services. We also provide a wide range of healthcare products to our customers. We mainly compete with numerous private TCM healthcare providers in China in our principal businesses. According to Frost & Sullivan, private TCM healthcare providers in China are mainly out-patient departments and clinics focusing on primary care, while public TCM healthcare providers are mainly comprehensive state-owned hospitals playing dominant roles in the TCM diagnosis and treatment service segment. Since the establishment of our first TCM medical institution in Beijing in 2011, we have come to own and operate 42 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo and Wuxi as of the Latest Practicable Date. Since we launched our online appointment, follow-up consultation, diagnosis and prescription services on our official WeChat account in 2018, we have been capable of providing both offline and online healthcare solutions through our offline and online medical service network. As of December 31, 2020, we have achieved the following accomplishments, according to Frost & Sullivan:

- (i) 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, 2020;
  - the largest number of offline medical institutions as of December 31, 2020; and
  - the largest number of cities covered by offline medical institution network as of December 31, 2020.
- (ii) 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.

Focusing on primary care, we have 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 for customers. Our TCM platform has the following key characteristics:

***Conventional TCM diagnosis and treatment methods combined with western medicine.*** We originated from the conventional TCM diagnosis and treatment methods of primary care, and developed diagnosis and treatment methods combining TCM and western medicine. We provide TCM healthcare solutions through online healthcare platforms and offline TCM medical institutions, combining conventional TCM diagnosis and treatment methods with western medicine, such as

---

## SUMMARY

---

clinical laboratory examination and treatment. We aim to effectively and efficiently provide patients with comprehensive healthcare solutions, especially chronic disease management. We focus on the customers' daily primary care, aiming to achieve long-term follow-up and healthcare management for customers.

***Offline operations integrated with online operations.*** 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. We started to expand offline healthcare service to online platforms and further integrated our offline medical institutions with online healthcare platforms in 2018, earlier than other TCM healthcare providers in China, according to Frost & Sullivan. We believe we are one of the first TCM healthcare providers to utilize the online healthcare platforms and effectively connect the offline medical service network with online platforms, and are thus well positioned to benefit from favorable government policies encouraging the development of online healthcare services. On the one hand, the development of our online healthcare services enables us to utilize medical resources and expand our customer coverage more effectively. On the other hand, we are able to strategically choose cities for offline expansion based on the activeness of online physicians and customers.

***Standardized and digitalized operations.*** We have developed a standardized and scalable operating model for our offline business with a proven track record. Meanwhile, we developed and applied a cloud-based HIS in 2017 for our overall supply chain management from upstream procurement to downstream delivery while enhancing our capability to upscale business and maintaining quality control. Other medical institutions providing conventional TCM healthcare services are generally not well supported by cloud-based system and thus lack digital operation. Moreover, we also utilize our IT systems to improve customer experience and satisfaction, enabling our customers to check the availability of, and make appointments with, our physicians through their preferred channel and communicate with us timely.

We have gone through three stages for business development. Since our inception in 2010, we have been dedicated to securing offline TCM healthcare resources and build reputable offline TCM brand. Driven by the philosophy of “offering services through chain management, economy of scale and branding” and benefiting from our multi-tier expansion strategies and scalable business model, we have expanded our offline medical service network to comprise 42 medical institutions as of the Latest Practicable Date, supported by experienced physician resources. Since 2018, we have launched our online appointment, follow-up consultation and diagnosis and prescription services on our online healthcare platforms such as official WeChat account, as a result of which, we have become capable of providing both offline and online healthcare solutions through our medical service network. Benefiting from our development over the years, we ranked eighth among all the private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020, with a market share of 0.6% in terms of revenue in this highly fragmented market, according to Frost & Sullivan. We believe our past development and experience have laid solid foundation for us to build a leading TCM healthcare ecosystem in China in the future.

### **Our Business Model**

Since our inception in 2010, we have adhered to our core value of better serving our customers with “conscientious physicians, reliable pharmaceuticals (良心醫, 放心藥).” With years of development of our offline medical service network, we have continuously explored new application of our healthcare solutions and standardized our operations. We have therefore successfully developed a customer-centric TCM healthcare platform with the integration of online healthcare platforms and offline medical institutions.

### **Healthcare Solutions**

We provide our customers with a comprehensive range of TCM healthcare services, including pre-consultation preparations, high-quality consultation and diagnosis, physiotherapies, TCM prescription and decocting services, and healthcare products, mainly through our offline medical institutions and online healthcare platforms in operation, to address their diversified medical needs that may arise throughout the whole process of disease diagnosis and treatment and healthcare management. See “Business—Our Services and Products—Healthcare Solutions” for details.

---

## SUMMARY

---

During the Track Record Period, our revenue generated from providing healthcare solutions primarily comprised medical fees, including consultation fees, medicine fee, processing fee and physiotherapy fee paid by our customers through out-of-pocket payments, national reimbursement programs and commercial medical insurance policies. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue generated from providing healthcare solutions amounted to RMB668.1 million, RMB865.9 million, RMB891.8 million and RMB588.9 million, respectively, representing 92.0%, 96.6%, 96.4% and 98.4%, respectively, of our total revenue for the same periods.

### ***Sale of Healthcare Products***

In addition to the healthcare products we prescribe and sell during our healthcare solution services, we also generate revenue from sale of healthcare products separately to customers. Healthcare products that we sell primarily include (i) valuable medicinal (貴細藥材), such as donkey-hide gelatin (阿膠), cordyceps sinensis (冬蟲夏草), bird's nest (燕窩), dendrobium nobile (石斛) and American ginseng (西洋參); and (ii) nourishment, such as compound donkey-hide gelatin syrup (複方阿膠漿), donkey-hide gelatin cake (阿膠糕), honey (蜂蜜), healthy tea (養生茶), ready-to-eat fish maws (即食花膠) and ready-to-eat bird's nest (即食燕窩). See “Business—Our Services and Products—Sale of Healthcare Products” for details.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue generated from sale of healthcare products amounted to RMB58.1 million, RMB30.3 million, RMB33.6 million and RMB9.3 million, respectively, representing 8.0%, 3.4%, 3.6% and 1.6%, respectively, of our total revenue for the same periods.

### **Our Revenue Source and Financial Performance**

During the Track Record Period, we generated revenue primarily from (i) providing healthcare solutions; and (ii) sale of healthcare products. Our revenue generated from providing healthcare solutions is primarily affected by the scale of offline and online medical network we operate, the number of our customers and our customers' spending in the relevant years or periods. To a much lesser extent, we also provide third-party management services to third-party small- and medium-sized TCM clinics, from which we only generate insignificant amount of revenue during the Track Record Period. Our revenue derived from sale of healthcare products fluctuated primarily attribute to the volume and type of valuable medicinal and nourishment sold, the unit price of which may vary significantly. Generally, when the sales volume of valuable medicinal and nourishment with high unit price increased, we generated more revenue from sale of healthcare products. For example, we generated relatively high revenue from sale of valuable medicinal including donkey-hide gelatin, cordyceps sinensis, bird's nest, dendrobium nobile and American ginseng and nourishment such as compound donkey-hide gelatin syrup, donkey-hide gelatin cake, honey, healthy tea, ready-to-eat fish maws and ready-to-eat bird's nest during the Track Record Period. Meanwhile, the sales volume of our healthcare products may, from time to time, affected by promotion activities. For example, we recorded more revenue from sale of healthcare products in 2018 compared with that of 2019 due to more group purchase promotion and promotion activities for selected products.

We had achieved significant growth during the Track Record Period. We recorded revenue of RMB726.2 million, RMB896.2 million and RMB925.4 million, respectively, for the years ended December 31, 2018, 2019 and 2020, representing a CAGR of 12.9%. Our revenue increased by 78.1% from RMB335.9 million for the six months ended June 30, 2020 to RMB598.2 million for the six months ended June 30, 2021.

### **OUR COMPETITIVE STRENGTHS**

We believe the following competitive strengths could enable us to achieve rapid and sustainable growth and maintain our industry position among private TCM healthcare providers.

- One of the largest private TCM healthcare providers in China, integrating offline and online businesses which boosts sustainable growth potential
- Extensive TCM medical resources with established brand recognition and high entry barriers
- Sticky customer base with high loyalty
- Effective supply chain management system empowered by in-house HIS
- Standardized and digitalized operations
- Visionary founder and experienced management team with proven track record

## SUMMARY

### OUR STRATEGIES

To achieve our mission, we plan to adopt the following strategies:

- Further broaden medical resource coverage, deepen the integration of offline and online healthcare platforms and increase market penetration
- Continue to improve our information technology systems, standardize our healthcare solutions and products and strengthen our supply chain.
- Continue to enhance our brand awareness and industry influence
- Continue to develop more TCM healthcare products and solutions to achieve better TCM specialty care

### OUR SERVICES AND PRODUCTS

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

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	Revenue (RMB'000)	% of total revenue (%)	Revenue (RMB'000)	% of total revenue (%)	Revenue (RMB'000)	% of total revenue (%)	Revenue (RMB'000)	% of total revenue (%)	Revenue (RMB'000)	% of total revenue (%)
							(unaudited)			
Healthcare solutions <sup>(1)</sup> . . . . .	668,135	92.0	865,862	96.6	891,797	96.4	326,960	97.3	588,872	98.4
Sale of healthcare products . . .	58,110	8.0	30,294	3.4	33,569	3.6	8,964	2.7	9,317	1.6
<b>Total . . . . .</b>	<b>726,245</b>	<b>100.0</b>	<b>896,156</b>	<b>100.0</b>	<b>925,366</b>	<b>100.0</b>	<b>335,924</b>	<b>100.0</b>	<b>598,189</b>	<b>100.0</b>

Note:

(1) Including insignificant amount of revenue generated from providing third-party management services to small- and medium-sized TCM clinics, all of which were Independent Third Parties. See “Business—Our Services and Products—Healthcare Solutions—Third-party Management Services” for more details.

### OUR MEDICAL SERVICE NETWORK

As of the Latest Practicable Date, we 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).” In addition, we owned and operated a variety of online channels, including official websites, mobile applications, official WeChat accounts and mini programs, in the name of “Gushengtang” as of the same date.

During the Track Record Period, we expanded our medical service network through strategic acquisitions of offline medical institutions and online healthcare platforms. Our Group acquired Bailu in October 2020 and Wanjia Platform in April 2021 for online healthcare platforms specializing in traditional Chinese medical healthcare solutions to further strengthen our offline and online medical service network. For details of the acquisition of Bailu and Wanjia Platform, see “History, Reorganization and Corporate Structure—Material and Other Acquisitions.”

Further, from 2012 and up to June 30, 2021, our Group acquired 32 offline medical institutions at a total consideration of approximately RMB644.99 million. The aforementioned consideration for the acquisition of such medical institutions were determined after arm’s length negotiation with reference to, among others, the revenue or profit of the specific medical institution so as the price-to-earnings ratio or price-to-sales ratio.

### SELECTED OPERATIONAL DATA

The following table sets forth our selective operational data during the Track Record Period.

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
New customers <sup>(1)</sup> . . . . .	333,418	377,199	361,754	227,500
Accumulated customers at the end of each year/period <sup>(2)</sup> . .	915,052	1,292,251	1,654,005	1,881,505
Customer visits (thousands) . . . . .	1,440	1,740 <sup>(3)</sup>	1,787	1,181



## SUMMARY

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Accumulated customer visits at the end of each year/period (thousands) . . . . .	3,729	5,468	7,256	8,437
Customer return rate <sup>(4)</sup> (%) . . . . .	50.9	55.1	57.5	61.5
Average spending per customer visit (RMB) . . . . .	504	515	518	507

**Notes:**

- (1) Refer to customers who received healthcare solutions or purchased healthcare products provided by us for the first time.
- (2) Refer to, as at the end of any financial year/period, the total number of customers who had ever visited our medical service network to receive any healthcare service or purchase any healthcare product at any time on or before the end of such financial year/period.
- (3) The increase in customer visits in 2019 was primarily attributable to more customer visits to medical institutions established or acquired by us in 2018.
- (4) Refer to, in respect of any financial year/period, a fraction (expressed as a percentage) equal to the number of returning customers in respect of such financial year/period divided by the total number of customers who had visited our medical service network to receive any healthcare service or purchase any healthcare product at any time during such financial year/period. The customer return rate in 2020 included those of Bailu for the entire year of 2020 for statistical purpose. See “Risk Factors—Risks Relating to Our Business and Industry—The historical operating results of Bailu may not be indicative of its results after acquisition by us” for risks relating to the operational data of Bailu before acquisition by us.

## OUR SUPPLIERS AND CUSTOMERS

### Our Suppliers

Our suppliers primarily comprise suppliers of decocting pieces, TCM patent medicines, health supplements, nourishment, medical equipment and medical consumables. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, purchases from our five largest suppliers in each year/period during the Track Record Period collectively accounted for 24.9%, 63.7%, 66.5% and 54.2% of our total purchases during the same periods, respectively, and purchases from our largest supplier in each year/period during the Track Record Period accounted for 5.7%, 44.3%, 48.4% and 33.8% of our total purchases during the same periods, respectively. Our five largest suppliers during the Track Record Period comprise physician management service suppliers and suppliers of our materials.

All of our five largest suppliers in each year/period during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any Shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

### Our Customers

Our customers primarily comprise customers who receive our healthcare solutions and/or purchase healthcare products provided by us, substantially all of which are individuals in the PRC. To a lesser extent, we also generated revenue from certain corporate customers during the Track Record Period, mainly including (i) large-scale enterprises which purchased healthcare solutions and/or products from us in bulk; (ii) third-party medical institutions and pharmacies which procured healthcare products from us; and (iii) small- and medium-sized TCM clinics which adopted our Bai Hui Yun Yi TCM system.

Among customers who had visited our offline medical institutions or pharmacies to receive healthcare services or purchase healthcare products as of June 30, 2021, (i) over 15% are below or at the age of 18, approximately 45% are between the age of 19 and 45 and nearly 40% are above the age of 45; and (ii) approximately 60% were females and approximately 40% were males. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the number of our customer visits was approximately 1,440,000, 1,740,000, 1,787,000 and 1,181,000, respectively, and the average spending per customer visit was approximately RMB504, RMB515, RMB518 and RMB507, respectively. Given the dispersed base of our customers, we do not have a concentration risk. During the Track Record Period, the revenue contributed by our five largest customers in each year/period during the Track Record Period accounted for less than 1.5% of our total revenue.

All of our five largest customers in each year/period during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any Shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

## PRICING

Medical fees charged by us in connection with healthcare solutions primarily consist of consultation fees, medicine fee, processing fee and physiotherapy fee, as the case may be. Our medical institutions, which are Designated Medical Institutions (定點醫療機構), may only charge medical fees within the stipulated price range in accordance with the pricing guidelines, price ceilings

---

## SUMMARY

---

and/or cost-plus ceilings set by the relevant local healthcare administrative authorities for services and products eligible to be paid by the national reimbursement programs, while we have the discretion to price the remaining healthcare solutions and products, which is based on certain factors, including public medical institutions' pricing of similar healthcare solutions and products. We typically set pricing range of consultation fees for physicians employed by us on the basis of their respective qualifications and consultation fees charged by their comparable physicians in Class III Grade A hospitals, while we typically set pricing range of consultation fees for network physicians with reference to consultation fees charged by such physicians in VIP out-patient departments (特需門診部) of comparable public medical institutions. For the prices of healthcare products that we are entitled to set the prices at our own discretion, we typically set prices based on our procurement costs and the market prices of the same or comparable products. In 2018, 2019, 2020 and the six months ended June 30, 2021, our revenue derived from settlement through national reimbursement programs accounted for 28.8%, 27.9%, 28.9% and 28.1% of our total revenue for the same periods, respectively. As the majority of our revenue during the Track Record Period was generated from healthcare services and products that were not covered by the national reimbursement programs, our ability to set the prices had not been materially restricted by the pricing guidelines, price ceilings and/or cost-plus ceilings set by the relevant local healthcare administrative authorities. The centralized procurement management department at our headquarter regularly inspects the price lists of our medical service network to ensure regulatory compliance.

### IMPACT OF COVID-19 ON OUR BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

Since early 2020, the outbreak and continuous spread of an infectious disease caused by a novel coronavirus (the “COVID-19”) has materially and adversely affected the global economy. The COVID-19 pandemic has had the following impacts on our business operations and financial performance.

- **Service and product offerings:** Customers' demand for offline healthcare solutions and products decreased and the operations of our medical institutions and pharmacies suspended as the government imposed control on offline business in light of the COVID-19 pandemic. During the first four months of 2020, during which we were most affected by COVID-19 pandemic, our offline medical institutions suspended operation for 25.4 days on average. Compared with the four months ended April 30, 2019, for the four months ended April 30, 2020, our customer visits decreased by 35.6% and our revenue decreased. See “Business—Outbreak and spread of COVID-19—Service and product offerings.”
- **Financial impacts:** Since the outbreak of COVID-19 and up to the Latest Practicable Date, we had incurred approximately RMB3.0 million in respect of measures in order to prevent the transmission of COVID-19. In 2020, we actively communicated with lessors of our leased properties and the lessors granted us rent concession of RMB3.5 million during the COVID-19 pandemic in the same year. In addition, our employee benefit expenses in selling and distribution expenses decreased by RMB7.3 million in 2020 as a result of exemption of our social insurance contribution as the employer by the local government to relieve the financial burden on enterprises during the COVID-19 pandemic.

### RISK FACTORS

Our business faces risks including those set out in the section headed “Risk Factors.” As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the section headed “Risk Factors” in its entirety before you decide to invest in our Offer Shares. Some of the major risks that we face include:

- 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
- If we do not compete successfully against new or existing competitors in the industries where we operate, our business, financial condition and results of operations may be materially and adversely affected
- If our 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 our revenue during the Track Record Period, our business and results of operations could be materially and adversely affected
- If we fail to properly manage the employment and service of our physicians, other medical professionals and employees, we may be subject to penalties against our medical service network, which could materially and adversely affect our business and results of operations
- We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it could adversely affect our results of operations and financial position

## SUMMARY

### OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders include Mr. Tu and his wholly-owned investment companies (Action Thrive, Celestial City, Dream True and Wumianshan Ltd.).

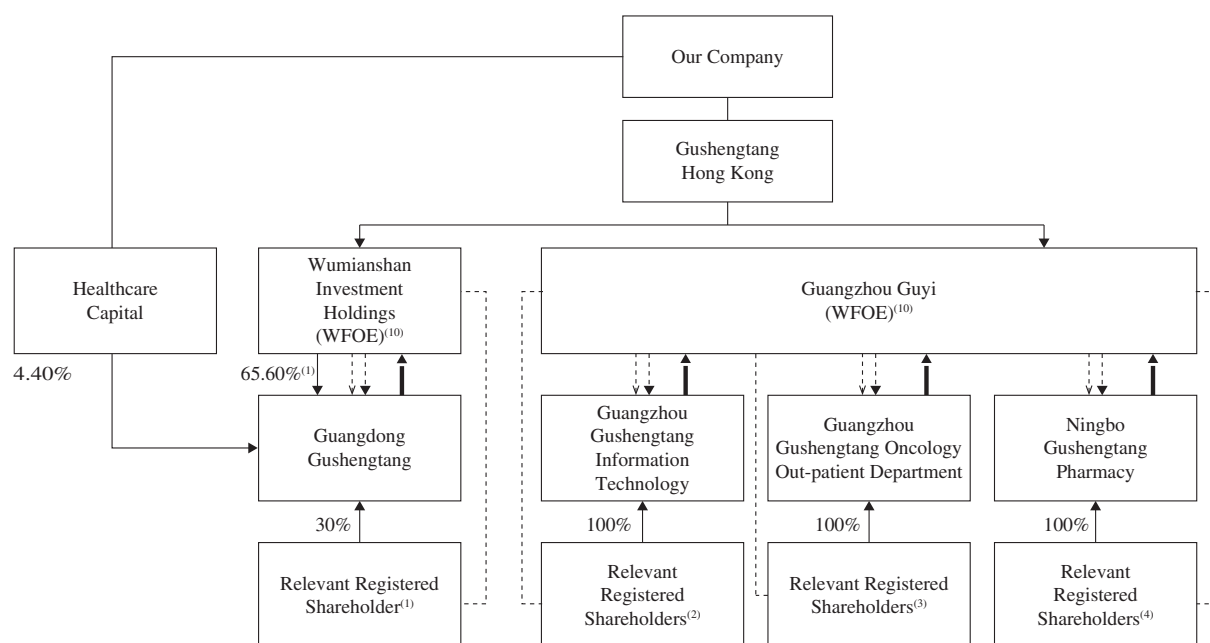
As of the Latest Practicable Date, (i) Mr. Tu, through his wholly-owned investment companies (Celestial City and Action Thrive), controlled an aggregate of approximately 14.84% of the voting power at general meetings of the Company; (ii) pursuant to the TZL Family Trust, Trident Trust held (through Dream True) approximately 9.25% of the voting power at the general meetings of the Company; and (iii) pursuant to the Voting Deeds, Mr. Tu was also interested in and controlled an aggregate of approximately 17.22% of the voting power at general meetings of the Company. For further details, see the section headed “History, Reorganization and Corporate Structure—Establishment of Family Trust” and “History, Reorganization and Corporate Structure—Voting Deeds” of this prospectus. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), Mr. Tu will be deemed to control approximately 36.31% of our enlarged total issued share capital and he (together with Action Thrive, Celestial City, Dream True and Wumianshan Ltd.) will be considered as the Controlling Shareholders for the purpose of the Listing Rules after the Listing.

### PRE-IPO INVESTORS

We utilized most of the proceeds from the Pre-IPO Investments for the development and operation of our principal business of our Group, including but not limited to the expansion of our offline medical institutions, the development of our offline and online medical service network (such as the acquisition of Bailu and the Wanjia Platform) and other general working capital purposes. Our Pre-IPO Investors include (i) private equity funds and other professional investment companies, some of which are highly experienced in investing in the healthcare industry, and (ii) employees, TCM physicians and consultants of the Group and external investors (who were the vendors of our onshore acquisition targets being acquired from in 2017 and 2018). For details, please see the section headed “History, Reorganization and Corporate Structure—Pre-IPO Investments.”

### CONTRACTUAL ARRANGEMENTS

We have entered into a series of Contractual Arrangements with the Consolidated Affiliated Entities and their Registered Shareholders. Through our shareholdings and the Contractual Arrangements, our Company controls the economic benefit of 100% of the equity interest in Onshore Holdcos. For more details, see the section headed “Contractual Arrangements.” The following diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group under the Contractual Arrangements:



## SUMMARY

### 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) Wumianshan Investment Holdings and Guangzhou Guyi are mainly engaged in investment management.

## SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this prospectus.

### Consolidated Statement of Comprehensive Income Items

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
				(Unaudited)	
Revenue .....	726,245	896,156	925,366	335,924	598,189
Cost of sales .....	(433,291)	(504,899)	(487,876)	(180,617)	(330,113)
<b>Gross profit .....</b>	<b>292,954</b>	<b>391,257</b>	<b>437,490</b>	<b>155,307</b>	<b>268,076</b>
Other income and gains .....	5,784	12,270	11,506	6,930	10,347
Selling and distribution expenses .....	(280,897)	(270,331)	(259,704)	(113,121)	(195,190)
Administrative expenses .....	(68,533)	(57,763)	(70,386)	(20,348)	(60,171)
Fair value changes of convertible redeemable preferred share and convertible bonds .....	(102,566)	(215,292)	(316,194)	(189,980)	(340,681)
Other expenses .....	(14,137)	(8,631)	(11,136)	(1,747)	(13,733)
Finance costs .....	(9,839)	(10,337)	(33,511)	(12,871)	(17,518)
Share of profit of an associate .....	—	—	172	—	571
<b>Loss before tax .....</b>	<b>(177,234)</b>	<b>(158,827)</b>	<b>(241,763)</b>	<b>(175,830)</b>	<b>(348,299)</b>
Income tax credit/(expense) .....	3,424	10,807	(13,565)	(3,205)	(1,435)
<b>Loss for the year/period .....</b>	<b>(173,810)</b>	<b>(148,020)</b>	<b>(255,328)</b>	<b>(179,035)</b>	<b>(349,734)</b>
<b>Income/(loss) attributable to:</b>					
Owners of the Company .....	(172,981)	(147,883)	(255,749)	(178,883)	(349,808)
Non-controlling interests .....	(829)	(137)	421	(152)	74
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company .....	(210,549)	(162,109)	(176,981)	(194,191)	(320,147)
Non-controlling interests .....	(829)	(137)	421	(152)	74
	<b>(211,378)</b>	<b>(162,246)</b>	<b>(176,560)</b>	<b>(194,343)</b>	<b>(320,073)</b>

### Non-HKFRS Measure

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net loss or profit (*Non-HKFRS measure*) as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparison of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be recurring in nature and indicative of our operating performance. We believe that this measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net loss or profit (*Non-HKFRS measure*) may not be comparable to similarly titled measures presented by



## SUMMARY

other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net loss or profit (*Non-HKFRS measure*) as loss for the period adjusted by adding back fair value change on financial liabilities through profit or loss in connection with our convertible redeemable preferred shares and convertible bonds, equity settled share-based payment, and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our core operating performance, as they are either non-operating or non-recurring expenses in accordance with Guidance Letter HKEX-GL103-19 issued by the Stock Exchange in April 2019. Our convertible redeemable preferred shares represent convertible redeemable preferred shares issued by us arising from several rounds of pre-IPO financing which will be converted into our Shares upon Listing and we do not expect to recognize any further loss on fair value changes of convertible redeemable preferred shares thereafter. Our convertible bonds represent convertible bonds, issued by us arising from Series D pre-IPO financing. All of our convertible bonds were either converted to Series D Preferred Shares or reclassified as bonds payable. Fair value loss on financial liabilities at fair value through profit or loss in connection with our convertible redeemable preferred shares and convertible bonds are not costs directly relating to the generation of revenue or normal expenses incurred in ordinary business or recurring operating expense. In addition, the amount of fair value loss/(gain) on financial liabilities at fair value through profit or loss in connection with our convertible redeemable preferred shares and convertible bonds was determined based on valuations with many underlying assumptions which would change based on factors beyond our control, varying over time and may include modifications that may not occur on a predictable cycle, neither of which is necessarily indicative of our ongoing business performance. Equity settled share-based payment is non-cash expense arising from vesting share options to selected executives, employees and consultants, the amount of which may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities. In addition, share-based compensation expenses are based on valuations with many underlying assumptions beyond our control, varying over time and may include modifications that may not occur on a predictable cycle, neither of which is necessarily indicative of our ongoing business performance. Further, we also eliminated the potential impact of the one-off listing expenses that our management do not consider to be indicative of our operating performance.

The table below reconciles our adjusted net loss or profit (*Non-HKFRS measure*) for the year/period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
	(Unaudited)				
<b>Reconciliation of net loss to adjusted net (loss)/profit (Non-HKFRS measure)</b>					
Net loss for the year	(173,810)	(148,020)	(255,328)	(179,035)	(349,734)
<b>Add:</b>					
Fair value loss on financial liabilities at fair value through profit or loss—convertible redeemable preferred shares	35,757	191,120	319,844	198,380	330,744
Fair value loss/(gain) on financial liabilities at fair value through profit or loss—convertible bonds..	66,808	24,172	(3,650)	(8,400)	9,937
Equity settled share-based payment	3,313	9,243	15,361	3,290	43,748
Listing expenses	—	—	8,482	—	11,216
<b>Adjusted net (loss)/profit (Non-HKFRS measure) (unaudited)</b>	<b>(67,932)</b>	<b>76,515</b>	<b>84,709</b>	<b>14,235</b>	<b>45,911</b>

## SUMMARY

During the Track Record Period, our financial performance fluctuated and recorded loss for the year/period of RMB173.8 million, RMB148.0 million, RMB255.3 million, RMB179.0 million and RMB349.7 million for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. The fluctuation was primarily due to the impact of fair value loss on convertible redeemable preferred shares and convertible bonds, equity settled share-based payment and listing expenses. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded fair value loss of RMB35.8 million, RMB191.1 million, RMB319.8 million, RMB198.4 million and RMB330.7 million, respectively, due to the fair value changes in our convertible redeemable preferred shares. We expect this adverse impact of fair value changes in our convertible redeemable preferred shares to continue subsequent to the Track Record Period until they are converted into Shares of the Company upon Listing.

We carried accumulated losses as of January 1, 2018. We recorded adjusted net loss (*Non-HKFRS measure*) of RMB67.9 million in 2018, primarily as (i) our newly established or acquired medical institutions ramped up since commencement of operations but still had relatively low income in 2018; and (ii) some of our then existing medical institutions had relatively low income and cannot cover their operating expenses in the same year. In order to turn around our financial performance to achieve profitability, we implemented various measures, including: (i) our continuous expansion through organic growth and acquisition; (ii) voluntary disposal or closure of several under-performing medical institutions with operation constraints, in order to rationalise the allocation of our resource and improve our overall operating efficiency; (iii) promotion of the centralized procurement in late 2018 to enhance our bargaining power with selective suppliers to ensure quality supplies at relatively lower cost, which improved our gross profit margin; (iv) strengthened budget control through more closely monitoring, reporting and control. As a result, our business scale expanded and our gross profit margin increased, thus we started to record adjusted net profit (*Non-HKFRS measure*) in 2019, and our adjusted net profit (*Non-HKFRS measure*) experienced a continued increase since then.

### Gross Profit and Gross Profit Margin

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

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB'000, except percentages)									
	(Unaudited)									
Healthcare solutions . . . . .	271,535	40.6%	374,537	43.3%	423,906	47.5%	151,001	46.2%	263,740	44.8%
Sale of healthcare products . .	21,419	36.9%	16,720	55.2%	13,584	40.5%	4,306	48.0%	4,336	46.5%
<b>Total . . . . .</b>	<b>292,954</b>	<b>40.3%</b>	<b>391,257</b>	<b>43.7%</b>	<b>437,490</b>	<b>47.3%</b>	<b>155,307</b>	<b>46.2%</b>	<b>268,076</b>	<b>44.8%</b>

Our gross profit represents our revenue less cost of sales. Our cost of sales primarily include (i) human resources costs, consisting of salaries, bonuses, share-based payments, pension and other social security, welfare of physicians employed by us, and service fees for our network physicians; (ii) cost of materials, representing the costs to procure pharmaceuticals for our healthcare solutions and products; and (iii) others, mainly including decoction service and packaging expenses, outsourced examination and inspection service expenses, cleaning expenses, logistics expenses for delivery of pharmaceuticals and medical consumables. During the Track Record Period, our gross profit increased primarily due to the increase in the gross profit we generated from providing healthcare solutions, which was generally in line with the increased revenue generated from providing healthcare solutions. For the years ended December 31, 2018, 2019 and 2020, our gross profit margin increased, primarily due to an increase in the gross profit margin for providing healthcare solutions, mainly as a result of the adoption of centralized procurement scheme for our operations in southern China in late 2018 and eastern China in late 2019. Our gross profit margin decreased from 46.2% for the six months ended June 30, 2020 to 44.8% for the six months ended June 30, 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 of our online healthcare platforms. See “Financial information—Year to Year/Period to Period Comparison of Results of Operations—Gross Profit and Gross Profit Margin” for details of the reason for the decreased profit margin for the six months ended June 30, 2021.

## SUMMARY

### Summary of Consolidated Statements of Financial Position

	As of December 31,			As of
	2018	2019	2020	June 30,
	(RMB'000)			2021
Trade receivables .....	54,100	42,345	56,576	60,328
Prepayments, other receivables and other assets....	102,304	108,713	132,180	104,132
Cash and cash equivalents .....	92,710	138,117	249,994	486,203
<b>Total current assets .....</b>	<b>358,160</b>	<b>386,572</b>	<b>610,918</b>	<b>728,805</b>
Goodwill .....	449,341	462,633	545,110	688,615
<b>Total non-current assets .....</b>	<b>688,353</b>	<b>715,446</b>	<b>834,526</b>	<b>1,035,459</b>
Trade and bills payables .....	146,227	121,104	113,110	133,786
Bonds payable .....	5,786	—	329,013	—
Convertible redeemable preferred shares.....	—	963,357	1,204,204	1,735,299
<b>Total current liabilities .....</b>	<b>377,611</b>	<b>1,310,824</b>	<b>2,038,084</b>	<b>2,288,767</b>
Convertible bonds .....	484,548	508,720	198,134	—
Convertible redeemable preferred shares .....	757,611	—	—	—
<b>Total non-current liabilities .....</b>	<b>1,486,010</b>	<b>761,382</b>	<b>540,667</b>	<b>323,064</b>
<b>Total assets .....</b>	<b>1,046,513</b>	<b>1,102,018</b>	<b>1,445,444</b>	<b>1,764,264</b>
<b>Total net current liabilities .....</b>	<b>(19,451)</b>	<b>(924,252)</b>	<b>(1,427,166)</b>	<b>(1,559,962)</b>
<b>Total net liabilities .....</b>	<b>(817,108)</b>	<b>(970,188)</b>	<b>(1,133,307)</b>	<b>(847,567)</b>
Equity attributable to owners of the Company .....	(818,193)	(971,136)	(1,133,641)	(847,975)
Non-controlling interests .....	1,085	948	334	408

As of December 31, 2018, 2019 and 2020 and June 30, 2021, we recorded net current liabilities of RMB19.5 million, RMB924.3 million, RMB1,427.2 million and RMB1,560.0 million, respectively, and net liabilities of RMB817.1 million, RMB970.2 million, RMB1,133.3 million and RMB847.6 million, respectively. As of September 30, 2021, we also recorded net current liabilities of RMB1,671.1 million. The net current liabilities as of December 31, 2019 and 2020, June 30, 2021 and September 30, 2021 were primarily due to the current portion of convertible redeemable preferred shares of RMB963.4 million, RMB1,204.2 million, RMB1,735.3 million and RMB1,826.7 million, respectively. Our net liabilities position as of December 31, 2018, 2019 and 2020 and June 30, 2021 was also attributable to our convertible redeemable preferred shares, which amounted to RMB757.6 million, RMB963.4 million, RMB1,204.2 million and RMB1,735.3 million, respectively. Our net current liabilities, net liabilities and net losses during the Track Record Period were to a large extent the result of the convertible redeemable preferred shares or their fair value changes which did not affect our profitability of regular business operations, working capital sufficiency and operating cash flow for the same periods. Furthermore, our convertible redeemable preferred shares will be automatically converted into our Shares upon Listing, which will improve our net profit, working capital level and liquidity position. As a result, we expect to record net current assets and net assets after Listing upon such conversion. For details, see “Financial Information—Net Current Liabilities” and “Risk Factors—Risks Relating to Our Business and Industry—We recorded net current liabilities and net liabilities during the Track Record Period and we cannot assure you that we will not have net current liabilities in the future.” In addition, we and our Directors believe that we have sufficient working capital to meet our present requirements and for the next 12 months following the date of this prospectus also because (i) we had generated positive operating cash flow during the Track Record Period, as evidenced by our net cash generated from operating activities of RMB30.8 million, RMB132.3 million, RMB154.9 million and RMB64.3 million for the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, respectively; (ii) the majority of our revenue during the Track Record Period was generated from healthcare services and products that were not covered by the national reimbursement programs but paid by our customers in cash, bank cards, or online payments via third-party payment platforms in which trade receivables turnover days were short by nature, as a result of which, we were afforded with more liquidity and had not recorded and do not expect to record a large amount of trade receivables; and (iii) we had achieved quicker settlement by the national reimbursement programs during the Track Record Period, as evidenced by the fact that our trade receivables turnover days decreased from 42 days for the year ended December 31, 2018 to 19 days for the year ended December 31, 2020. In addition, our trade receivables turnover days were 18 days for the six months ended June 30, 2021. We plan to further improve our working capital and liquidity position through (i) cash generated from our operating activities, (ii) unused banking facilities, and (iii) net proceeds from the Global Offering. We will continue to consider and

## SUMMARY

ensure our working capital sufficiency before implementing any expansion plan. Based on the written confirmation from the Company in respect of working capital sufficiency, the review of Accountants' Report and the indebtedness statement of the Company, the conducting of financial due diligence on the historical financial information of the Group during the Track Record Period, the review of the relevant terms in relation to the convertible redeemable preferred shares and the convertible bonds and the discussion with the Directors, taking into account the working capital statement and memorandum on working capital forecast as well as the Company's cash and cash equivalents, the Group's plan on improving its working capital and liquidity position as stated above, and the net proceeds from the Global Offering, the Joint Sponsors concur with the Company's and the Directors' view.

### Summary of Consolidated Statements of Cash Flows

The following table sets forth a summary of our cash flows for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
			(RMB'000)		
				(Unaudited)	
Operating (loss)/profit before changes in working capital . . . . .	(801)	134,064	181,362	59,258	91,578
Changes in working capital . . . . .	30,307	(2,162)	(27,213)	(37,594)	(23,391)
Interest income . . . . .	1,576	3,207	3,246	1,858	1,760
Income tax paid . . . . .	(297)	(2,855)	(2,491)	(2,491)	(5,697)
Net cash flows from operating activities . . . . .	30,785	132,254	154,904	21,031	64,250
Net cash flows (used in)/from investing activities . . . . .	(26,887)	(35,376)	(117,471)	19,719	11,331
Net cash flows (used in)/from financing activities . . . . .	(27,520)	(51,794)	76,202	(37,705)	164,556
Net (decrease)/increase in cash and cash equivalents . . . . .	(23,622)	45,084	113,635	3,045	240,137
Cash and cash equivalents at the beginning of the year/period . . . . .	115,390	92,710	138,117	138,117	249,994
Effects of exchange rate changes on cash and cash equivalents . . . . .	942	323	(1,758)	(1,076)	(3,928)
<b>Cash and cash equivalents at the end of year/period . . . . .</b>	<b>92,710</b>	<b>138,117</b>	<b>249,994</b>	<b>140,086</b>	<b>486,203</b>

Please see "Financial Information—Liquidity and Capital Resources" for details of our cash flows.

### Key Financial Ratios

The following table sets forth certain of our key financial ratios as of the dates or for the years/periods indicated:

	Year ended/as of December 31,			Six months ended/as of June 30,
	2018	2019	2020	2021
<b>Profitability ratios</b>				
Gross profit margin . . . . .	40.3%	43.7%	47.3%	44.8%
Return on equity . . . . .	N/A	N/A	N/A	N/A
Return on assets . . . . .	N/A	N/A	N/A	N/A
<b>Liquidity ratios</b>				
Current ratio . . . . .	0.9x	0.3x	0.3x	0.3x
Quick ratio . . . . .	0.8x	0.3x	0.3x	0.3x
<b>Capital adequacy ratio</b>				
Gearing ratio . . . . .	N/A	N/A	N/A	N/A

During the Track Record Period, return on equity and return on assets are not meaningful, primarily due to loss recorded during the relevant years/periods. In addition, we recorded negative equity thus our gearing ratio during the Track Record Period was not meaningful. However, we have

---

## SUMMARY

---

been in net cash position (namely, cash and cash equivalents exceeding total borrowings) at the end of each year/period during the Track Record Period. Please see “Financial Information—Key Financial Ratios” for descriptions of the calculation of the above ratios.

### COMPETITION

The grand TCM healthcare industry in China has developed substantially in recent years and has become a significant segment of China’s healthcare industry. Grand TCM healthcare market in China consists of six components: (i) TCM diagnosis and treatment services; (ii) TCM medicine; (iii) TCM health supplements; (iv) TCM IT infrastructures; (v) TCM health monitor devices; and (vi) TCM diagnosis and treatment devices. We primarily operate in China’s TCM diagnosis and treatment services segment of grand TCM healthcare industry, the market share of private healthcare providers in which increased from 29.0% in 2015 to 41.2% in 2019, and is expected to increase to 51.2% in 2030.

According to Frost & Sullivan, there are numerous market players in the TCM diagnosis and treatment services segment of the grand TCM healthcare industry, which makes the market highly fragmented. Our revenue generated from healthcare solutions in 2020 was RMB892 million, accounted for 0.3% of the entire TCM diagnosis and treatment services segment in the same year.

In addition, according to Frost & Sullivan, private TCM healthcare providers in China are mainly out-patient departments and clinics focusing on primary care. Public TCM healthcare providers in China are mainly comprehensive state-owned hospitals and have been dominating the TCM diagnosis and treatment service segment with long establishment history and good reputation among patients, sufficient physician resources and advanced medical facilities, as well as support from local governments. Hence, we mainly compete with private TCM healthcare providers in China in our principal businesses. We primarily compete on the following key factors: service and product quality, brand recognition, accessibility, medical professionals network and pricing. However, we believe we are well positioned to capitalize on the future industry growth and industry trend, leveraging advantages gained from expanding offline healthcare service to online platforms and connecting offline medical service network with online healthcare platforms and our market knowledge accumulated over years of operation. See “Industry Overview” for a more detailed discussion regarding the industries and markets where we operate.

### RECENT REGULATORY DEVELOPMENT

The regulatory environment in China has been undergoing a number of recent changes and reforms in various areas.

#### Regulatory Changes on Data Privacy and Protection

On June 10, 2021, the Standing Committee of the National People’s Congress passed the *Data Security Law* (《數據安全法》), which became effective on September 1, 2021. The Data Security Law widely covers data security mechanism, obligations and liabilities and is broadly applicable to all operators that engage in the processing of all types of data. See “Regulatory Overview—Regulations Relating to Personal Information or Data Protection” for summary on the Data Security Law.

On July 10, 2021, the Cyberspace Administration of China published the *Measures for Cybersecurity Review (Revised Draft for Comments)* (《網絡安全審查辦法》(修訂草案徵求意見)) (the “**Draft Cybersecurity Review Measures**”). Pursuant to the Draft Cybersecurity Review Measures, critical information infrastructure operators that purchase network products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review. The Draft Cybersecurity Review Measures further elaborate on the factors to be considered when assessing the national security risks of the relevant activities, including, among others: (i) the risk of core data, important data, or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country, and (ii) the risk of critical information infrastructure, core data, important data, or a large amount of personal information being affected, controlled, or maliciously used by foreign governments after



---

## SUMMARY

---

listing abroad. However, the Draft Cybersecurity Review Measures provides no further explanation or interpretation for “listed abroad.” Given that the expression used in the Draft Cybersecurity Review Measures is “listing in a foreign country” rather than “offshore listing” and that Hong Kong is likely to be considered as “offshore” rather than “foreign country,” it is not likely that a listing in Hong Kong will be considered as “listing in a foreign country.” See “Regulatory Overview—Regulations Relating to Internet Security” for summary on the Draft Cybersecurity Review Measures. As of the date of this prospectus, the Draft Cybersecurity Review Measures had not come into effect and the public comment period of the Draft Cybersecurity Review Measures ended on July 25, 2021.

On August 20, 2021, the Standing Committee of the National People’s Congress passed the *Personal Information Protection Law* (《個人信息保護法》) (the “**PIPL**”), which became effective on November 1, 2021. PIPL lays out the fundamental rules for the collection, storage, use, processing, transmission, provision, disclosure, deletion of personal information in China. The PIPL further supplements the existing data protection regime previously established by the *Cybersecurity Law* (《網絡安全法》) and the *Data Security Law*. See “Regulatory Overview—Regulations Relating to Personal Information or Data Protection” for summary on the PIPL.

On October 29, 2021, the Cyberspace Administration of China published the *Outbound Data Transfer Security Assessment Measures (Draft for Comments)* (《數據出境安全評估辦法(徵求意見稿)》) (the “**Draft Outbound Data Transfer Security Assessment Measures**”) that outline the security assessment process for the outbound data transfer. It references the Cybersecurity Law, the Data Security Law, and the PIPL, and supplements the implementation of their provisions on cross-border data transfer. The Draft Outbound Data Transfer Security Assessment Measures is open for public comment until November 28, 2021. Considering the nature of our daily operations and the presence of our offline and online medical service network, we will not trigger outbound data transfer during our daily operations. We do not expect the Draft Outbound Data Transfer Security Assessment Measures to have material impact on our daily operations in respect of the outbound data transfer. See “Regulatory Overview—Regulations Relating to Personal Information or Data Protection” for summary on the Draft Outbound Data Transfer Security Assessment Measures.

On November 14, 2021, the Cyberspace Administration of China published *Regulations on Cyber Data Security Management (Draft for Comments)* (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Regulations on Cyber Data Security Management**”), which covers a wide range of cyber data security issues and governs the use of networks to carry out data processing activities, as well as the supervision and management of data security in the PRC. It mainly addresses issues discussed in the context of the Cybersecurity Law, the Data Security Law and the PIPL. It sets out general guidelines, protection of personal information, security of important data, security management of cross-border data transfer, obligations of internet platform operators, supervision and management, and legal liabilities. According to the Draft Regulations on Cyber Data Security Management, data processors shall, in accordance with relevant state provisions, apply for cybersecurity review when carrying out the following activities: (i) the merger, reorganization or separation of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or could affect national security; (ii) data processors that handle the personal information of more than one million people intend to be listed abroad; (iii) data processors seeking to be listed in Hong Kong that affect or may affect national security; and (iv) other data processing activities that affect or may affect national security. However, the Draft Regulations on Cyber Data Security Management provides no further explanation or interpretation for “affect or may affect national security,” which remains to be clarified and elaborated by the CAC. As advised by our PRC Legal Advisors, the PRC government authorities may have wide discretion in the interpretation for “affect or may affect national security.” If the Draft Regulations on Cyber Data Security Management is fully implemented as-is, and we are deemed as a data processor that “affect or may affect national security,” we may be subject to cybersecurity review and failure to conduct such review could result in other severe penalties and/or action by the competent government authority.

---

## SUMMARY

---

In addition, the Draft Regulations on Cyber Data Security Management also regulates other specific requirements in respect of the data processing activities conducted by data processors through the internet in view of personal data protection, important data safety, cross-broader data safety management and obligations of internet platform operators. For example, in one of the following situations, data processors shall delete or anonymize personal information within 15 business days: (i) the purpose of processing personal information has been achieved or the purpose of processing is no longer needed; (ii) the storage term agreed with the users or specified in the personal information processing rules has expired; (iii) the service has been terminated or the account has been canceled by the individual; or (iv) unnecessary personal information or personal information unavoidably collected due to the use of automatic data collection technology but without the consent of the individual. For the processing of important data, specific requirements shall be complied with. For example, processors of important data shall specify the responsible person of data safety, establish a data safety management department and make filing to the cyberspace administration at the districted city level within 15 business days after the identification of their important data.

Data processors processing personal information of more than one million people shall also comply with the provisions for processing of important data stipulated in Draft Regulations on Cyber Data Security Management for important data processors. Data processors dealing with important data or listing overseas (including Hong Kong) should carry out an annual data security assessment by themselves or by entrusting data security service agencies, and each year before January 31, data security assessment report for the previous year shall be submitted to the districted city level cyberspace administration department. When data collected and generated within the PRC are provided by the data processors overseas, if such data includes important data, or if the relevant data processor is a critical information infrastructure operator or processes personal information of more than one million people, the data processor shall go through the security assessment of cross-border data transfer organized by the national Cyberspace Administration.

See “Regulatory Overview—Regulations Relating to Internet Security” for summary on the Draft Regulations on Cyber Data Security Management. As of the date of this prospectus, the Draft Regulations on Cyber Data Security Management had not come into effect and the public comment period of the Draft Regulations on Cyber Data Security Management will end on December 13, 2021.

Since the Draft Regulations on Cyber Data Security Management has been published quite recently and some of the requirements in the Draft Regulations on Cyber Data Security Management are subject to more specific explicit provisions or implementation standards, we are still in the process of evaluating the applicability of the various requirements under the Draft Regulations on Cyber Data Security Management on our business.

During the Track Record Period and up to the date of this prospectus, we had not experienced any material data or personal information leakage or loss, infringement of data or personal information, or information security incident, nor had we been subject to or involved in any investigations on cybersecurity, data and personal information protection by relevant competent regulatory authorities, or had received any official inquiry, examination, warning, interview, or similar notice in such respect.

We, our PRC Legal Advisors and the PRC legal advisors to the Joint Sponsors are of the view that, even if the Draft Regulations on Cyber Data Security Management becomes effective in the current form and is applicable to us, our business operations or the Listing will not be materially and adversely affected, on the basis that (i) as of the date of this prospectus, we had not been subject to any material fines or administrative penalties, mandatory rectifications, or other sanctions by any competent regulatory authorities in relation to the infringement of cybersecurity and data protection laws and regulations; (ii) as of the date of this prospectus, there is no material leakage of data or personal information or violation of cybersecurity and data protection and privacy laws and regulations by us which will have a material adverse impact on our business operations; (iii) as of the date of this prospectus, there had been no material cybersecurity and data protection incidents or infringement upon the rights of any third parties, or other legal proceedings, administrative or governmental proceedings, pending or, to the best of the knowledge of the Company, threatened against or relating to the Company; (iv) as disclosed in “Business—Information Technology Systems—Data Privacy and Protection,” we have implemented comprehensive cybersecurity and data protection policies, procedures, and measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data; (v) we have also conducted a gap analysis with the

---

## SUMMARY

---

assistance of our PRC Legal Advisors, and will also rectify, adjust, and optimize our data practices in a timely manner to ensure compliance once the Draft Regulations on Cyber Data Security Management and the Draft Measures on Cybersecurity Review come into effect. Our PRC Legal Advisors do not foresee any material impediment for the Group to take measures for compliance with Draft Regulations on Cyber Data Security Management and Draft Cybersecurity Review Measures; and (vi) to mitigate the potential impact of any such regulatory changes, we will pay close attention to the legislative and regulatory development in cybersecurity and data protection, maintain ongoing dialogue with relevant government authorities and consult the relevant government authorities as necessary and in due course, we will also rectify, adjust, and optimize our data practices in a timely manner to keep pace with regulatory development. Should the Draft Regulations on Cyber Data Security Management and Draft Cybersecurity Review Measures become effective, we will seek guidance from the relevant regulatory authorities to ensure measures adopted by us are appropriate. However, our PRC Legal Advisors cannot preclude the possibility that new rules or regulations promulgated in the future will impose additional compliance requirements on us.

Furthermore, based on the facts that the Draft Regulations on Cyber Data Security Management has not been formally adopted and is subject to further guidance, and we have not been involved in any investigations on cyber security review made by the CAC on such basis and nor have we received any inquiry, notice, warning, or sanctions in such respect, after consulting with our PRC Legal Advisors, our Directors are of the view that such regulation does not have a material adverse impact on our business operations and financial performance as of the date of this prospectus, and will not affect our compliance with laws and regulations in any material aspects as of the date of this prospectus. As the Draft Regulations on Cyber Data Security Management has yet to be effective, the regulation will not have any imminent material impacts on the listing.

As of the date of this prospectus, we have not received any cybersecurity, data security and personal data protection related enquiries from any competent PRC regulatory authorities. Our PRC Legal Advisors and Directors are of the view that we are in material compliance with the existing PRC laws and regulations on cybersecurity, data security and personal data protection, and the existing laws and regulations in cybersecurity, data security and personal data protection will not have a material adverse impact on our business operations and the listing plan on the Stock Exchange. On the basis of the PRC Legal Advisors' view and the due diligence with the management of the Company, nothing has come to the attention of the Joint Sponsors which would cause them to disagree with the reasonableness of the Directors' views that the existing PRC laws and regulations in cybersecurity, data security and personal data protection mentioned above will not have a material adverse impact on the Company's business operations and the listing plan on the Stock Exchange. As there might be newly issued explanations or implementation rules on the existing regulations, laws and opinions or the draft measures mentioned above might become effective, we will actively monitor future regulatory and policy changes to ensure strict compliance with all applicable laws and regulations.

See "Risk Factors—Risks Relating to Our Business and Industry—Our business generates and possesses a large amount of customers' personal and medical information, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation" for the associated risks. See "Business—Information Technology Systems—Data Privacy and Protection" for details on the impact of the above laws and regulations on our business operations and our measures to ensure data privacy and protection.

### Regulatory Changes on Online Healthcare Services

On October 26, 2021, the NHC published the *Regulations for the Supervision of Internet Diagnosis and Treatment (Draft for Comments)* (《互聯網診療監管細則(徵求意見稿)》) (the "**October 26 Draft**"), which aims to standardize online diagnosis and treatment activities and reinforce the construction of online diagnosis and treatment supervision system. The October 26 Draft specifies the Internet hospitals' obligation to (i) effectively connect with provincial internet medical service supervision platform and conform to the interface requirements stipulated thereto; (ii) conduct real-name authentication of physicians for ensuring the legal qualifications thereof; (iii) collect former diagnosed medical records as the prerequisites for follow-up consultation and diagnosis; and (iv) establish a patient safety adverse event reporting system with a specialized department for effective implementation.



---

## SUMMARY

---

As advised by our PRC Legal Advisors, our online healthcare platforms have not been subject to any regulatory actions or inspections by the competent government authority in connection with the provision of online healthcare services during the Track Record Period, which has been confirmed by the relevant government authority. Our Directors confirm that our online healthcare platforms have not been subject to any regulatory actions or inspections by the competent government authority in connection with the provision of online healthcare services subsequent to June 30, 2021 and up to the date of this prospectus. We do not expect that the October 26 Draft will have a material impact on our business based on the following:

- (i) The October 26 Draft specifies the *Measures for the Administration of Internet Diagnosis and Treatment (Trial)* (《互聯網診療管理辦法(試行)》) and the *Measures for the Administration of Internet Hospitals (Trial)* (《互聯網醫院管理辦法(試行)》) rather than sets up any new administrative approvals or compliance requirements. In addition, we have taken relevant measures as below to fulfill the requirements of Health Commission of Guangdong Province (廣東省衛生健康委員會) and will continuously optimize these measures based on the October 26 Draft.
- (ii) In terms of the management of medical institutions, we have systematically connected with the Internet Medical Service Supervision Platform of Guangdong Province (廣東省互聯網醫療服務監管平台), and formulated relevant management systems, including patient safety adverse event reporting system, medical staff training and assessment system, patient informed consent system, prescription management system and electronic medical record management system.
- (iii) In terms of personnel management, we have conducted real-name authentication of physicians to ensure the legal qualifications thereof, and we have also shared physicians' relevant information with the Internet Medical Service Supervision Platform of Guangdong Province. In addition, the physicians who provide consultation and diagnosis service on our online healthcare platforms have completed multi-site practicing registration as well, and we will ensure continued compliance with the requirements set out in the October 26 Draft and other regulations regarding multi-site practicing.
- (iv) In terms of the management of online healthcare services, we ask our customers to provide clearly diagnosed medical records to ensure that they meet the prerequisites for follow-up consultation and diagnosis, and our customer's medical data will be stored for no less than 15 years.
- (v) In terms of quality and safety management, we have established a patient safety adverse event reporting system and formulated a specialized department to be responsible for the implementation of the above system. In addition, we have established corresponding systems such as network security, personal information protection and data use management. See "Business—Information Technology Systems—Data Privacy and Protection."

Despite the above measures that we have taken, as the October 26 Draft was newly published for public comments, it is uncertain to estimate its specific impact on our business and compliance status. We cannot assure that our business operations are in full compliance with such regulations and authorities' requirements in all aspects. If any non-compliance is raised by relevant authorities and determined against us, we may be subject to fines and other penalties. See "Risk Factors—Risks Relating to Our Business and Industry—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."

Our Directors are of the view that recent regulatory changes and development on data privacy and protection and online healthcare services are not expected to have any material adverse effect on the Group's compliance status, business operation and financial performance, based on the above analysis and the measures we have taken to mitigate the potential impact of such regulatory changes. Based on the advice and view of our PRC Legal Advisors and interview with the Directors and the senior management of the Company, nothing has come to the attention of the Joint Sponsors which has caused them to disagree with the views of the Directors.

---

## SUMMARY

---

As of the date of this prospectus, we have not received any enquiries, comments, instructions, guidance or other concerns from any PRC government authorities, including the CSRC, with respect to our listing plan on the Stock Exchange or our Contractual Arrangements, nor have we been involved in discussions, interviews or requests to be interviewed by any PRC government authorities in relation to the recent regulatory developments.

### COMPLIANCE AND LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any non-compliance incidents that are systemic or have a material adverse effect on our business, financial condition or results of operations. During the same time period, we encountered the non-compliance incident in connection with failure to file fire safety filing for certain leased properties. For details, see “Business—Compliance and Legal Proceedings—Compliance—Failure to Complete the Fire Safety Filing for Certain Leased Properties.” During the Track Record Period and up to the Latest Practicable Date, we had not been imposed any material administrative penalties by the relevant government authorities. Except as disclosed in this prospectus, as advised by our PRC Legal Advisors, we complied with the laws and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

As of the Latest Practicable Date, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we were not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any medical disputes that could cause a material adverse effect on our business, financial condition or results of operations. For details of the medical disputes resolved and settled by us during the Track Record Period and up to the Latest Practicable Date, see “Business—Compliance and Legal Proceedings—Legal Proceedings—Medical Disputes.” During the Track Record Period and up to the Latest Practicable Date, none of the physicians and other medical professionals practicing at our medical service network was involved in any disciplinary proceedings or otherwise determined to be liable for medical incidents. As of the Latest Practicable Date, we did not have any unresolved medical disputes.

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

#### Recent Business Development

Recently since late May 2021, there has been a resurgence of COVID-19 cases in certain parts of the PRC such as Jiangsu and Guangdong. During this wave of COVID-19 outbreak, we experienced a decrease of approximately 21% in the customer visits to our medical institutions in Guangzhou in June and July 2021 and a decrease of approximately 45% in the customer visits to our medical institutions in Nanjing in August 2021, as compared with that of the same time period of 2020. We 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. See “Financial information—Recent Developments and No Material Adverse Change—Recent Business Development” for details on the recent outbreak of COVID-19 and relevant quantitative impact on our medical institutions. Subsequent to June 30, 2021 and up to September 30, 2021, we recorded increased customer visits, revenue and gross profit from July to September 2021 as compared with the same time periods of 2020, while our gross profit margin remained relatively stable.

#### Expected Net Losses for the Year Ending December 31, 2021

We expect to have substantial increase in net loss for the year ending December 31, 2021 mainly due to (i) the expected fair value loss of convertible redeemable preferred shares, (ii) the equity settled share-based payment expenses with respect to the share options under the Pre-IPO Share Option Plan, (iii) the expected increase in selling and distribution expenses and administrative expenses due to the listing expenses incurred and to be incurred in the year ending December 31, 2021, and (iv) the expected decrease in the gross profit margin for healthcare solutions in the year ending December 31, 2021 mainly due to our expanding online operations and the higher human resources costs of our online healthcare platforms. Considering the Offer Price range, we expect the fair value of our convertible redeemable preferred shares may continue to increase, and thus we may

---

## SUMMARY

---

continue to record fair value loss on our convertible redeemable preference shares. Our convertible redeemable preferred shares will be automatically converted into our Shares upon Listing and we do not expect to recognize any further loss or gain on fair value changes from convertible redeemable preferred shares thereafter.

### No Material Adverse Change

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, except for the above mentioned expected net loss for the year ending December 31, 2021, subsequent to the Track Record Period and up to the date of this prospectus, there were no material changes to our business model and the general economic and regulatory environment in which we operate, there has been no material adverse change in our financial or trading position or prospects since June 30, 2021, being the date of the latest audited consolidated financial position of our Group as set out in the Accountants' Report in Appendix I to this prospectus up to the date of this prospectus.

### OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$25.80	Based on an Offer Price of HK\$29.00
Market capitalisation of the Shares <sup>(1)</sup> .....	HK\$5,944 million	HK\$6,681 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup> .....	HK\$3.58	HK\$3.95

*Notes:*

- (1) The calculation of market capitalisation is based on the assumption that 230,396,458 Shares will be in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), including 27,878,000 Shares to be issued pursuant to the Global Offering.
- (2) Please see "Appendix II—Unaudited Pro Forma Financial Information" for further details regarding the assumptions used and the calculations method.

### LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers, the Reporting Accountants and other professional parties for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses for the Global Offering are approximately HK\$100.7 million (RMB82.6 million) (comprising HK\$41.2 million underwriting-related expenses, HK\$28.4 million fees and expenses of legal advisors and accountants, HK\$4.7 million sponsor fees and HK\$26.4 million other fees and expenses), representing approximately 13.2% of the gross proceeds, based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised. During the Track Record Period, we incurred listing expenses in aggregate of HK\$32.3 million (RMB26.5 million), of which HK\$24.0 million (RMB19.7 million) was charged to the consolidated statements of profit or loss as other expenses and HK\$8.3 million (RMB6.8 million) was capitalized in the consolidated statements of financial position as of June 30, 2021 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately HK\$68.4 million (RMB56.1 million), of which approximately HK\$26.6 million (RMB21.8 million) is expected to be recognized as other expenses and approximately HK\$41.8 million (RMB31.3 million) is expected to be recognized as a deduction in equity directly upon the Listing.

### DIVIDENDS

No dividend has been proposed, paid or declared by our Company or by any of the subsidiaries of our Group during the Track Record Period. We do not have a formal dividend policy or a fixed dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we 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 our Directors and will depend on our future operations and earnings, capital

---

## SUMMARY

---

requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time declare interim dividends as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

We would distribute dividends to our shareholders, mainly through our share premium and retained profits, in the future. As we are a holding company, our ability to declare and pay dividends will also depend on the availability of funding received from group companies in the PRC and Hong Kong. We expect our main source of funding for dividend distribution in the future will be settlements from our group companies in the PRC and Hong Kong with respect to their outstanding balances due to our holding company. Alternatively, we might rely on any dividends distributed by our PRC subsidiaries to some extent. Any dividend distributions from our PRC subsidiaries to us 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 our 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 we or our subsidiaries may enter into in the future.

### USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$27.40 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$663.1 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

Approximately HK\$ in millions	Percentage of Net Proceeds	Future Plans
462.6	69.8%	To expand our offline and online operations and enhance the integration between them
64.0	9.6%	To enhance our research and development capabilities, including the research and development of in-hospital preparation and TCM solution packages
64.0	9.6%	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
32.8	4.9%	For marketing and branding activities
39.8	6.0%	For working capital and general corporate purposes

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares in issue (including the shares on conversion of the Preferred Shares), to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued under the Pre-IPO Share Option Plan. Such application has been made on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2020, being RMB925.4 million (equivalent to HK\$1,127.9 million), which is over HK\$500 million and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

---

## DEFINITIONS

---

*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.*

“Accountants’ Report”	the report of the Reporting Accountants dated November 30, 2021, the text of which is set out in Appendix I to this prospectus
“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 our Controlling Shareholders
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on November 16, 2021 which will become effective upon the Listing Date, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Asia Ventures III”	Asia Ventures III L.P., one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Bailu”	an online healthcare platform acquired by us from Nanjing Gongzhan (an Independent Third Party) and Zheng Xiang (who is currently a member of the senior management (vice president) of the Company and is not a connected person of the Company) on October 1, 2020, previously operated by the subsidiary of Nanjing Gongzhan and currently operated by our Group after the acquisition
“Blue Ocean”	Guangzhou Blue Ocean Pharmaceutical Co., Ltd. (廣州藍海醫藥有限公司), a limited liability company established in the PRC on April 22, 2011 and a subsidiary of our Company
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday, or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAC” or “Cyberspace Administration”	Cyberspace Administration of China (國家互聯網信息辦公室)



---

## DEFINITIONS

---

“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
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give <b>electronic application instructions</b> via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving <b>electronic application instructions</b> through the CCASS Internet system ( <a href="https://ip.ccass.com">https://ip.ccass.com</a> ) or through the CCASS phone system (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operation and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	a CCASS Clearing Participant(s), a CCASS Custodian Participant(s) or a CCASS Investor Participant(s)

---

## DEFINITIONS

---

“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 our Controlling Shareholders
“CGU”	cash-generating unit
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only, except where the context requires, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“Chongqing Jinpu”	Chongqing GP Health Service Investment Fund LLP (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)), one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“Chongqing Jinpu Convertible Loans”	The convertible loans in the principal amount of RMB150 million pursuant to the convertible loans investment agreement dated May 22, 2017
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Co-Lead Manager”	Sinomax Securities Limited
“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” or “the Company”	GUSHENGTANG HOLDINGS LIMITED (固生堂控股有限公司) (formerly known as Gushengtang (Cayman) Ltd.), an exempted company with limited liability incorporated under the laws of the Cayman Islands on May 8, 2014
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Affiliated Entities”	the entities that we control through the Contractual Arrangements, namely our Onshore Holdcos and their respective subsidiaries

---

## DEFINITIONS

---

“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 “Contractual Arrangements”
“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.
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“COVID-19”	an infectious disease caused by the SARS-CoV-2 virus
“CPC Central Committee”	the Central Committee of the Communist Party of China (中國共產黨中央委員會)
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our 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 the Trident Trust pursuant to the TZL Family Trust, and one of our Controlling Shareholders
“EIT”	enterprise income tax in the PRC
“ERVC Healthcare”	ERVC Healthcare IV, L.P., one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“Exchange Participant(s)”	a person: (a) who, in accordance with the Listing Rules, may trade on or through the Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Foreign Investment Catalog”	Catalog for the Guidance of Encouraged Foreign Investment Industries (Revised in 2020) (《鼓勵外商投資產業目錄(2020年修訂)》), promulgated and amended by the MOFCOM and the NDRC on December 27, 2020



---

## DEFINITIONS

---

“Foreign Investment Law” or “FIL”	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), as amended and adopted by the National People’s Congress on March 15, 2020 and effective on January 1, 2020
“F-Prime Capital”	F-Prime Capital Partners Healthcare Fund IV LP (formerly known as Beacon Bioventures Fund IV Limited Partnership), one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company and an Independent Third Party
“Frost & Sullivan Report”	an independent industry report commissioned by us and prepared by Frost & Sullivan for the purpose of this prospectus
“Fuzhou Xiulichun”	Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司), a limited liability company established in the PRC on March 9, 2018 and a subsidiary of our Company
“GDP”	gross domestic product
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GP SOE”	GP SOE Reform Capital Limited, one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider designated by our Company
“Group”, “our Group”, “the Group”, “we”, or “us”	our Company, our subsidiaries and Controlled Affiliated Entities controlled by us through contractual arrangements at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of our 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 our Company

---

## DEFINITIONS

---

“Guangzhou Bailitiaoyi”	Guangzhou Bailitiaoyi Consultancy Co., Ltd. (廣州百裡挑一諮詢有限公司), a limited liability company established in the PRC on July 13, 2018 and a subsidiary of our Company
“Guangzhou Dayi”	Guangzhou Dayi Information Technology Co., Ltd. (廣州達醫信息科技有限公司), a limited liability company established in the PRC on April 25, 2018 and a subsidiary of our Company
“Guangzhou Gushengtang”	Guangzhou Gushengtang Healthcare Medical Investment Co., Ltd. (廣州固生堂健康醫療投資有限公司), a limited liability company established in the PRC on August 18, 2017
“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 our 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 our 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 our Company
“Guangzhou Haizhu”	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), a limited liability company established in the PRC on July 23, 2015 and a subsidiary of our Company
“Guangzhou Lingnan”	Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. (廣州市固生堂嶺南中醫館有限公司), a limited liability company established in the PRC on September 15, 2015 and a subsidiary of our Company
“Guangzhou Liwan”	Guangzhou Liwan District Gushengtang Medical Care Station Co., Ltd. (廣州市荔灣區固生堂醫療護理站有限公司), a limited liability company established in the PRC on July 20, 2020 and a subsidiary of our Company
“Guangzhou Tianhe”	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), a limited liability company established in the PRC on March 25, 2014 and a subsidiary of our Company

---

## DEFINITIONS

---

“Guangzhou Xinling”	Guangzhou Xinling Gaoyi Investment Center (Limited Partnership) (廣州信瓚高怡投資中心(有限合夥)), a limited liability partnership established in the PRC on March 2, 2016
“Guangzhou Yijia No. 1”	Guangzhou Gusheng Yijia No. 1 Healthcare Investment Partnership (Limited Partnership) (廣州固生醫家一號健康投資合夥企業(有限合夥)), a limited partnership established in the PRC on October 25, 2017
“Guangzhou Yijia No. 2”	Guangzhou Gusheng Yijia No. 2 Healthcare Investment Partnership (Limited Partnership) (廣州固生醫家二號健康投資合夥企業(有限合夥)), a limited partnership established in the PRC on October 25, 2017
“Guangzhou Yuexiu”	Guangzhou Yuexiu Gushengtang Health Services Care Station Co., Ltd. (廣州越秀固生堂衛生服務護理站有限公司), a limited liability company established in the PRC on July 15, 2020 and a subsidiary of our Company
“Guangzhou Zeyitong”	Guangzhou Zeyitong TCM Co., Ltd. (廣州澤醫通中藥有限公司), a limited liability company established in the PRC on July 19, 2019 and a subsidiary of our Company
“Gushengtang Food Trade”	Gushengtang (Guangzhou) Food Trade Co., Ltd. (固生堂(廣州)食品貿易有限公司), a limited liability company established in the PRC on January 5, 2021 and a subsidiary of our 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
“ <b>HK eIPO White Form</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the <b>IPO App</b> or the designated website at <a href="http://www.hkeipo.hk"><b>www.hkeipo.hk</b></a>
“ <b>HK eIPO White Form Service Provider</b> ”	the <b>HK eIPO White Form</b> service provider designated by our Company as specified in the <b>IPO App</b> or on the designated website at <a href="http://www.hkeipo.hk"><b>www.hkeipo.hk</b></a>
“HKSCC’s Customer Service Centre”	the customer service centre of Hong Kong Securities Clearing Company Limited, located at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong

---

## DEFINITIONS

---

“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“holding company(ies)”	has the meaning ascribed thereto under the Listing Rules
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 2,787,800 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering”
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong (subject to reallocation as described in the section headed “Structure of the Global Offering”) at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and conditions described in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting—Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated November 29, 2021, relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Joint Representatives, the Joint Global Coordinators, ICBC International Capital Limited and the Hong Kong Underwriters, as further described in the section headed “Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering”
“Hua Jinming Convertible Loans”	the convertible loans in the principal amount of RMB10 million pursuant to the convertible loans investment agreement dated January 24, 2017

---

## DEFINITIONS

---

“Independent Third Party(ies)”	an individual or a company which, to the best of our Director’s knowledge, information, and belief, having made all reasonable enquiries, is not a connected person of our Company within the meaning of the Listing Rules
“International Offer Shares”	the 25,090,200 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering”
“International Offering”	the conditional offering of the International Offer Shares by the International Underwriters with professional, institutional, and other investors by the International Underwriters on behalf of our Company as described in the section headed “Structure of the Global Offering”
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, the Joint Representatives, the Joint Global Coordinators, ICBC International Capital Limited and the International Underwriters on or about December 3, 2021, as further described in the section headed “Underwriting—Underwriting Arrangements and Expenses—The International Offering”
“ <b>IPO App</b> ”	the mobile application for the <b>HK eIPO White Form</b> service which can be downloaded by searching “ <b>IPO App</b> ” in App Store or Google Play or downloaded at <a href="http://www.hkeipo.hk/IPOApp">www.hkeipo.hk/IPOApp</a> or <a href="http://www.tricorglobal.com/IPOApp">www.tricorglobal.com/IPOApp</a>
“Joint Bookrunners”	Merrill Lynch (Asia Pacific) Limited, Haitong International Securities Company Limited, China International Capital Corporation Hong Kong Securities Limited, GF Securities (Hong Kong) Brokerage Limited and ICBC International Capital Limited
“Joint Global Coordinators”	Merrill Lynch (Asia Pacific) Limited, Haitong International Securities Company Limited, China International Capital Corporation Hong Kong Securities Limited and GF Securities (Hong Kong) Brokerage Limited

---

## DEFINITIONS

---

“Joint Lead Managers”	Merrill Lynch (Asia Pacific) Limited, Haitong International Securities Company Limited, China International Capital Corporation Hong Kong Securities Limited, GF Securities (Hong Kong) Brokerage Limited, ICBC International Securities Limited and Futu Securities International (Hong Kong) Limited
“Joint Representatives”	Merrill Lynch (Asia Pacific) Limited and Haitong International Securities Company Limited
“Joint Sponsors”	Merrill Lynch (Asia Pacific) Limited and Haitong International Capital Limited
“LAT”	land appreciation tax (土地增值稅), as defined in the Provisional Regulations of the People’s Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) and the Detailed Implementation Rules on the Provisional Regulations of the People’s Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例實施細則》)
“Latest Practicable Date”	November 20, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Lianjiang Xiulichun”	Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司, formerly known as Lianjiang Xiulichuntang Outpatient Department Co., Ltd. (連江袖里春堂門診部有限公司)), a limited liability company established in the PRC on June 10, 2020 and a subsidiary of our Company
“Lingnan Dongshan”	Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Dongshan Out-patient Department (廣州市固生堂嶺南中醫館有限公司東山門診部), established in the PRC on September 22, 2015 and a branch of Guangzhou Lingnan
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about December 10, 2021, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange

---

## DEFINITIONS

---

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented, or otherwise modified from time to time
“Long Hill Capital”	Long Hill Capital Venture Partners 1, L.P., one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“Long Hill Capital GST”	Long Hill Capital Venture Partners GST, L.P., one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“Long Hill Capital Plus”	Long Hill Capital Venture Partners 1 Plus, L.P., one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“M&A Rules”	the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, SAMR, and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009
“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 GEM of the Stock Exchange
“medical service network”	our medical service network, consisting of our medical institutions, pharmacies and online healthcare platforms in operation
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted by a special resolution passed on November 16, 2021 which will become effective upon the Listing Date, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)



---

## DEFINITIONS

---

“Mr. Tu”	Mr. Tu Zhiliang (涂志亮), the executive Director, the chairman of the Board, the chief executive officer of our Company, and one of our Controlling Shareholders
“Nanjing Baihui”	Nanjing Baihui Yunyi Technology Co., Ltd. (南京百會雲醫科技有限公司), a limited liability company established in the PRC on July 15, 2019 and a subsidiary of our Company
“Nanjing Gongzhan”	Nanjing Gongzhan Consultation Management Partnership (Limited Partnership) (南京共展諮詢管理合夥企業(有限合夥)), a limited partnership established in the PRC on June 24, 2019 and an Independent Third Party, transferred Bailu to us on October 1, 2020
“Nanjing Ningxi”	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), a limited liability company established in the PRC on July 21, 2016 and a subsidiary of our Company
“NBSC”	National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NEA”	New Enterprise Associates 14, L.P., one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“NEA Ventures”	NEA Ventures 2014, Limited Partnership, one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“NHC”	National Health Commission of the PRC (中華人民共和國國家衛生健康委員會)
“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 our Company
“Ningbo Manshan”	Ningbo Zhenhai Gushengtang Manshan TCM Out-patient Department Co., Ltd. (寧波鎮海固生堂滿山中醫門診部有限公司), a limited liability company established in the PRC on June 17, 2019 and a subsidiary of our Company
“Ningbo Shenrong”	Ningbo Yinzhou Guyi Shenrong Co., Ltd. (寧波鄞州固益參茸有限公司), a limited liability company established in the PRC on August 3, 2017 and a subsidiary of our Company



---

## DEFINITIONS

---

“Ningbo Zhongyishoutang”	Ningbo Yinzhou Gushengtang Zhongyishoutang TCM Out-patient Department Co., Ltd. (寧波鄞州固生堂鐘益壽堂中醫門診部有限公司), a limited liability company established in the PRC on August 4, 2016 and a subsidiary of our Company
“NMPA”	National Medical Products Administration (國家藥品監督管理局), formerly known as China Food and Drug Administration (“CFDA”) (國家食品藥品監督管理總局) or State Food and Drug Administration (“SFDA”) (國家食品藥品監督管理局) or China’s Drug Administration (“CDA”) (國家藥品監督管理局); references to NMPA include CFDA, SFDA and CDA
“Nomination Committee”	the nomination committee of the Board
“Non-clinic Companies”	the non-clinic companies in the Group, namely Blue Ocean, Wuxi Chongan Temple Pharmacy, Wuxi Nanchan Temple Pharmacy, Wuxi Shenrong, Nanjing Baihui, Shanghai Commercial, Ningbo Shenrong, Guangzhou Zeyitong, Guangzhou Bailitiaoyi and Guangzhou Dayi
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Hong Kong Offer Shares are to be subscribed and to be determined in the manner further described in the section headed “Structure of the Global Offering”
“Onshore Holdcos”	Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy
“Onshore Individual Owners”	PRC individuals who held, directly or indirectly, beneficial interests in our PRC subsidiaries and established offshore special purposes vehicles during or shortly before the Reorganization for the purpose of subscribing for Shares
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option

---

## DEFINITIONS

---

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 4,181,700 additional Shares (representing in aggregate 15.0% of initial Offer Shares) at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering”
“Over-allotment Shares”	up to 4,181,700 Shares which our Company may be required to issue at the Offer Price pursuant to the Over-allotment Option
“PBOC”	the People’s Bank of China (中國人民銀行)
“People’s Congress”	the PRC’s legislative apparatus, including the National People’s Congress and all the local people’s congresses (including provincial, municipal, and other regional or local people’s congresses) as the context may require, or any of them
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended and adopted by the Standing Committee of National People’s Congress on October 26, 2018 and effective on the same date
“PRC Legal Advisors”	Tian Yuan Law Firm, our legal advisors as to PRC laws
“Pre-IPO Investments”	the pre-IPO investments in our Company undertaken by the Pre-IPO Investors, details of which are set out in the section headed “History, Reorganization and Corporate Structure”
“Pre-IPO Investors”	NEA, NEA Ventures, Long Hill Capital, Long Hill Capital Plus, Long Hill Capital GST, Asia Ventures III, ERVC Healthcare, F-Prime Capital, Starr International, Celestial City, Chongqing Jinpu, Wang Jian Guo Holdings, GP SOE, Series E Subscription Platforms, General Platforms, 2017 Share Subscription Platforms, External Investors Platforms and Ershisanmianshan Holdings Limited, details of which are set out in “History, Reorganization and Corporate Structure—Pre-IPO Investments—6. Information about the Pre-IPO Investors”
“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”

---

## DEFINITIONS

---

“Preferred Shares”	collectively the Series A Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, Series D Preferred Shares and the Series E Preferred Shares
“Price Determination Agreement”	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about December 3, 2021, on which the Offer Price will be determined, or such later time as the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company may agree, but in any event, no later than December 6, 2021
“QIBs”	qualified institutional buyers as defined in Rule 144A
“Registered Shareholders”	the registered shareholders of the Onshore Holdcos, namely Mr. Tu, Yan Jun and Zheng Xiang
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the reorganization arrangements undergone by our Group in preparation for the Listing as described in the section headed “History, Reorganization and Corporate Structure”
“Reporting Accountants”	Ernst & Young
“RMB” or “Renminbi”	the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (國家外匯管理局)
“SAFE Circular 13”	Notice on Further Simplifying and Improving the Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) promulgated by SAFE in February 2015
“SAFE Circular 37”	Notice on Issues Relating to Foreign Exchange Control for Overseas Investment and Financing and Round-tripping by Chinese Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE in July 2014

---

## DEFINITIONS

---

“SAFE Circular 75”	Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE in October 2005, which was later replaced by SAFE Circular 37
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“Series A Preferred Shares”	the series A preferred shares of the Company with par value US\$0.0001 per share
“Series B Preferred Shares”	the series B preferred shares of the Company with par value US\$0.0001 per share
“Series C Preferred Shares”	the series C preferred shares of the Company with par value US\$0.0001 per share
“Series D Preferred Shares”	the series D preferred shares of the Company with par value US\$0.0001 per share
“Series E Preferred Shares”	the series E preferred shares of the Company with par value US\$0.0001 per share
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Shanghai Commercial”	Gushengtang (Shanghai) Commercial Co., Ltd. (固生堂(上海)商貿有限公司) (formerly known as Gushengtang TCM (Shanghai) Co., Ltd. (固生堂中醫(上海)有限公司)), a limited liability company established in the PRC on April 19, 2018 and a subsidiary of our Company

---

## DEFINITIONS

---

“Shanghai Gutang”	Shanghai Gutang Health Management Consultancy Co, Ltd. (上海固堂健康管理諮詢有限公司), a limited liability company established in the PRC on May 13, 2015 and a subsidiary of our Company
“Shanghai Shenhua”	Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd. (上海浦東新區神華中醫門診部有限公司), a limited liability company established in the PRC on December 3, 2004 and a subsidiary of our Company
“Shanghai Wanjia”	Shanghai Wanjia TCM Out-patient Co., Ltd. (上海萬嘉中醫門診有限公司), a limited liability company established in the PRC on September 7, 2012 and a subsidiary of our Company
“Shanghai Zhenantang”	Shanghai Zhenantang TCM Out-patient Department Co., Ltd. (上海真安堂中醫門診部有限公司), a limited liability company established in the PRC on August 7, 2020 and a subsidiary of our Company
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”, “our Share(s)”, “the Share(s)”	ordinary share(s) in the share capital of our Company with par value of US\$0.0001 each
“Shenzhen Gushengtang”	Shenzhen Gushengtang TCM Health Technology Co., Ltd. (深圳固生堂中醫健康科技有限公司), a limited liability company established in the PRC on November 22, 2006 and a subsidiary of our Company
“Shenzhen Gushengtang Investment”	Shenzhen Gushengtang TCM Investment Development Co., Ltd. (深圳固生堂中醫投資發展有限公司), a limited liability company established in the PRC on November 17, 2011 and a subsidiary of our Company
“Shenzhen Luohu”	Shenzhen Gushengtang TCM Investment Development Co., Ltd. Luohu Hurun General Out-patient Department (深圳固生堂中醫投資發展有限公司羅湖湖潤綜合門診部), established in the PRC on November 10, 2015 and a branch of Shenzhen Gushengtang TCM Investment Development Co., Ltd. (深圳固生堂中醫投資發展有限公司)
“Shenzhen Nanshan”	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang Nanshan TCM Hospital (深圳固生堂中醫健康科技有限公司固生堂南山中醫館), established in the PRC on September 21, 2016 and a branch of Shenzhen Gushengtang

---

## DEFINITIONS

---

“Shenzhen Ping’an”	Shenzhen Ping’an Tianyu Equity Investment Fund Partnership (Limited Partnership) (深圳平安天煜股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on December 17, 2015
“Shenzhen Xiangzhu”	Shenzhen Gushengtang Xiangzhu Out-patient Department (深圳固生堂香竹門診部), a limited liability company established in the PRC on April 19, 2016 and a subsidiary of our Company
“Shenzhen Zhaoyin No. 1”	Shenzhen Zhaoyin No. 1 Innovative Enterprise Investment Corporation (Limited Partnership) (深圳市招銀一號創新創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on February 18, 2016
“Shenzhen Zhaoyin Co-Win”	Shenzhen Zhaoyin Co-Win Equity Investment Corporation (Limited Partnership) (深圳市招銀共贏股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on October 20, 2015
“Shenzhen Zhuzilin”	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang TCM Out-patient Department (Zhuzilin first branch) (深圳固生堂中醫健康科技有限公司固生堂中醫門診部(竹子林一店)), established in the PRC on June 3, 2016 and a branch of Shenzhen Gushengtang
“STA” or “SAT”	State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
“Stabilizing Manager”	Merrill Lynch International
“SCNPC” or “Standing Committee of the National People’s Congress”	the Standing Committee of the National People’s Congress of the PRC (全國人民代表大會常務委員會)
“Starr International”	Starr International Investments HK V, Limited, one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilizing Manager and Action Thrive on or around the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules



---

## DEFINITIONS

---

“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Suzhou Shilu” or “Suzhou Daru”	Suzhou Gushengtang Shilu Clinic Co., Ltd. (蘇州固生堂石路診所有限公司), formerly known as Suzhou Daru Clinic Co., Ltd. (蘇州大儒診所有限公司), a limited liability company established in the PRC on November 21, 2018 and a subsidiary of our Company
“Suzhou Taohuawu”	Suzhou Gushengtang Taohuawu TCM Out-patient Department Co., Ltd. (蘇州固生堂桃花塢中醫門診部有限公司), a limited liability company established in the PRC on July 25, 2016 and a subsidiary of our Company
“Suzhou Tongan”	Suzhou Gushengtang Tongan Out-patient Department Co., Ltd. (蘇州固生堂同安門診部有限公司, formerly known as Suzhou Tongan Out-patient Department Co., Ltd. (蘇州同安門診部有限公司)), a limited liability company established in the PRC on June 28, 2020 and a subsidiary of our Company
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three financial years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021
“Trident Trust”	Trident Trust Company (Singapore) Pte. Limited, an Independent Third Party professional trust company established in Singapore
“TZL Family Trust”	the trust arrangement established by Celestial City as the settlor, with Mr. Tu as the protector, Trident Trust as the trustee and Celestial City, Mr. Tu and Mr. Tu’s family members as beneficiaries
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, possessions, and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States

---

## DEFINITIONS

---

“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“Wang Jian Guo Holdings”	Wang Jian Guo Holdings Limited, one of our Pre-IPO Investors, details of which are set out in “History, Reorganization and Corporate Structure”
“Wanjia Platform”	an online healthcare platform acquired by us from various Independent Third Parties including Zhou Lanjun, Li Feifei, Zhang Guolong (who are not connected person of the Company) and Zhuhai Hengqin Wangbao Investment Co., Ltd. (珠海橫琴旺寶投資有限公司) on April 30, 2021, the business of which has been merged into Bailu upon our acquisition
“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 our Company
“Wumianshan Ltd.”	Wumianshan Ltd., one of our 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
“Wumianshan (Beijing)”	Wumianshan Health Technology (Beijing) Co., Ltd. (五面山健康科技(北京)有限公司), a limited liability company established in the PRC on August 13, 2014 and a subsidiary of our Company. It is mainly engaged in the provision of technical service
“Wuxi Gusheng Baoyuanchun”	Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd. (無錫固生葆元春健康科技有限公司), a limited liability company established in the PRC on May 28, 2015 and a subsidiary of our Company
“Wuxi Chongan Temple Hospital”	Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春崇安寺中醫院有限公司), a limited liability company established in the PRC on November 21, 2008 and a subsidiary of our Company

---

## DEFINITIONS

---

“Wuxi Chongan Temple Pharmacy”	Wuxi Gushengtang Baoyuanchun Chongan Temple Pharmacy Co., Ltd. (無錫固生堂葆元春崇安寺大藥房有限公司), a limited liability company established in the PRC on April 8, 2015 and a subsidiary of our Company
“Wuxi Nanchan Temple Pharmacy”	Wuxi Gushengtang Baoyuanchun Nanchan Temple Pharmacy Co., Ltd. (無錫固生堂葆元春南禪寺大藥房有限公司), a limited liability company established in the PRC on January 5, 2015 and a subsidiary of our Company
“Wuxi Shenrong”	Wuxi Gushengtang Baoyuanchun Shenrong Health Products Co., Ltd. (無錫固生堂葆元春參茸保健品有限公司), a limited liability company established in the PRC on May 31, 2010 and a subsidiary of our Company
“2015 Equity Incentive Plan”	the equity incentive plan adopted by our Company on April 27, 2015, which was subsequently amended and restated on (i) January 27, 2016, (ii) April 1, 2016, (iii) January 24, 2017 and (iv) December 16, 2020, respectively

*If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only.*

---

## GLOSSARY OF TECHNICAL TERMS

---

*This glossary of technical terms contains terms used in this prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.*

“accumulated customers”	as at the end of any financial year/period, the total number of customers who had ever visited our medical service network to receive any healthcare service or purchase any healthcare product at any time on or before the end of such financial year/period
“acupuncture”	a clinical method and technique that uses small needles to stick into patients’ meridian points to prevent and treat diseases
“AI”	artificial intelligence
“andrology”	the branch of medicine concerned with diseases and conditions specific to men
“app”	application, a program designed to run on smartphones and other mobile devices
“authentic medicinal”	Chinese medicinal materials that have been identified from long-term application of TCM and are originated from specific geographic areas. Compared to Chinese medicinal materials originated from other regions, authentic medicinals are well-known for their high and stable quality and proven therapeutic effects
“Class III hospitals”	the largest regional hospitals in the PRC designated as Class III hospitals by the NHFPC hospital classification system, typically with more than 500 beds as for a general hospital, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives. Class III hospitals are divided into A, B, and C grades
“cloud-based”	applications, services or resources made available to users on demand via the internet from a cloud computing provider’s server with access to shared pools of configurable resources
“comprehensive healthcare solutions”	healthcare solutions provided for customers, including consultation and diagnosis service, prescription service, decoction service and physiotherapy, throughout the whole process of disease diagnosis and treatment and healthcare management to address their diversified healthcare needs

---

## GLOSSARY OF TECHNICAL TERMS

---

“CRM”	customer relationship management
“CRO”	contract research organization, a company focused on providing research and development services to companies in the pharmaceutical and agrochemical markets
“cupping”	a form of alternative therapy in which a suction is created on the skin with the application of heated cups
“customer return rate”	in respect of any financial year/period, a fraction (expressed as a percentage) equal to the number of returning customers in respect of such financial year/period divided by the total number of customers who had visited our medical service network to receive any healthcare service or purchase any healthcare product at any time during such financial year/period
“customer visit”	a visit by customer to a medical institution for diagnosis and treatment or other healthcare purposes
“decocting pieces”	processed Chinese medicinal slices which can be used in prescribed formulas for preparing Chinese patent medicines or for making soups as a means of diet therapy
“decoction”	a method of extraction by boiling herbal or plant material to dissolve the chemicals of the medicinal materials, such as stems, roots, bark and rhizomes
“dermatology”	the branch of medicine that deals with the diagnosis and treatment of skin disorders
“Designated Medical Institutions”	medical institutions designated by the relevant local medical insurance authority as ones that are permitted to treat patients covered by public medical insurance programs
“ERP”	enterprise resource planning system, a business process management system consisting of integrated software applications that help manage a business and automate many back office functions related to technology, service and human resources
“existing customers”	accumulated customers at the end of the relevant year/period
“four-examination instrument (四診儀)”	a medical instrument that combines modern scientific and technological achievements and the clinical experience of TCM experts, integrating multiple functions, including tongue diagnosis, facial complexion diagnosis, pulse diagnosis and constitution identification
“gastroenterology”	the branch of medicine focuses on the digestive system and its disorders

---

## GLOSSARY OF TECHNICAL TERMS

---

“general hospital”	a hospital that provides multi-disciplinary healthcare services including out-patient, in-patient and diagnosis
“GMP”	Good Manufacturing Practice of Pharmaceutical Products (藥品生產質量管理規範), which are guidelines and regulations issued to ensure that pharmaceutical products within those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use
“grand TCM healthcare”	a segment of healthcare industry which can provide comprehensive TCM related services and products, including TCM diagnosis and treatment services, TCM drugs, TCM health supplements, TCM IT infrastructure, TCM health monitor devices and TCM diagnosis and treatment devices
“GSP”	Good Supply Practices for Pharmaceutical Products (藥品經營質量管理規範), which are guidelines and regulations issued as part of quality assurance to ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with those guidelines and regulations
“gynecology”	the branch of medicine that deals with the diseases and routine physical care of the reproductive system of women
“health supplement”	products containing substances that may be taken to supplement the diet with additional nutrients
“hepatology”	the branch of medicine concerned with the study, prevention, diagnosis and management of diseases that affect the liver, gallbladder, biliary tree and pancreas
“herbal medicine”	medicine made from botanicals or plants that are used to treat diseases or to maintain health
“hierarchical medical”	grading system according to the severity of the disease and the difficulty of treatment. Medical institutions of different levels undertake the treatment of different diseases based on the grading
“HIS”	hospital information system, a comprehensive, information system designed to manage a medical institution’s operation, such as patient information, patient visits, prescriptions, physicians’ notes and fee collections



---

## GLOSSARY OF TECHNICAL TERMS

---

“in-hospital preparations”	pharmaceutical preparations of medical institutions (醫療機構製劑), which are fixed prescription preparations confected by medical institutions for their own use in light of the clinical needs after obtaining the registration number approval from local Medical Products Administration (藥品監督管理局). Such preparations are not commercialized in the market and can only be prescribed by medical institutions with the relevant registration and approval
“Internet hospital”	a new type of medical institutions approved by the NHC, primarily consists of offshoots of offline medical institutions and online healthcare platforms. After completing filing on relevant regulatory platforms and registration with the Internet hospital, physicians usually could provide online consultation and diagnosis as well as drug prescription
“in-patient visit”	a patient who receives healthcare services at a hospital and is hospitalized overnight
“KPI”	key performance indicator
“massage”	a manipulation of body’s soft tissues, commonly applied with hands, fingers, elbows, knees, forearms, feet, or a device, for the treatment of body stress or pain
“member return rate”	in respect of any financial year/period, a fraction (expressed as a percentage) equal to the number of returning members in respect of such financial year/period divided by the total number of members who had visited our medical service network to receive any healthcare service or purchase any healthcare product at any time during such financial year/period
“moxibustion”	a traditional Chinese medicine therapy which consists of burning a cone or stick made of ground mugwort leaves on particular points of the body to improve body condition
“multi-site practice physician”	licensed physicians who are qualified and permitted to practise at multiple sites in the PRC
“National Famous TCM Doctor (全國名中醫)”	experienced famous TCM physicians selected and made public by National Administration of Traditional Chinese Medicine. These physicians should be at or above provincial-level, or the instructors of academic programs or national outstanding TCM talents that have experience in TCM industry for 35 years or above

---

## GLOSSARY OF TECHNICAL TERMS

---

“national reimbursement program”	primarily include the Urban Employee Basic Medical Insurance Scheme (城鎮職工基本醫療保險制度), the Urban Resident Basic Medical Insurance Scheme (城鎮居民基本醫療保險制度) and the New Rural Cooperative Medical Insurance Scheme (新型農村合作醫療保險制度)
“National TCM Great Master (國醫大師)”	master-level TCM experts selected by the State Administration of Traditional Chinese Medicine
“new customer”	a customer who received healthcare solutions or purchased healthcare products provided by us for the first time
“network physician”	consisting of multi-site practice physicians and retirees of renowned third-party medical institutions or our medical institutions practice at our medical service network and physicians who provide healthcare solutions on our online healthcare platforms, who are not our employees
“nourishment”	healthcare products derived from natural products which are necessary for people’s growth, health and good condition, such as compound donkey-hide gelatin syrup (複方阿膠漿), honey (蜂蜜), healthy tea (養生茶), ready-to-eat fish maws (即食花膠) and ready-to-eat bird’s nest (即食燕窩)
“oncology”	the branch of medicine that deals with cancer
“orthopedics”	the branch of medicine that focuses on conditions of the musculoskeletal system
“OTC drugs” or “OTC medicine”	Over-the-counter drugs, referring to medicine sold directly to a consumer without a requirement for a prescription from a healthcare professional, as opposed to prescription drugs
“otolaryngology”	the branch of medicine that focuses on injuries and diseases of the ears, nose, and throat
“out-patient visit”	a patient who receives healthcare services at a hospital and is not hospitalized overnight
“patient visit”	collectively, in-patient visits and out-patient visits
“pediatrics”	the branch of medicine that deals with the medical care of infants, children and adolescents

---

## GLOSSARY OF TECHNICAL TERMS

---

“payback period”	the time that a new medical institution or online platform takes for the accumulated operating cash flow attributable to the Company from the relevant medical institution or online platform to cover the initial investment
“Provincial Famous TCM Doctor (省級名中醫)”	experienced famous TCM experts who meet the local selection criteria and have been made public by Administration of Traditional Chinese Medicine at provincial level
“returning customer”	in respect of any financial year/period, a customer who: (a) had visited our medical service network to receive any healthcare service or purchased any healthcare product more than once during such financial year/period; or (b) (i) had visited our medical service network to receive any healthcare service or purchased any healthcare product at any time during such financial year/period and at any time during the financial year immediately preceding such financial year/period; and (ii) no more than 12 months had elapsed between any such visit in such financial year/period and any such visit in the financial year immediately preceding such financial year/period
“returning member”	in respect of any financial year/period, a member who: (a) had visited our medical service network to receive any healthcare service or purchased any healthcare product more than once during such financial year/period; or (b) (i) had visited our medical service network to receive any healthcare service or purchased any healthcare product at any time during such financial year/period and at any time during the financial year immediately preceding such financial year/period; and (ii) no more than 12 months had elapsed between any such visit in such financial year/period and any such visit in the financial year immediately preceding such financial year/period
“SaaS”	software as a service, a cloud-based software licensing and delivery model in which software and associated data are centrally hosted
“scraping”	a TCM practice of using a tool to apply pressure and scrape the skin to relieve pain and tension
“SKU”	stock keeping unit, a number assigned to a product to identify the price, product options and manufacturer of the merchandise
“smart wristband”	a wearable device or application for monitoring and tracking physiological indicators

---

## GLOSSARY OF TECHNICAL TERMS

---

“SOP”	standard operational practice, a procedure specific to companies’ operation which is necessary to complete tasks in accordance with industry regulations, local laws or internal standards
“specialty hospital”	a hospital that primarily or exclusively provides healthcare services on specific departments
“sq.m.”	square meter
“TCM”	traditional Chinese medicine
“TCM clinics”	clinics that can provide TCM medical services
“TCM conditioning”	improvement or alleviation of the patient’s disease or physical condition based on TCM theories
“TCM formula”	a combination of TCM herbs in a single formula with greater efficiency in comparison to individual herbs for the treatment of diseases
“TCM medical institution”	medical institution focusing on providing TCM healthcare services, including TCM hospitals, TCM out-patient departments, TCM clinics and TCM clinical departments in other medical institutions
“TCM healthcare product”	a series of healthcare products with Chinese herbal medicine as raw materials or Chinese herbal extract added
“TCM health supplement”	functional health food developed based on the theory of TCM and mainly containing raw materials such as TCM medicines, TCM extract and drug homologous food
“TCM herb”	plant-based herbal medicine with different properties that can be packaged as powders, pastes, lotions or tablets, depending on the herb and its intended healthcare use
“TCM medical device”	medical device for TCM application to diagnose and treat diseases
“TCM out-patient department”	medical department providing TCM healthcare services for patients who are not hospitalized overnight, including TCM out-patient departments, TCM-integrated out-patient departments and national medicine out-patient departments

---

## GLOSSARY OF TECHNICAL TERMS

---

“TCM patent medicine”	readily processed Chinese medicines in various intake forms (such as pills, granules and soft capsules) based on the nature and function of traditional Chinese medicine
“TCM personnel”	personnel engaged in TCM related work
“TCM pharmaceutical”	TCM herb and TCM patent medicine
“TCM physicians”	licensed medical practitioners engaged in TCM related medical and preventive healthcare
“tier one cities”	for the purpose of this prospectus only, Beijing, Shanghai, Guangzhou and Shenzhen, according to Frost & Sullivan
“tier three cities”	for the purpose of this prospectus only, the cities excluding tier one cities and tier two cities, according to Frost & Sullivan
“tier two cities”	for the purpose of this prospectus only, the provincial capitals and sub-provincial cities, including, Tianjin, Chongqing, Shijiazhuang, Taiyuan, Shenyang, Changchun, Harbin, Nanjing, Hangzhou, Suzhou, Hefei, Fuzhou, Foshan, Nanchang, Jinan, Zhengzhou, Wuhan, Changsha, Haikou, Chengdu, Guiyang, Kunming, Xi’an, Lanzhou, Xining, Hohhot, Nanning, Yinchuan, Urumqi, Dalian, Qingdao, Ningbo and Xiamen, according to Frost & Sullivan
“valuable medicinal”	rare medicinal with high effectiveness and high price, such as cordyceps sinensis (冬蟲夏草), dendrobium nobile (石斛) and American ginseng (西洋參)
“wall-broken decocting pieces”	ultra-fine pulverized Chinese medicinal with cell walls broken and effective ingredients released, which can be easily absorbed by the human body
“western medicine”	a system in which healthcare professionals treat symptoms and diseases using drugs, radiation, or surgery. Drugs used in western medicine refer to modern medicine, usually made from chemical synthesis or formulated from a natural product

---

## FORWARD-LOOKING STATEMENTS

---

This prospectus contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, expectation and views of future events, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “will,” “expect,” “anticipate,” “plan,” “believe,” “may,” “intend,” “ought to,” “continue,” “project,” “should,” “seek,” “potential” and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially.

These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industry which we operate in;
- the regulatory environment as well as the general industry outlook for the industry which we operate in;
- future developments in the industry which we operate in; and
- general economic trends in China where we operate our business.

The words “will,” “expect,” “anticipate,” “plan,” “believe,” “may,” “intend,” “ought to,” “continue,” “project,” “should,” “seek,” “potential” and other similar expressions, as they relate to us (other than in relation to our profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. See “Risk Factors,” “Business” and “Financial Information” for more details.

Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable laws and regulations, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should not place undue reliance on any forward-looking information. In this prospectus, statements of or references to our intentions or those of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.



---

## RISK FACTORS

---

*An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and in particular the risks and uncertainties described below before making an investment in our Shares.*

*The occurrence of any of the following events could materially and adversely affect our business performance, financial condition, results of operations or prospects. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.*

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

**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.**

Due to the complex nature of our business, we are subject to legal and regulatory requirements of multiple industries in the PRC. These industries primarily include healthcare, internet and internet healthcare industries. Various regulatory authorities of the PRC government are empowered to promulgate and implement regulations governing broad aspects of the healthcare and internet industries.

In particular, the operation of our medical service network is subject to various laws and regulations at the national and local levels. These laws and regulations mainly relate to daily operations of our medical service network, licensing of medical professionals, the use and safety management of pharmaceuticals, medical equipment and medical consumables, the quality and pricing of healthcare solutions and products, occupational health and safety, environmental protection, labor and taxation. See “Regulatory Overview” for more details. In addition, sales or procurement of healthcare products are also subject to various laws and regulations. Regulations and policies may vary from region to region and change from time to time. Consequently, when entering into a new market, we may be exposed to risks and uncertainties associated with dealing with regulations, policies, regulatory regimes and regulatory bodies with which we may be unfamiliar with.

The laws and regulations of both the internet industry and its healthcare sector are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. PRC government may implement stricter laws and regulations on internet healthcare industry. For example, under PRC laws and regulations, physicians are allowed to provide healthcare services to patients with certain common or chronic diseases through Internet hospitals solely for their follow-up visits, except when patients visit offline medical institutions for healthcare services and the physicians in charge invite other physicians to conduct remote consultation and diagnosis and/or issue prescriptions through Internet hospitals. In addition, the NHC published the October 26 Draft for strengthening the supervision of online diagnosis and treatment, which specifies the Internet hospitals’ obligation to (i) effectively connect with provincial internet medical service supervision platform and conform to the interface requirements stipulated thereto; (ii) conduct real-name authentication of physicians for ensuring the legal qualifications thereof; (iii) collect former diagnosed medical records as the

---

## RISK FACTORS

---

prerequisites for follow-up consultation and diagnosis; and (iv) establish a patient safety adverse event reporting system with a specialized department for effective implementation. See “Regulatory Overview—Regulations Relating to Internet Hospital.”

We cannot assure you that subsequent laws and regulations would not render our operations non-compliant or that we would always be in full compliance with applicable laws and regulations. In the event that we must remedy any violations, we may be required to modify our business models in a manner that undermines our attractiveness to customers. We may also become subject to fines or other penalties or, if we determine that the requirements to operate in compliance are overly burdensome, we may elect to terminate the non-compliant operations. In each case, our business, financial condition and results of operations may be materially and adversely affected.

Besides, the introduction of new services and products may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate licenses, permits, certificates or approvals as well as expending additional resources to monitor developments in the relevant regulatory environment. It may cost us extra resources to comply with these future laws and regulations, which may delay, or possibly prevent, some of new services and products from being offered to customers, thereby having a material adverse effect on our business, financial condition and results of operations.

In recent years, the PRC government launched a new healthcare reform plan to ensure that every citizen has access to affordable basic healthcare services. In pursuit of these policy objectives, the PRC government has implemented extensive regulations and policies to address the affordability, accessibility and quality of healthcare services, national reimbursement coverage, distribution of pharmaceuticals and reform of public medical institutions. In addition, the PRC government has gradually reduced regulatory hurdles for establishing and investing in private medical institutions, in particular by private capital.

There can be no assurance that the PRC government will not impose additional or stricter laws or regulations on healthcare industry or foreign investments, or strengthen and tighten supervision and management of medical institutions (in particular, private medical institutions), pharmacies or online healthcare platforms, or implement stricter or more comprehensive regulations on the distribution of pharmaceuticals, medical equipment and medical consumables.

Depending on the priorities of the PRC government, the political climate and the regulatory regime with respect to foreign investment control at any given time, and the development of the PRC healthcare system, future regulatory changes may affect public medical institution reform, limit private or foreign investments in healthcare industry, change reimbursement rates for healthcare solutions and products provided to customers covered by national reimbursement programs, or implement additional price control on healthcare solutions and products. Any of these events could have a material and adverse impact on our business, financial condition, results of operations, prospects and future growth.

---

## RISK FACTORS

---

**If we do not compete successfully against new or existing competitors in the industries where we operate, our business, financial condition and results of operations may be materially and adversely affected.**

We primarily compete with private TCM healthcare providers in China. The private TCM diagnosis and treatment services segment of the grand TCM healthcare industry in China is highly fragmented. In terms of revenue generated from providing healthcare solutions in 2020, we took a market share of only 0.6% in the private TCM diagnosis and treatment services segment. In addition, as a private TCM healthcare provider, we compete with public TCM healthcare providers, which have been dominating the TCM diagnosis and treatment service segment with sufficient physician resources and higher recognition. Our revenue generated from healthcare solutions in 2020 accounted for only 0.3% of the entire TCM diagnosis and treatment services segment in the same year. We ranked eighth among all the private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020, according to Frost & Sullivan. We will also compete with future market entrants as the rapid growth of the healthcare and the grand TCM healthcare industries in the PRC may attract more domestic or international players to enter. Some of our competitors may have substantially greater financial, marketing or other resources than we do. It is also possible that there will be significant consolidation and mergers in the healthcare and the grand TCM healthcare industries. Our competitors may develop alliances, and these alliances may acquire significant market share.

We primarily compete on the following key factors: service and product quality, brand recognition, accessibility, medical professionals network and pricing. We cannot assure you that we will be able to successfully compete against new or existing competitors, and changes in the competitive landscape may result in price reduction, reduced profitability or loss of market share, any of which could have a material adverse effect on our business, results of operations and prospects.

**If our 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 our revenue during the Track Record Period, our business and results of operations could be materially and adversely affected.**

Our business is largely dependent on our ability to identify, recruit and retain a sufficient number of qualified physicians. The recruitment of qualified physicians is competitive in the PRC due to their shortage. The near-term supply of specialist physicians is expected to be limited due to the length of training required, including academic study and clinical training, which can take up to eight years or even longer for certain medical specialties. We employ a combination of offline and online approaches to attract and recruit high-quality medical professionals. For example, we establish strategic collaborative relationships with renowned public medical institutions and universities, and invite their renowned medical professionals to practice at our medical service network on a part-time basis, and we recruit outstanding graduates each year from well-known medical colleges. We believe that physicians generally consider the following key factors when selecting their practicing sites: the reputation and culture, management efficiency, the quality of facilities, supporting staff, the number of customer visits, compensation, training programs and location. Our medical service network may not compete favorably with competitors in respect of one or more these factors, and may not be able to attract or retain the physicians we desire.

In addition, historically we have relied on and may continue to rely on network physicians practising at our medical service network. As of June 30, 2021, among 19,203 physicians practising at our medical service network, 19,068 were network physicians, who contributed a vast majority of our revenue during the Track Record Period. Also, most of our network physicians (in terms of number of network physicians) have not agreed in their expert collaboration agreements to exclusively practise in our medical service network. Moreover, multi-site practice physicians practice at our medical service network pursuant to the liberated physician registration regulation that allows

---

## RISK FACTORS

---

licensed physicians to register and practise at multiple sites. If the PRC government imposes restrictions on such practice in the future, our medical service network may not be able to retain the current base of multi-site practice physicians. If our medical service network is unable to successfully recruit or retain seasoned and qualified physicians, especially network physicians, or if network physicians fail to reserve sufficient time and effort for our medical service network, or if the network physicians are unwilling to set aside additional hours from their busy schedule in their primary practicing sites to participate in the healthcare services of our offline medical institutions or online healthcare platforms, our business, financial condition and results of operations may be adversely affected.

Our success is also dependent on the ability of our medical service network to recruit and retain qualified other medical professionals. It has become increasingly costly to recruit and retain other medical professionals in recent years and there is no guarantee that our medical service network will be able to recruit and retain sufficient other medical professionals in the future. If our medical service network fails to do so, we may not be able to maintain the quality of our services, and the number of customer visits at our medical service network may decrease, which may materially and adversely affect our business, financial condition and results of operations.

**If we fail to properly manage the employment and service of our physicians, other medical professionals and employees, we may be subject to penalties against our medical service network, which could materially and adversely affect our business and results of operations.**

The practicing activities of physicians and other medical professionals are strictly regulated under the PRC laws and regulations. Physicians and other medical professionals who practise at medical institutions and pharmacies must hold practicing licenses and may only practice within the scope of their licenses and at the specific sites at which their licenses are registered. See “Regulatory Overview” for more details. We cannot assure you that certain of our medical professionals will complete the related procedures to register or transfer their licenses in or to our medical service network, or to add our relevant medical institutions or pharmacies to their permitted practicing sites, as the case may be, timely or at all. In addition, we cannot assure you that medical professionals at our medical service network will always strictly follow the requirements and will not practise outside the permitted scope of their respective licenses. Any failure by us to properly manage the employment and service of our physicians and other medical professionals may subject us to administrative penalties against our medical service network, which could materially and adversely affect our business. Moreover, failure by our employees to strictly follow our internal policies may also subject us to administrative penalties. During the Track Record Period, one of our subsidiaries was penalized RMB30,000 by the local tax authorities for neglectful loss of the stub copies of certain invoices that were issued in 2015 and 2016, which was caused by our responsible employee’s negligence. Any similar administrative penalties in the future may adversely affect our business.

**If we fail to timely renew any existing license, permits or certificates or fail to obtain any license, permits or certificates for our newly commenced or acquired business, we may not be able to maintain or expand our business operations.**

We and our medical institutions, pharmacies and online healthcare platforms are subject to periodic license or permit renewal requirements and inspections by various government authorities. See “Business—Licenses, Permits and Certificates” for more details. If we fail to timely renew any major license, permit, certificate or approval for us or all or any of our medical institutions, pharmacies, online healthcare platforms or subsidiaries, or if the medical professionals practicing at our medical service network become unlicensed at any time during their practices, we may face

---

## RISK FACTORS

---

penalties, suspension of operations or even revocation of operating licenses, depending on the nature of the incidents, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, we are required to obtain a series of licenses, permits, certificates or approvals for our newly commenced or acquired business, such as those in relation to safety production and fire safety, fail to comply with which may subject us to the corresponding administrative penalties, including suspension of operations under the worst-case scenario.

**We may be unable to identify expansion opportunities or execute expansion plans, which may materially and adversely affect our business, results of operations, financial condition and prospects.**

We have significantly expanded our medical service network during the Track Record Period through organic growth and acquisitions. There is no assurance that we will identify suitable opportunities to further expand our medical service network, negotiate commercially acceptable terms for such expansion, or successfully integrate any new assets or businesses in the future. Even if we are able to identify suitable opportunities, such expansion can be difficult, time-consuming and costly to execute, and we may not be able to secure necessary financing for such expansion. Failure to identify suitable locations with requisite facilities and ancillary services may result in the failure to obtain the Medical Institution Practicing License, which is an essential requirement for a medical institution to commence operations. Unsuccessful expansion plan may have a material and adverse effect on our business and financial condition, such as provisions. See “Financial Information – Discussion of Certain Key Consolidated Statements of Financial Position – Provisions.” In addition, our future expansion and subsequent ramping up and integration efforts would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations.

In addition, we have expanded our service and product offerings to include a wide spectrum of TCM healthcare solutions and products in recent years. Our business has become increasingly complex in terms of both the type and scale of business we operate. Any expansion may increase the complexity of our operations and place a significant strain on our managerial, operational, financial and human resources. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. Our lack of familiarity with these services and products and lack of relevant customer data relating to these services and products may make it more difficult for us to anticipate customer demands and preferences. We may misjudge customer demands, resulting in inventory buildup and possible inventory write-down as well as unpleasant customer experience. It may also make it more difficult for us to inspect and control the quality of our services and products and ensure proper handling, storage and delivery of products. We may experience higher return or exchange rates on certain new products, receive more customer complaints and face costly product liability claims as a result of selling certain new products, which would harm our brand and reputation and our financial performance. Furthermore, we may not have much purchasing power in new categories of services or products and we may not be able to negotiate favorable terms with suppliers. We may need to price aggressively to gain market share or remain competitive in new service and product offerings. It may be difficult for us to achieve profitability in the new service and product offerings and our profit margin, if any, may be lower than we anticipate, which would adversely affect our overall profitability and results of operations. We may not be able to replicate our success in the past to our new service and product offerings. We cannot assure you that we will be able to recoup our investments in introducing these new services and products.



---

## RISK FACTORS

---

We are also continually executing a number of growth initiatives, strategies and operating plans designed to enhance our business. In particular, we are implementing a number of monetization strategies to boost our revenue growth, which are new and evolving, some of which are still at the inception or trial stage and may prove unsuccessful. If we are not able to identify or capture opportunities or execute plans to expand our operations successfully, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Moreover, the anticipated benefits from these efforts are based on assumptions that may prove to be inaccurate. Moreover, we may not be able to successfully complete these growth initiatives, strategies and operating plans and realize all of the benefits that we expect to achieve, or it may be more costly to do so than we anticipate. If, for any reason, the benefits we realize are less than our estimates or the implementation of these growth initiatives, strategies and operating plans adversely affect our operations or cost more or take longer to effectuate than we expect, or if our assumptions prove inaccurate, our business, financial condition and results of operations may be materially and adversely affected.

**We may not be able to manage the growth of our business and operations and grow at a rate comparable to our growth rate in the past.**

We have experienced significant growth during the Track Record Period. Our revenue increased from RMB726.2 million in 2018 to RMB925.4 million in 2020, representing a CAGR of 12.9%. Our revenue increased by 78.1% from RMB335.9 million for the six months ended June 30, 2020 to RMB598.2 million for the six months ended June 30, 2021. However, this growth trend reflects only our past performance and does not have any implication or may not necessarily reflect our financial performance in the future. The sustainability of our growth depends on a number of factors, many of which are beyond our control, including the ability of our medical service network to retain existing customers and attract new ones. In addition, the effects of changing regulatory, economic, public health, environmental, competitive conditions and future expansion of our medical service network as well as service and product offerings, and many other factors cannot be fully predicted and may have a material adverse effect on our business, financial condition, results of operations and prospects. There is no assurance that we can sustain the growth rate we achieved in the past. If we are not able to manage our growth effectively, our business and prospects may be materially and adversely affected.

In addition, we currently operate under the emerging and dynamic trend in the grand TCM healthcare industry in the PRC. Under such trend, more and more TCM healthcare providers with existing offline presence are expanding their services to online healthcare services, including among others, providing follow-up consultation and diagnosis, prescription services, decoction services and sale of healthcare products. Such trend is relatively new and volatile, and it is uncertain whether it would develop rapidly as anticipated, achieve and sustain high levels of demand, customer acceptance and market adoption. Risks and challenges we may face under this emerging and dynamic model include our ability to, among other things, navigate an evolving regulatory environment, grow our customer base and enhance our customer loyalty in a cost-efficient manner, and maintain reliable, secure, high-performance and scalable information technology systems. If we fail to address any of the foregoing risks and challenges, our business, financial condition and results of operations may be materially and adversely affected.



---

## RISK FACTORS

---

Our relatively short operating history under such trend in the grand TCM healthcare industry, together with the emerging and dynamic characteristics of such trend, makes it difficult to assess the future prospects or forecast the future results of our business. Historical results and growth of our business may not be indicative of our future performance. There can be no assurance that we would be able to increase revenue of, or generate profits from, our business in the future. Our ability to achieve profitability is affected by a variety of factors, many of which are beyond our control, and our results of operations may vary from period to period in response.

**The historical operating results of Bailu may not be indicative of its results after acquisition by us.**

Certain historical operating results of Bailu prior to acquisition by us have been included in this prospectus. To calculate the customer return rate in 2020, we included customers of Bailu (including those before our acquisition in October 2020) for the entire year of 2020 for statistical purpose. See “Business – Our Customers – Customer Acquisition and Retention.” As such operating information is generated prior to our acquisition, we cannot assure you that it is prepared based on the same standards as ours. Accordingly, the operating results of Bailu included in this prospectus may not reflect what our results of operations would have been had we been a combined entity during the periods presented, and may not be indicative of its results after acquisition by us.

**We may not be able to successfully complete any further acquisitions or enhance post-acquisition performance, which could adversely affect our business prospects.**

We may make acquisitions when appropriate opportunities arise in the future. However, acquisition targets may have unknown or contingent liabilities, including liabilities for failure to comply with evolving requirements or interpretations of relevant laws, regulations and rules. We cannot assure you that our due diligence conducted will uncover all material unknown or contingent liabilities or other negative developments, such as bankruptcy, insolvency, liquidation or dissolution, or that the acquisition targets will be viable. We may also suffer reputational and financial harm for actual or alleged inferior service or product or harm that occurred at the acquisition targets prior to our acquisition and need to respond to claims initially as dissatisfied customers will likely pursue their claims against the acquisition targets and us. Moreover, we may suffer reputational and financial harm if the acquisition targets were subject to any administrative penalties prior to our acquisition. For example, two medical institutions we acquired were imposed administrative penalties for certain violations of applicable laws and regulations before our acquisition. We cannot assure you that in the future there would be no similar or more severe administrative penalties on our acquisition targets for activities before our acquisition.

In addition, our ability to successfully consummate any future acquisitions is subject to various risks and uncertainties, including:

- failure to identify suitable acquisition targets or have to engage in intense competition for attractive acquisition targets, which may make it difficult to complete such acquisitions on commercially acceptable terms or at all;
- failure to obtain sufficient financing on acceptable terms or at all, to fund such acquisitions; and
- failure to obtain or secure regulatory approvals and third-party consents necessary to consummate such acquisitions.

---

## RISK FACTORS

---

Even if we are able to consummate any acquisitions, our ability to grow our business through any future acquisitions remains subject to further risks and uncertainties which could materially and adversely affect our business, financial condition and results of operations, including that:

- we may fail to successfully integrate the acquisition targets with our existing business and operations;
- we may fail to effectively manage a larger, growing business, operating in new geographic regions or industries; and
- the acquired businesses do not provide us with benefits or generate the revenue and profitability we had anticipated.

If we suffer reputational or financial harm caused by unknown or contingent liabilities of the acquisition targets, or if we are unable to consummate acquisitions and successfully grow our business through any future acquisitions, our business and prospects could be adversely affected. Furthermore, the process of pursuing and consummating acquisitions as well as integrating and managing acquired businesses, whether or not successful, could divert our resources and management attention from our existing business and impair our ability to successfully manage and grow our business organically.

**Opening of new medical institutions and pharmacies involves risks and could result in fluctuations in our short-term financial performance, and newly opened or newly acquired medical institutions, pharmacies and online healthcare platforms may not achieve operation and performance as anticipated.**

Our operating results have been, and in the future may continue to be, influenced by the timing and extent of the expansion of our medical service network.

The expansion of our offline medical service network may expose us to additional risks, including, among other things:

- difficulties with managing operations into new regions;
- different approval or licensing requirements;
- recruiting sufficient personnel in these new regions;
- challenges in providing suitable services and products as well as supports in these new regions;
- challenges in attracting medical professionals, customers and business partners and remaining competitive;
- potential adverse tax consequences; and
- limited protection for intellectual property rights.

If we are unable to effectively avoid or mitigate these risks, we may not be able to expand our business into new regions on a timely and cost-efficient manner. In addition, new medical institutions and pharmacies generally have lower income and higher operating costs during the initial stages of their operations. We also incur substantial expenses before opening new medical institutions and pharmacies such as renovation costs, rental expenses and equipment costs. It may take months for a new medical institution or a pharmacy to achieve profitability. Accordingly, the timing and extent of expansion of our medical service network have, and may continue to have, a significant impact on our profitability. As a result, our results of operations may fluctuate significantly from period to period.

---

## RISK FACTORS

---

Therefore, year-to-year or period-to-period comparisons of our operating results during the Track Record Period may not be meaningful and you should not rely on them to predict the future performance of our operating results or the price of our Shares.

In addition, it typically takes newly opened or newly acquired medical institutions and pharmacies a period of time to achieve a utilization rate comparable to the existing ones, due to factors such as time needed to build customer awareness in the local community and to integrate the operations of such medical institution or pharmacy into our existing infrastructure. It may also take us some time to integrate newly acquired online healthcare platforms into our existing system. Moreover, the operating results generated at the newly opened or newly acquired medical institutions, pharmacies and online healthcare platforms may not be comparable to the operating results generated at any of the existing ones. The medical institutions, pharmacies and online healthcare platforms may even operate at a loss, which could adversely affect our results of operations.

Furthermore, the opening or acquisition of new medical institutions, pharmacies and online healthcare platforms involves regulatory approvals and reviews by various government authorities in the PRC, including health authorities. We may not be able to obtain all the required approvals, permits, licenses or certificates in a timely manner or at all. Therefore, we may not be able to immediately utilize or derive revenue from a newly opened or newly acquired medical institution, pharmacy and online healthcare platform as anticipated due to the inability or material delay by us in obtaining the required approvals, permits, licenses or certificates and any substantial increase in costs to ramp up operations and utilization.

**Our failure to maintain our business relationship with our suppliers, or any decrease, shortage or delay in the supply, or an increase in the cost of our purchases may affect our business, financial condition and results of operations.**

Our suppliers primarily comprise suppliers of decocting pieces, TCM patent medicines, health supplements, nourishment, medical equipment and medical consumables. To a lesser extent, we directly procure certain TCM medicinal from authentic origins and cooperate with reliable decocting piece suppliers for processing, in order to better control the quality of decocting pieces and reduce our costs. We also engage third-party manufacturers to produce our private label nourishment. In addition, we engage management service platform companies to streamline the management of our network physicians. For relevant risks exposed by us in relation to our network physicians, which are managed by management service platform companies engaged by us, see “—Our medical service network could become the subject of customer complaints, claims and legal proceedings in the course of operation, which could result in costs and materially and adversely affect our brand image, reputation and results of operations.” For historical procurement from our major suppliers, see “Business—Suppliers and Procurement—Our Five Largest Suppliers.” If we fail to maintain our business relationship with our suppliers, or if they cease to cooperate with us, or breach their current agreements with us, we may have limited remedies and may be unable to source alternative supplies in a timely manner and under commercially reasonable terms, which could have a negative impact on the stability of our operations, thus materially and adversely affect business, financial condition and results of operations.

We cannot assure you that we will be able to renew our agreements with our existing suppliers when they expire or to enter into new supplier relationships to support the continued growth of our business. In addition, we are vulnerable to supply shortages and fluctuations in market prices. The

---

## RISK FACTORS

---

availability and prices of decocting pieces, TCM patent medicines, authentic medicinal, health supplements, nourishment, medical equipment and medical consumables may be affected by various factors that are beyond our control, such as shortage of raw materials, unexpected increases in demand for such supplies, adverse weather conditions, occurrence of natural disasters, regulatory actions, deteriorating financial conditions or cessation of business of the suppliers and labor shortages. In the event that any of our suppliers fails to continue to supply us with sufficient quantities of supplies of an acceptable quality in the future, we may be unable to obtain substitutes elsewhere in a timely manner, or at all. Also, the market prices of decocting pieces, TCM patent medicines, authentic medicinal, health supplements, nourishment, medical equipment and medical consumables may be subject to significant fluctuations. We cannot assure you that we would be able to pass on any increase in costs of such supplies to our customers, and any substantial fluctuation in market prices of such supplies may materially increase our costs and impact our profitability.

**We have limited or no control over the quality of decocting pieces, TCM patent medicines, authentic medicinal, health supplements, nourishment, medical equipment and medical consumables used in our business operations, which may expose us to liabilities and materially and adversely affect our reputation, business, results of operations, financial condition and prospects.**

Our healthcare solutions and products involve the frequent use of a variety of decocting pieces, TCM patent medicines, authentic medicinal, health supplements, nourishment, medical equipment and medical consumables, which we procure from suppliers whom we do not have control over. We cannot assure you that all supplies are authentic, free of defects and meet the relevant quality standards. If these supplies are subsequently found to have been defective at the time of the supply, even though we did not know or could not have known about such defect, we may be subject to liability claims, negative publicity, reputational damage, regulatory investigation or administrative sanction, any of which may adversely affect our results of operations and reputation. We cannot assure you that significant claims of such nature will not be asserted against us in the future, and that adverse verdicts will not be reached or that we will be able to recover losses from our suppliers. In addition, termination of our supply agreements with unqualified suppliers can be time-consuming and costly, and we may not be able to find suitable replacement suppliers on commercially acceptable terms, failing which our business, results of operations, financial condition and prospects will be adversely affected.

**We may subject to product liability claims or product recalls, which could cause us to incur significant expenses and be liable for significant damages as we have not maintained relevant insurance.**

We are subject to product liability claims with respect to healthcare products (including valuable medicinal and nourishment) and pharmaceuticals provided by us during providing healthcare solutions and sale of healthcare products. Such claims may arise if any of the products provided by us are deemed or proven to be unsafe, ineffective, defective or contaminated or when we are alleged to have engaged in practices, such as improper filling of prescriptions, insufficient or improper labeling of products, provision of inadequate warnings or insufficient or misleading disclosures of side effects, or unintentional distribution of counterfeits. In the event that the use or misuse of any healthcare products or pharmaceuticals provided by us results in personal injury or death, product liability and/or indemnity claims may be brought against us, in addition to our product recalls, and the relevant regulatory authorities in the PRC may close down our related operations and take administrative actions against us.

---

## RISK FACTORS

---

If any healthcare products or pharmaceuticals provided by us are alleged to be harmful, we may experience reduced sale of the relevant products and may have to recall them from the market. We cannot guarantee that material product recalls will not occur or material product liability claims will not be filed against us in the future. A substantial claim or a substantial number of claims against us, if successful, would have a material adverse effect on our reputation, business, financial condition and results of operations. As we do not maintain any product liability insurance, any product liability claims made against us could result in substantial financial and/or reputational damage to us. In the event that such product liability claims are attributable to our suppliers, there can be no assurance that the loss can be fully indemnified. Any product recalls or any claims against us, regardless of merit, can strain our financial resources and consume the time and attention of our management. If any claims against us are successful, we may incur monetary liabilities, and our reputation may be adversely affected.

**We do not maintain medical liability insurance thus may be subject to losses and liabilities for any claims against us.**

Our medical service network is exposed to potential liabilities that are inherent to healthcare solutions and products. In recent years, physicians and medical institutions in the PRC have been subject to an increasing number of claims. During the Track Record Period and up to the Latest Practicable Date, the total amount of monetary compensation paid by us to settle the medical dispute was approximately RMB0.2 million. We do not maintain medical liability insurance for our medical service network. Therefore, our medical institutions, pharmacies and online healthcare platforms may be subject to losses and liabilities for any future claims against them. Any losses and liabilities incurred by us or a successful claim made against our medical institutions could have a material adverse effect on our results of operations and financial condition. We cannot assure you that our medical institutions, pharmacies and online healthcare platforms will not incur uninsured losses and liabilities.

**Our insurance coverage may be inadequate to cover all significant risk exposures.**

We maintain limited insurance policies covering certain potential liabilities. In line with industry practice, we do not maintain any property insurance, product liability insurance, medical liability insurance and business interruption insurance or key person insurance. If we experience severe outbreaks of communicable diseases or other factors outside of our control or natural or man-made disasters, which may cause interruption to our business or damage to our properties and medical facilities, we may incur significant costs and our daily operations may be materially and adversely affected. In addition, if any of our management or key employees joins a competitor or sets up competing businesses, we may lose customers and key medical professionals and staff members. All of our employees are subject to non-compete agreements effective during and up to two years after the termination of employment with us. However, if any dispute arises between our employees and us, the non-competition provisions contained in their non-compete agreements may not be enforceable, especially in China, on the ground that we may have not provided adequate compensation to them for their non-competition obligations, which is required under the relevant PRC laws. Any significant uninsured loss could have a material and adverse effect on our business, financial condition and results of operations.

---

## RISK FACTORS

---

**We recorded net current liabilities and net liabilities during the Track Record Period and we cannot assure you that we will not have net current liabilities in the future.**

As of December 31, 2018, 2019 and 2020, June 30, 2021 and September 30, 2021, we recorded net current liabilities of RMB19.5 million, RMB924.3 million, RMB1,427.2 million, RMB1,560.0 million and RMB1,671.1 million, respectively. The net current liabilities as of December 31, 2019 and 2020, June 30, 2021 and September 30, 2021 was primarily due to high level of current portion of convertible redeemable preferred shares. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we recorded net liabilities of RMB817.1 million, RMB970.2 million, RMB1,133.3 million and RMB847.6 million. Our net liabilities position as of December 31, 2018, 2019 and 2020 and June 30, 2021 was also attributable to our convertible redeemable preferred shares. There can be no assurance that we will not have net current liabilities or net liabilities in the future. The net current liabilities and/or net liabilities position would expose us to liquidity risk which could restrict our ability to make necessary capital expenditure or develop business opportunities, and our business, results of operations and financial condition could be materially and adversely affected.

We cannot assure you that we will always be able to raise necessary funding to finance our current liabilities and other debt obligations and we may continue to have net current liabilities or net liabilities in the future. Our ability to arrange financing and the cost of such financing are dependent on the global and the PRC economic conditions, capital and debt market conditions, lending policies of the PRC government and banks, and other factors. In the event we are unable to obtain adequate financing to meet our working capital requirements, we may be forced to delay, adjust, reduce or abandon our planned strategies. Our business, prospects and financial condition may be materially and adversely affected if our cash flow and capital resources are insufficient to finance our debt obligations.

**We are exposed to fair value changes in our convertible redeemable preferred shares and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain.**

Historically, we recorded fair value loss of our convertible redeemable preferred shares, which amounted to RMB35.8 million, RMB191.1 million, RMB319.8 million and RMB330.7 million, respectively, for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021. Fair value loss of our convertible redeemable preferred shares, which affects our financial position, represents the changes in fair value of the various rights associated with our convertible redeemable preferred shares. In addition, the fair value of convertible redeemable preferred shares is determined by using the applicable valuation techniques, including the discounted cash flow method, the option-pricing method and equity allocation model. Such valuation is based on key parameters about risk-free interest rate and volatility, which are subject to uncertainty and might materially differ from the actual results. Although our convertible redeemable preferred shares will be automatically converted to Shares upon Listing, to the extent we need to revalue the convertible redeemable preferred shares prior to the completion of the Global Offering, any change in fair value of these convertible redeemable preferred shares could materially affect our financial position and results of operations.



---

## RISK FACTORS

---

**Share-based payment may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.**

We adopted 2015 Equity Incentive Plan to attract and retain personnel for positions of substantial responsibility and to provide additional incentives to selected employees, Directors and consultants. We also adopted the Pre-IPO Share Option Plan effective from March 31, 2021 to provide additional incentives 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. For details, see "Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Plan."

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we incurred equity settled share-based payment of RMB3.3 million, RMB9.2 million, RMB15.4 million and RMB43.7 million, respectively. To further incentivize our employees and non-employees to contribute to us, we may grant additional share-based compensation in the future. Issuance of additional Shares with respect to such share-based payment may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

**We incurred net losses during the Track Record Period and our operating results may fluctuate in the future.**

We incurred net loss of RMB173.8 million, RMB148.0 million, RMB255.3 million and RMB349.7 million for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021, respectively, primarily due to the impact of fair value loss on convertible redeemable preferred shares and convertible bonds, equity-settled share-based payment and listing expenses.

As we are exposed to fair value changes in our convertible redeemable preferred shares and valuation uncertainty due to the use of unobservable inputs, treatment of carrying amounts of our financial liabilities measured at fair value through profit or loss may cause significant volatility in or materially and adversely affect our period-to-period earnings, financial condition, results of operations and business.

As share-based payment may cause shareholding dilution to our existing Shareholders, expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

**We are exposed to fair value changes for financial assets at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain.**

During the Track Record Period, we had invested in non-principal guaranteed wealth management products and may, from time to time, invest in such products in the future. As at June 30, 2021, our financial assets at fair value through profit or loss of RMB9.0 million (0.5% of our total assets) represented the contingent consideration which we expect to receive from acquirees but has not been fully settled as of the reporting date, which will be fully settled by January 2023.

---

## RISK FACTORS

---

It is our Group's financial management practice to deploy cash resources in an effective manner by making appropriate investments in short-term financial instruments that generate income without interfering with our business operations or capital expenditures. The underlying financial instruments mainly include deposits and wealth management products.

Since the fair value of our financial assets is subject to all of the risks associated with those underlying financial instruments, including the possibility of a default by, or bankruptcy of, the issuers of such assets, any potential realized or unrealized losses in our investments in the future resulting from the changes in the fair value of our financial instruments may adversely affect our business, our results of operations and our financial condition.

The details on the fair value measurement of the financial assets at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in Note 2.4 and Note 41 in Appendix I to this prospectus. Factors beyond our control can significantly influence and cause adverse changes to the estimates and thereby affect the fair value. These factors include, but are not limited to, general economic conditions, changes in market interest rates, credit risks and stability of the capital markets. The valuation may involve a significant degree of judgement and assumptions which are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our business, financial condition and results of operations.

### **We may incur impairment losses on our Other Intangible Assets.**

Our intangible assets other than goodwill (the “**Other Intangible Assets**”) mainly represent our online platform and software, which are measured on initial recognition at cost if acquired separately or at fair value if acquired under business combination. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we had Other Intangible Assets of RMB2.4 million, RMB2.6 million, RMB22.8 million and RMB31.2 million, respectively. Our Other Intangible Assets are tested for impairment annually and when there is an indicator for impairment. For details on the impairment assessment methods for our Other Intangible Assets, see Note 2.4 to the Accountants' Report set out in Appendix I to this prospectus. During the Track Record Period, we had not incurred any impairment losses on our Other Intangible Assets. The assessment of impairment losses involves a significant degree of management judgments as well as estimates in determining the key assumptions, and unpredictable adverse changes in the future may also result in decreases in the value of our Other Intangible Assets. Therefore, we cannot assure you that these assumptions and estimates would not result in outcomes that require a material adjustment to the carrying amounts of these Other Intangible Assets in the future, which may in turn result in impairment losses. Significant impairment losses on other intangible assets may have a material adverse effect on our financial condition and results of operations, and may in turn limit our ability to obtain financing in the future.

### **We may need additional capital and may not be able to obtain it in a timely manner or under commercially acceptable terms, or at all.**

We believe that our current cash and cash equivalents, anticipated cash flow from operations, available credit facilities, and the proceeds from this Global Offering will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months from the date of this prospectus. We may, however, require additional cash resources to finance our continued growth or other future developments, such as any marketing

---

## RISK FACTORS

---

initiatives or investments we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing of our implementation of organic growth, investments in acquisitions and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing. To the extent that we raise additional financing by issuance of additional equity securities, our Shareholders may experience dilution. To the extent we engage in debt financing, the incurrence of indebtedness would result in increased debt servicing obligations and could result in operating and financing covenants that may, among other things, restrict our operational flexibility or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on commercially acceptable terms is subject to a variety of uncertainties, some of which are beyond our control, including general economic and capital market conditions, credit availability of financial institutions, receipt of necessary PRC government approvals, investors' confidence in us, the performance of the healthcare and the grand TCM healthcare industries in general, and our operating and financial performance in particular. We cannot assure you that future financing will be available in amounts or on terms commercially acceptable to us, if at all. In the event that financing is not available or is not available on terms commercially acceptable to us, our business, results of operations and growth prospects may be adversely affected.

**We depend on the continued service of our senior management team and other key employees, and any failure to attract, motivate and retain them could severely hinder our ability to maintain and grow our business.**

We have been, and will continue to be, heavily dependent on the continued services of our senior management team and other key employees, some of whom have been with us since our inception. In particular, we rely on the expertise, experience and leadership of Mr. Tu, the founder of our Group and the chairman of the Board. We also rely on a number of key members of our senior management team.

We do not maintain key person insurance. Competition for competent candidates in the industry is intense and the pool of competent candidates is limited. If we lose the services of one or more of our key personnel, we may not be able to locate suitable or qualified replacements easily or at all and may incur additional expenses to recruit and train new personnel. Consequently, our business could be severely disrupted, the implementation of our business strategies could be delayed, and our financial condition and results of operations could be materially and adversely affected. In addition, if any member of our senior management team or key employees joins a competitor or forms a competing business, we may lose know-how, trade secrets, customers and key professionals and staff. All of our employees have entered into confidentiality agreements with us, and are subject to non-compete agreements effective during and up to two years after their respective employment with us. We cannot assure you, however, the extent to which any of these agreements will be enforceable under the applicable laws. See “– Risks Relating to Doing Business in the PRC – Our operations are subject to the uncertainties and particularities associated with the legal system in the PRC, which could adversely affect our business, or limit the legal protection available to us or to existing or potential investors” for more details.

---

## RISK FACTORS

---

**Failure to maintain optimal inventory levels could increase our operating costs or lead to unfulfilled customers' demand, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.**

We aim to maintain optimal inventory levels in order to successfully meet our customers' demand. However, we are exposed to inventory risk as a result of various factors that are beyond our control, including shortage or delay in supplies, changing medical demands, the volatile economic environment in the PRC and other force majeure events such as the outbreak of COVID-19. There can be no assurance that we can accurately predict these trends and events and avoid over-stocking or under-stocking our inventories.

Inventory levels in excess of demand may result in inventory write-downs, expiration of our inventories or an increase in inventory holding costs and a potential negative effect on our liquidity. In addition, if we underestimate demand, we may experience inventory shortages which may, in turn, result in unfulfilled customers' demand, leading to a negative impact on customer experiences. There can be no assurance that we will be able to maintain proper inventory levels of our inventories, and any such failure may have a material adverse effect on our business, financial condition, results of operations and prospects.

**Sale of prescription pharmaceuticals is subject to stringent scrutiny, which may expose us to risks and challenges.**

Sale of prescription pharmaceuticals is subject to stringent scrutiny, which may expose us to risks and challenges. In particular, under the *Administrative Measures for the Supervision and Administration of Circulation of Pharmaceuticals* (《藥品流通監督管理辦法》) promulgated by the NMPA in 2007, a company is prohibited from either selling prescription pharmaceuticals to consumers without prescription or selling prescription pharmaceuticals via internet or by post. A company in violation of such prohibitions will be instructed to rectify, given a disciplinary warning, and/or imposed an administrative penalty of no more than RMB30,000 per violation. The newly revised *Drug Administration Law of the People's Republic of China* (《中華人民共和國藥品管理法》) (the “**Drug Administration Law**”) abolishes the restriction on online sale of prescription pharmaceuticals and adopts the principle of keeping offline and online sales consistent. In November 2020, the NMPA published for public comment the *Draft Measures for the Supervision and Administration of Online Pharmaceutical Sales* (《藥品網絡銷售監督管理辦法(徵求意見稿)》) (the “**Draft Measures for Online Pharmaceutical Sales**”), aiming to enhance the supervision of online pharmaceutical sales and related platform services. The Draft Measures for Online Pharmaceutical Sales provides specific and explicit rules for the online sale of prescription pharmaceuticals, which is perceived to be more conducive to online prescription pharmaceutical sellers including us, but also presents challenges for us to be in compliance. The Draft Measures for Online Pharmaceutical Sales provides that, among others, online prescription pharmaceutical sellers shall (i) ensure the accuracy and reliability of the source of e-prescription, (ii) keep records of any e-prescription for at least five years and no less than one year after the expiration date of the prescription pharmaceuticals, (iii) disclose safety warnings including “prescription pharmaceuticals should only be purchased and used with prescriptions and guidance of licensed pharmacists” when displaying information of prescription pharmaceuticals; (iv) take effective measures to ensure the information and data to be true and complete, and the transaction information to be traceable; (v) establish online pharmaceutical sales safety management system, distribution system, complaint handling system, and monitoring and reporting system for adverse pharmaceutical reactions in online

---

## RISK FACTORS

---

sales; (vi) report the title of the relevant entity, legal representative, principal responsible person, unified social credit code, website title or web client application title, website domain, drug production license or drug trading license code and other information to the relevant governmental authorities; and (vii) clearly and prominently display relevant qualification documents and contact information on the home page of the website. We have conducted self-examination and implemented corresponding rectification according to the above requirements applicable to us to the extent we can, and if the Draft Measures for Online Pharmaceutical Sales is implemented in the future in its current form, we will take further measures to comply with the remaining requirements. As advised by our PRC Legal Advisors, the Draft Measures for Online Pharmaceutical Sales was released for public comment only and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. We will closely monitor and assess the trajectory of the rule-making process.

If we cannot meet relevant requirements under the evolving laws or interpretations of the law, we could be subject to disciplinary warnings and administrative penalties, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects. Additionally, we cannot assure you that our scrutiny measures and mechanism will be effective or sufficient. There may be loopholes in our scrutiny measures and such measures may not be able to detect prescriptions abuse or fraudulent orders effectively and timely. As the methods used to bypass or cheat our scrutiny measures may change frequently and may not be recognized until they succeed, we may be unable to anticipate these methods or to implement adequate preventative measures. Failure to effectively screen the sale of prescription pharmaceuticals could expose us to liability under PRC laws and regulations, which may incur significant liability and materially and adversely affect our business, financial condition and results of operations.

**Regulatory pricing controls may affect the pricing of healthcare solutions and products provided by us, which may in turn affect our financial condition and results of operations.**

The PRC government issues policies on the pricing of healthcare solutions, pharmaceuticals, medical equipment and medical consumables. Substantially all of our medical institutions, as Designated Medical Institutions, may only charge medical fees in accordance with the pricing guidelines, price ceilings and/or cost-plus ceilings set by the relevant local healthcare administrative authorities for services and products eligible to be paid by the national reimbursement programs. See “Business—Pricing” and “Regulatory Overview—Regulations Relating to the Price of Healthcare Service and Medicine” for more details. We cannot predict if the PRC government will change the pricing guidelines, price ceilings and/or cost-plus ceilings in the future or if additional healthcare solutions and products provided by us may become subject to pricing control, or more stringent insurance reimbursement limits, which may put pressure on the pricing of our medical service network. As a result, our financial condition and results of operations could be materially and adversely affected.

**Our business may be harmed by technological and therapeutic changes or by shifts in physicians’ or customers’ preferences for alternative treatments.**

The healthcare industry is characterized by frequent improvements and evolving technology. As technological advances in such industry continue to evolve rapidly, new services and equipment may arise, and our success will depend on the ability of our medical service network to adapt to such technological changes, which is particularly challenging for us as an advocator of TCM. Adapting to technological changes could incur significant expenditures and we may be subject to licensing or



---

## RISK FACTORS

---

other regulatory requirements. Some of our competitors may have greater resources to respond to these technological changes than our medical service network. If our medical service network fails to adapt successfully to technological changes or fails to obtain access to new technologies in a timely manner, our ability to compete could be strained, and as a result, our business, results of operations and prospects will be materially and adversely affected. There is also no assurance that we will be able to recover the expenditures associated with responding to the technological changes. In addition, rapid technological improvements could, at times, lead to earlier-than-planned obsolescence or redundancy of equipment and result in impairment charges, which may materially and adversely affect our results of operations.

Furthermore, potentially revolutionary technological and therapeutic changes in treatment methods could reduce demand or even eliminate the need for TCM healthcare solutions and products. Customers and physicians may choose alternative therapies over TCM healthcare solutions and products due to a number of reasons. Any shifts in physicians' or customers' preferences for other therapies over TCM healthcare solutions and products may materially and adversely affect our business, financial condition and results of operations.

**Our business is mainly focused on TCM healthcare solutions and products, the receptiveness of which in the PRC may change, and our business, results of operations and financial condition may be materially affected as a result.**

Our continued success depends on the popularity of and demand for TCM healthcare solutions and products. However, customer preferences and demand may shift away from TCM healthcare solutions and products for various reasons including but not limited to:

- a change in customers' belief in the efficacy of TCM healthcare solutions and products in achieving their claimed benefits;
- a general change in customers' preferences for TCM healthcare solutions and products as compared to other treatment options that claim similar benefits; and
- negative scientific research, findings or publicity regarding TCM healthcare solutions and products or other services and products provided by us.

We believe that the grand TCM healthcare industry is highly dependent upon customer perception regarding the safety, efficacy, level of side effects and quality of TCM healthcare solutions and products. Customer perception of healthcare solutions and products provided by us can be significantly influenced by scientific research or findings, media attention and other publicity regarding related TCM healthcare solutions and products. We cannot assure you that future scientific research, findings or publicity will be favorable to any particular service or product, or consistent with existing research or findings which are favorable to that service or product. Scientific research reports, findings or publicity, whether or not accurate, may associate illness or other adverse effects with the consumption of TCM healthcare solutions and products in general or that of TCM healthcare solutions and products provided by us or other similar companies, question the safety, efficacy or benefits of such services and products, or claim that any of such services and products are unsafe or ineffective. Such adverse publicity could arise even if the adverse effects associated with such services and products resulted from customers' failure to consume such services or products appropriately or as directed. Any such reports, findings or publicity may have a material adverse effect on the demand for healthcare solutions and products provided by us, and our business, results of operation and financial condition.



---

## RISK FACTORS

---

**Any negative publicity about us, our physicians and other medical professionals, our medical service network, the TCM, the healthcare, internet and internet healthcare industries could harm the brand image and reputation of us and our medical service network, and trust in the healthcare solutions and products provided by us, which could result in a material and adverse impact on our business and prospects.**

Negative publicity involving us, our physicians and other medical professionals, our medical service network, the TCM, the healthcare, internet and internet healthcare industries may materially and adversely harm the brand image and reputation of us and our medical service network, and cause deterioration in the level of market recognition of and trust in the healthcare solutions and products provided by us, thereby resulting in reduced customer visits and market demands, and potential loss of business partners as well as medical professionals and other staffs. Such negative publicity may also result in diversion of management's attention, and government investigations or other forms of scrutiny. These consequences may have a material and adverse effect on our business, results of operations, financial condition and prospects.

**If we are unable to continue to attract and retain customers, provide superior customer experience and maintain customers' trust in our medical service network, our business, financial condition and results of operations may be materially and adversely affected.**

Our medical service network is highly dependent on our customer base. In 2018, 2019 and 2020 and the six months ended June 30, 2021, our new customers were 333,418, 377,199, 361,754 and 227,500, respectively, and our accumulated customers at the end of each period were 915,052, 1,292,251, 1,654,005 and 1,881,505, respectively. Growth in our customer base is a key driver of our revenue growth. Our ability to continue to attract and retain customers depends on our ability to provide superior customer experience. In order to do so, we need to continue to provide a wide selection of high-quality healthcare solutions and products, explore services and products that are responsive to customers' demand, ensure timely and reliable delivery, flexible payment options and superior after-sales services. Such ability, in turn, depends on a variety of factors beyond our control. In particular, we rely on a number of third parties in the provision of our healthcare solutions and products, such as suppliers and medical professionals. Their failure to ensure high-quality supplies or healthcare services may adversely affect our customers' receptiveness of, and willingness to purchase, healthcare solutions and products provided by us, which may damage our reputation and cause us to lose customers.

In addition, we leverage third-party logistics service providers to facilitate timely and reliable delivery to our customers. If the products purchased by our customers fail to be delivered to them in a timely and proper fashion, our brand and customer loyalty may be adversely affected.

Our customers make prepayments when purchasing our prepaid membership packages for future redemption of healthcare solutions and/or products. Also, we received prepayment from customers and corporate customers mainly for healthcare solutions that they have not yet received which were booked as contract liabilities. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our contract liabilities, representing the abovementioned prepaid membership packages and prepayments for healthcare solutions, amounted to RMB8.1 million, RMB16.9 million, RMB24.4 million and RMB20.2 million, respectively. Generally, payment for prepaid membership packages and prepayments for healthcare solutions cannot be recognized as revenue until the related healthcare solution and/or product is rendered. In addition, the realization of the healthcare solutions and/or products of prepaid membership packages is subject to, among other things, our service capacity when the relevant service is requested. If we have insufficient capacity to render the relevant services when

---

## RISK FACTORS

---

our customers request to redeem their prepaid membership packages, we cannot assure you that our customers will not have complaints or claims against us for undelivered services and/or products, which could materially and adversely affect our customers' satisfaction of, the level of market reputation of, and trust in, our services and/or products, and in turn, our business, financial condition and results of operations. Moreover, if we fail to provide the healthcare solutions and/or products in the package or as prepaid for, we may need to return the prepayments we received to such customers, which may adversely affect our cashflow and our financial position. Additionally, if our customer service personnel fail to provide satisfactory service, or if waiting time is too long due to high volume of inquiries or customer visits at peak times, customer experience will be materially and adversely affected. Moreover, any negative publicity or poor feedback on our customer service may harm our brand and reputation and, in turn, cause us to lose customers and market share.

Furthermore, we provide healthcare solutions and products through our online healthcare platforms. The general public, many of whom are our potential customers, may not recognize and accept the concept of online healthcare solutions and products. They may also have concerns over the reliability, safety and efficacy of the healthcare solutions and products provided through online platforms. If we cannot continue to provide superior customer experience, wide selection of high-quality healthcare solutions and products and ensure their efficacy in addressing our customers' needs and meeting their expectation, and maintain or support the reliability, security and functionality of online platforms where we operate, we may not be able to retain our existing customer base or attract new customers, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects.

**Our medical service network could become the subject of customer complaints, claims and legal proceedings in the course of operation, which could result in costs and materially and adversely affect our brand image, reputation and results of operations.**

We rely on the physicians and other medical professionals in our medical service network to make proper clinical decisions regarding the diagnoses and treatments of customers. However, we do not have direct control over the clinical activities of our medical service network or over the decisions and actions taken by the physicians and other medical professionals as their diagnoses and treatments of customers are subject to their professional judgment and in most cases, must be performed on a real time basis. Any incorrect decisions or actions on the part of the physicians and other medical professionals, or any failure by our medical service network to properly manage clinical activities may result in undesirable or unexpected outcomes, including complications, injuries and even deaths in extreme cases. In addition, there are inherent risks associated with the clinical activities that may result in adverse reactions such as dizziness and numbness of the tongue caused by overdose of certain decocting pieces, such as Aconite (附子), Pinellia (半夏), Asarum (細辛), as well as burns caused by misoperation of physicians during the physiotherapy.

In recent years, medical professionals, hospitals and other healthcare providers in the PRC have become subject to an increasing number of customer complaints, claims and legal proceedings alleging malpractice or other causes of action. Incidents have occurred in hospitals and other medical institutions in the past in the PRC where dissatisfied customers carried out extreme actions or even violence during the course of the disputes. Any such incident, if occurs, would harm our reputation, impair the ability of our medical service network to recruit and retain medical professionals and other staffs, discouraging other customers from visiting our medical service network, and cause us to incur substantial costs.

---

## RISK FACTORS

---

Our medical service network may choose to settle with the dissatisfied customers. During the Track Record Period and up to the Latest Practicable Date, the total amount of monetary compensation paid to settle customer complaints was approximately RMB0.2 million. A customer complaint becomes a medical dispute when initial negotiation fails to reach a settlement and the customer requests to resolve the complaint through mediation or litigation. See “Business—Compliance and Legal Proceedings—Legal Proceedings—Medical Disputes” for details of the medical dispute resolved and settled by our medical service network during the Track Record Period and up to the Latest Practicable Date. Despite the contractual terms of the expert collaboration agreements entered between our network physicians and us, for any medical disputes caused by network physician’s malpractice, we are still liable for compensation in the case that the physician practicing at the medical institution is at fault for damage inflicted on a patient during the course of diagnosis and treatment, which is our responsibility under the relevant laws and regulations. We cannot guarantee our medical service network will not encounter the malpractice of physicians and be subject to medical disputes or that they can successfully prevent or address all medical disputes in the future. Any complaint, claim or legal proceeding, regardless of merit, could result in significant legal costs, diversion of medical professionals’ and management’s resources and reputational damage to us, and we may also incur additional costs if we terminate the collaboration relationship with the physician who conducted malpractice and engage other physicians. These potential negative results may in turn materially and adversely affect our business, financial condition and results of operations.

**Our business generates and possesses a large amount of customers’ personal and medical information, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.**

During our provision of healthcare solutions and products, we collect and maintain personal and medical information of our customers with their prior consents. Unless otherwise provided in laws and administrative regulations, PRC laws and regulations only allow healthcare providers to collect personal and medical information of their customers with such customers’ prior consents and to the extent necessary. PRC laws and regulations also generally require healthcare providers to protect the privacy of their customers and prohibit unauthorized disclosure of personal information. Our medical service network will be liable for damage caused by divulging the customers’ personal or medical records without consent.

We have taken measures to maintain the confidentiality of our customers’ personal and medical information, including performing de-identification on raw data stored, encrypting personal and medical information in our cloud-based HIS so that it cannot be viewed without proper authorization or exported in bulk, storing information relating to national reimbursement programs only in our intranet system to avoid information leakage, and setting up firewalls to prevent information loss or leakage caused by cyber-attacks. However, these measures may not always be effective, considering the increase of personal and medical information collected and maintained by us and the increasing level of expertise of hackers. There is a risk that such information could be compromised in the event of a security breach at our medical service network. Such information could be divulged due to, for example, theft or misuse arising from staff misconduct or negligence. In addition, we use customers’ medical information on an aggregated basis after redacting personally identifiable information or disclose certain data after obtaining relevant customers’ consent for research purposes. While we believe our current usage of customers’ medical information is in compliance with applicable laws and regulations governing the use of such information, any change in such laws and regulations or any change in the interpretations of the constantly evolving data

---

## RISK FACTORS

---

privacy and security regulatory requirements could impose more stringent data protection requirements and thus affect our ability to use medical information and subject us to liability for the use of such data for current permitted purposes.

On June 10, 2021, the Data Security Law was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and became effective on September 1, 2021. On August 20, 2021, the PIPL was adopted by the Standing Committee of the National People's Congress and became effective on November 1, 2021. The Cyberspace Administration of China published the Draft Cybersecurity Review Measures on July 10, 2021. Pursuant to the Draft Cybersecurity Review Measures, critical information infrastructure operators that purchase network products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review, reflecting the increased attention of the government authorities on data security and protection. However, the Draft Cybersecurity Review Measures provides no further explanation or interpretation for "listed abroad." Given that the expression used in the Draft Cybersecurity Review Measures is "listing in a foreign country" rather than "offshore listing" and that Hong Kong is likely to be considered as "offshore" rather than "foreign country," it is not likely that a listing in Hong Kong will be considered as "listing in a foreign country." Furthermore, the exact scope of "critical information infrastructure operators" under the Draft Cybersecurity Review Measures and the current regulatory regime remains unclear, and the identification rules of critical information infrastructure operators still need to be formulated and clarified by relevant Protection Work Departments (the competent departments and supervision and management departments of important industries and sectors) in future legislation. As of the Latest Practicable Date, the Draft Cybersecurity Review Measures had not come effective.

On November 14, 2021, the CAC published Draft Regulations on Cyber Data Security Management, which further elaborated a listing in Hong Kong should not be treated as "listing in a foreign country," which was mentioned in the Draft Cybersecurity Review Measures. According to Draft Regulations on Cyber Data Security Management, seeking to be listed in Hong Kong that affects or may affect the national security should be reported and undergo the cybersecurity review. According to *National Security Law of the PRC* (《中華人民共和國國家安全法》) issued by Standing Committee of the National People's Congress on July 1, 2015 and became effective on the same date, national security refers to a status in which the regime, sovereignty, unity, territorial integrity, welfare of the people, sustainable economic and social development, and other major interests of the state are relatively not faced with any danger and not threatened internally or externally and the capability to maintain a sustained security status. As advised by our PRC Legal Advisors, the criteria for determining "affect or may affect national security," as stipulated in the Draft Regulations on Cyber Data Security Management, is still subject to uncertainty and further observation and further elaboration by the CAC.

Given the uncertainty on the interpretation and application of the Draft Regulations on Cyber Data Security Management, we cannot assure you that we will not be deemed as a data processor that "affect or may affect national security" in the future. We may be subject to cybersecurity review by the competent government authority after the draft regulations become effective even upon completion of our Listing. If the data processing activities of a Hong Kong listed company or a company that is in the process of applying for listing in Hong Kong are deemed as "affecting or may affect national security" and such company has failed to conduct cybersecurity review according to the relevant laws and regulations, such company will be requested to take rectification actions, subject to disciplinary warning, and/or imposed an administrative penalty ranging from RMB50,000 to

---

## RISK FACTORS

---

RMB500,000 for a single violation incident. Furthermore, if such violation causes material impact or such company refuses to rectify the violation, such company may be subject to more severe penalties, such as revocation of relevant practicing licenses and permits. Therefore, if our business is deemed as “affect or may affect national security” when the Draft Regulations on Cyber Data Security Management become effective and we fail to conduct cybersecurity review according to the relevant laws and regulations and/or take rectification actions as required by the relevant competent government authority, we might be subject to more severe penalties, warnings or revocation of our practicing licenses and permits, which could materially and adversely affect our business, reputation as well as financial performance.

On October 29, 2021, the Cyberspace Administration of China published the Draft Outbound Data Transfer Security Assessment Measures. As of the Latest Practicable Date, we had disclosed certain information of our Shareholders, Directors, managerial officers, employees and customers to the legal advisors and Joint Sponsors for the purpose of due diligence, while the legal advisors and Joint Sponsors are professional parties which have entered into legally binding non-disclosure agreements with us. The Draft Outbound Data Transfer Security Assessment Measures specify the circumstances in which data handlers providing data outbound shall apply for outbound data transfer security assessment with the Cyberspace Administration, including, among others, the personal information handlers handling the personal information of over 1 million people provides personal information outbound. If the Draft Outbound Data Transfer Security Assessment Measures are fully implemented as-is, the above circumstance remains to be clarified. It does not clarify the number of outbound data transfer in such circumstance, which leaves more uncertainties in its application and enforcement and we may be subject to the outbound data security assessment with national Cyberspace Administration as mentioned above. We will continue to pay close attention to the relevant legislative and regulatory development and prepare for the security assessment when necessary.

With the continuous expansion of our business and growth of our customer base, there can be no assurance that we will not be subject to national security review or the recent tightening of regulations on the collection and use of personal information by relevant government authorities in the PRC will have no material adverse effect to our business operations in the future. If we cannot meet relevant requirements under the evolving applicable laws or regulations relating to data privacy, data protection or information security or any additional tax related requirements relating to data, or any compromise of security that results in unauthorized access, use or leakage of our customers’ personal and medical information, we could face damage in our reputation or other negative consequences, such as investigations, fines, or suspension of one or more of our online healthcare platforms, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, complying with various laws and regulations on cybersecurity and data security could cause us to incur additional costs or require us to change our business practices, including our data practices, which may significantly distract our management’s attention and adversely affect our business.

**Public scrutiny of internet privacy and security issues may result in increased regulation and different industry standards, which could deter or limit us from providing healthcare solutions and products to our customers, thereby harming our business.**

Regulatory requirements regarding the protection of personal and medical information are constantly evolving and can be subject to significant change, making the extent of our responsibility in that regard uncertain. Our business, including our ability to operate and expand, could be adversely affected if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that requires changes to these practices, design



---

## RISK FACTORS

---

of our websites, mobile applications, healthcare solutions and products, features or our privacy policies. In particular, the success of our business has been, and we expect will continue to be, driven by our ability to responsibly gather and process personal and medical information of customers. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry standards or practices regarding the collection, storage, use or disclosure of information that our customers share with us, or regarding the manner in which the express or implied consent of customers for such collection, storage, use and disclosure is obtained. Such changes may require us to modify our healthcare solutions and products, possibly in a material manner, and may limit our ability to develop new kinds of services, products and features.

**Customer growth and activity on mobile devices depends upon effective use of networks, standards and mobile operating systems that we do not control.**

Customers may receive or purchase healthcare solutions or products provided by us through mobile devices. To optimize the mobile experience, we are, to some extent, dependent on our customers downloading the specific mobile applications for their particular devices. As new mobile devices and operating systems are launched, it is difficult to predict the problems we may encounter in developing applications for these alternative devices and operating systems, and we may need to devote significant resources to the development, support and maintenance of such applications. In addition, our future growth and results of operations could suffer if we experience difficulties in the future in integrating our mobile applications into mobile devices, if problems arise with our relationships with mobile operating system providers or mobile application stores, if our mobile applications receive unfavorable treatment compared to competing applications at mobile application stores, or if we face increased costs to distribute or attract customers to use our mobile applications. In the event that it becomes more difficult for our customers to receive or purchase healthcare solutions or products provided by us on their mobile devices, or if our customers choose not to receive or purchase healthcare solutions or products provided by us on their mobile devices, or if our customers' mobile devices do not offer access to our online healthcare platforms, our customer growth could be harmed and our business, financial condition and results of operations may be adversely affected.

**If we fail to maintain our collaborative relationships with third-party online platforms, our business, reputation, financial condition and results of operations may suffer.**

We provide online appointment services through leading third-party online platforms to attract customer traffic. In addition, we also sell healthcare products through our flagship stores opened on leading third-party online platforms such as Tmall. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we generated revenue of RMB4.4 million, RMB4.3 million, RMB3.6 million and RMB2.2 million, respectively, from providing healthcare solutions to customers who booked our services through third-party online platforms and our revenue generated directly from sale of healthcare products through our online seller stores on third-party online platforms amounted to nil, nil, RMB0.7 million and RMB1.7 million, respectively. For details of the collaboration with these third-party online platforms, see “Business—Our Services and Products—Healthcare Solutions—Cornerstones of Healthcare Solutions—Offline and Online Medical Service Network—Online Healthcare Platforms.” These third-party platforms enable us to effectively extend our customer outreach and enhance our influence. To the extent that we fail to leverage such third-party platforms, our ability to attract or retain customers may be harmed. If our relationship with these third-party platforms deteriorates or is terminated or we fail to establish or maintain relationships with them on commercially viable terms, we may not be able to quickly locate



---

## RISK FACTORS

---

alternative platforms. As a result, the aforementioned circumstances may limit our ability to continue growing our customer base, decrease customers' demand for healthcare solutions and products provided by us, and affect our business, financial condition and results of operations.

**We may not be able to conduct our sales and marketing activities effectively and we are subject to regulatory limitations in promoting our business.**

Our brand promotion and marketing activities may not be well received by customers and may not result in the benefits that we anticipate. Meanwhile, marketing approaches and tools in the healthcare, internet and internet healthcare industries in the PRC are evolving, which may further require us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and customer preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share and materially and adversely affect our financial condition, results of operations and profitability.

In addition, we are obligated to ensure all of our sales and marketing activities, including advertising contents, comply with applicable laws, rules and regulations. In the PRC, according to the *Administrative Measures on Medical Advertisement* (《醫療廣告管理辦法》) and the *Notice on Further Strengthening the Administration of Medical Advertisements* (《關於進一步加強醫療廣告管理的通知》), our medical institutions must obtain a Medical Advertisement Examination Certificate (醫療廣告審查證明) before publishing a medical advertisement. Violation of these regulations may result in penalties against the non-compliant medical institution, including rectification, orders, warnings, suspension of operations, revocation of relevant permits to engage in the provision of specific healthcare solutions and products, and the revocation of the Medical Institution Practicing License (醫療機構執業許可證) of such medical institution. In addition, if the content of the published advertisement deviates from what is approved and documented in the Medical Advertisement Examination Certificate, the competent authority may revoke the Medical Advertisement Examination Certificate and suspend any application for advertisement examination for one year. For advertisements related to certain types of services and products, such as pharmaceuticals and medical devices, our medical institutions are required to confirm that the advertisers have completed filings with local authorities and obtained all requisite government approvals. Our pharmacies are also required to abide by applicable laws and regulations in connection with medical advertisement. Any violations of these laws and regulations may subject us to government penalties, impair our brand and adversely impact our financial condition and results of operations. To avoid any potential violations, we have established internal policies to monitor the obtaining and relevant validity period of the Medical Advertisement Examination Certificate for our medical advertisement and its compliance with the relevant PRC laws and regulations. However, we cannot assure you that our internal management will be sufficient to secure the compliance with the relevant laws and regulations in connection with medical advertisement, the violation of which may subject us to administrative penalties thus materially and adversely affected our business, results of operations and financial condition.

**We may be subject to liability for contents available on our online healthcare platforms that are alleged to be factually incorrect, socially destabilizing, obscene, superstitious, defamatory, libelous or otherwise unlawful.**

Under the PRC laws and regulations, we are required to monitor our websites and mobile interfaces for items or contents deemed to be factually incorrect, socially destabilizing, obscene, superstitious or defamatory, as well as contents, services or products that are illegal to be provided

---

## RISK FACTORS

---

online, and promptly take appropriate actions with respect to such contents, services or products. We may also be subject to potential liabilities for any unlawful actions of our customers of our websites or mobile interfaces or for contents we distribute that are deemed inappropriate. It may be difficult to determine the type of contents that may result in liability to us, and if we are found to be liable, we may be subject to fines, have our relevant business operation licenses revoked, or be prevented from operating our websites or mobile interfaces in the PRC. In addition, claims may be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, tort (including personal injury), other unlawful activity or other theories and claims based on the nature and content of information posted on our websites or mobile interfaces, including news feeds, healthcare service or product reviews and message boards, by our customers. Regardless of the outcome of such disputes or lawsuits, we may suffer from negative publicity and reputational damage as a result, which may adversely affect our business.

**Our medical institutions derive a significant portion of revenue by providing healthcare solutions and products to customers with national reimbursement coverage; any delayed payment or disputes under the PRC's national reimbursement programs could affect our results of operations.**

As of the Latest Practicable Date, our medical institutions were Designated Medical Institutions, except for Beijing Gushengtang TCM Hospital Co., Ltd., Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. and Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. Customers who are covered by the national reimbursement programs may choose to rely on national reimbursement programs to pay for some of healthcare solutions and products, with the remaining portions to be settled through commercial medical insurance policies, cash, bank cards or online payments via third-party payment platforms. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue derived from settlement through national reimbursement programs accounted for 28.8%, 27.9%, 28.9% and 28.1% of our total revenue for the same periods, respectively. However, the specific percentage covered by national reimbursement programs may vary based on criteria including type of the insurance program, local practice, age of the customer and type of service or product involved.

Depending on the relevant practice with respect to national reimbursement programs, 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. For medical insurance reimbursements received by our relevant medical institutions in excess of their government-approved annual quota, the local medical insurance bureaus may either (i) request our relevant medical institutions to refund all or part of these excess amounts; or (ii) deduct our relevant medical institutions' government-approved annual quota in the year when the relevant annual review and settlement was conducted, to the extent equal to or less than these excess amounts. For the years ended December 31, 2018, 2019 and 2020, such excess amounts were RMB3.1 million, RMB2.6 million and RMB1.4 million, respectively. However, during the Track Record Period and up to the Latest Practicable Date, we had not been required by the local medical insurance bureaus to refund any excess amounts we received, nor had they reduced any government-approved quotas under the national reimbursement programs for any excess amount we received. However, if the quota assigned by the local medical insurance bureau does not increase in line with our medical institutions' revenue growth, the loss generated from such non-reimbursable amounts would increase and as a result, could adversely affect our results of operations. In addition, if our staff cannot fully understand and implement the complicated reimbursement scheme, we may be subject to administrative penalties caused by non-compliance with the national reimbursement programs. For example, one of our subsidiaries' claim for reimbursement of a negligible amount of medical fees was

---

## RISK FACTORS

---

rejected by local medical insurance bureaus due to ineligibility of such medical fees for national reimbursement programs. We cannot assure you that we will not be subject to the same due to our implementation under national reimbursement programs inaccurately.

In addition, we cannot assure you that our medical institutions will be able to maintain their status as Designated Medical Institutions, the loss of which will not only harm our reputation but may also result in reduced customer visits. Furthermore, the PRC government may alter its reimbursement policies in coverage plans in the future such that: (i) certain healthcare solutions and products provided by our medical institutions will no longer be covered; or (ii) more stringent thresholds on existing coverage may be imposed. Any reduction in the rates paid or the scope of healthcare solutions and products covered may reduce customer accessibility to our medical institutions and may lead to reduced customer traffic, medical fees and customers' demand. Any of these events could lead to a decrease in our revenue generation and profitability which could have a material adverse effect on our business, results of operations and prospects.

**A portion of our revenue was settled through commercial medical insurance policies, and our financial condition, results of operations and business may be materially and adversely affected if we fail to maintain our cooperation with them or there is any default or delayed settlement by these commercial insurance institutions.**

A portion of our customers have commercial medical insurance coverage, and we also have various collaboration arrangements with such commercial insurance institutions on direct settlement for insured customers. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue derived from direct billing settlement through commercial medical insurance policies amounted to RMB1.3 million, RMB1.7 million, RMB1.8 million and RMB1.5 million, respectively, representing an insignificant portion of our total revenue. We may not be able to maintain or increase customer volume covered by commercial medical insurance policies and to renew collaboration arrangements with the existing commercial insurance institutions in the future, which may materially and adversely affect our revenue and cash flows. In addition, any default or delayed settlement by these commercial insurance institutions may also materially and adversely affect our financial condition, results of operations and business.

**We may not be able to collect all of our trade receivables thus being exposed to credit risk.**

Our trade receivables primarily represent the balances due from national reimbursement programs, corporate customers and third-party platforms which we cooperate with. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our trade receivables were RMB54.1 million, RMB42.3 million, RMB56.6 million, and RMB60.3 million, respectively. We recognize the allowance for expected credit losses for trade receivables, which is calculated based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. At the end of each year during the Track Record Period, we assessed whether the credit risk of a financial instrument has increased significantly since its initial recognition. When making the assessment, we compare 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 consider reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. We cannot assure you that we will be able to collect our trade receivables from national reimbursement programs, corporate customers and third-party platforms in full, or at all, in the future, despite our efforts to conduct credit assessment on them.

---

## RISK FACTORS

---

### **Our deferred tax assets may not be recovered.**

As of June 30, 2021, our deferred tax assets amounted to RMB30.2 million, representing 1.7% of our total assets. We periodically assess the probability of the realization of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, these deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused deferred tax assets can be utilized. However, we cannot assure you that our expectation of future earnings will materialize, due to factors beyond our control such as general economic conditions, changes in tax laws or regulations or, negative development of a regulatory environment, in which case we may not be able to recover our deferred tax assets which in turn could have a material adverse effect on our financial condition, results of operations and business.

### **The wide variety of payment methods that we accept subjects us to third-party payment processing-related risks.**

We accept payments using a variety of methods, primarily including national reimbursement settlements, cash, bank cards, or online payment via third-party payment platforms, as applicable. We may be charged interchange and other fees for certain payment methods, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment option. We are also subject to various rules, regulations and requirements governing electronic funds transfers in the PRC, which could change or be reinterpreted to make it difficult or impossible for us to comply with. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

### **Failure to renew our current leases at reasonable terms or to locate desirable alternatives for our medical institutions or pharmacies could materially and adversely affect our business and results of operations.**

We may not be able to successfully extend or renew our current leases upon their expiration on commercially reasonable terms, or at all, and may therefore be forced to relocate our medical institutions or pharmacies concerned. This could disrupt the operations of medical institutions or pharmacies concerned and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our medical institutions or pharmacies as our business continues to grow, and failure in relocating our medical institutions or pharmacies concerned could adversely affect our business and operations.

---

## RISK FACTORS

---

**The uncertainty in the interpretations or implementation of PRC property related laws and regulations regarding certain of our leased properties may materially and adversely affect our business, financial condition and results of operations.**

As of the Latest Practicable Date, we leased 105 properties in the PRC mainly as medical institution premises and offices. Some of these leases do not meet certain property related requirements under applicable PRC laws and regulations. For example, as of the Latest Practicable Date, our subsidiaries' use of 11 leased properties in Shanghai and Guangdong as medical institutions premises was inconsistent with the designated usage specified in the Building Ownership Certificates of such properties, namely, for commercial, industrial or residential purposes. As of the Latest Practicable Date, there were nine properties leased by our subsidiaries for which the landlords had not provided the relevant Building Ownership Certificates or other proofs evidencing their legitimate rights to lease such properties. In addition, as of the Latest Practicable Date, 81 of our lease agreements with an aggregate GFA of 52,596.1 sq.m. (excluding the GFA of 14 properties, which were primarily staff dormitories, offices or places of business registration) had not been registered with the relevant PRC government authorities. See "Business—Properties" for more details. Any of the foregoing may subject us to penalties, and/or force us to relocate and incur additional cost associated therewith, and our business, financial condition and results of operations could be materially and adversely affected as a result.

**Any operation disruption to the warehousing facility we use, or to the logistics services provided by our suppliers, could have a material adverse effect on our business, financial condition and results of operations.**

As of the Latest Practicable Date, our warehousing facilities primarily included one centralized warehouse that we leased in Guangzhou, Guangdong province for storing our inventories. Natural disasters or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, earthquakes, terrorist attacks and wars, changes in government planning for the land underlying this warehouse, as well as challenges from third parties or government authorities to our right to use such warehouse, could interrupt the operation of this warehouse, destroy any inventory located therein, and significantly impair our business operations. If any of the foregoing occurs, we may not be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, and our business, financial condition and results of operations could be materially and adversely affected.

In addition, we rely on logistics service providers to deliver healthcare products to our customers. Logistics services that meet our requirements for guaranteed storage safety, optimal and flexible space utilization and high operating efficiency are in short supply. We cannot assure you that we will be able to renew our agreements with logistics service providers when they expire, or to identify substitute logistics service providers on terms acceptable to us on a timely basis, failing which our business, results of operations, financial condition and prospects will be adversely affected.

**We may not be able to adequately protect our intellectual property rights, which could harm our brand image and our business.**

We believe our intellectual property rights are important to our success. Our principal intellectual property rights include our trademarks for the Gushengtang brand and copyrights in relation to our proprietary cloud-based HIS. We are susceptible to infringement of our intellectual property rights by third parties. We cannot assure you that third parties will not copy or otherwise obtain and use our intellectual property rights without our prior authorization. Our efforts to enforce



---

## RISK FACTORS

---

or defend our intellectual property rights may not be adequate. We may have to initiate legal proceedings to defend the ownership of our intellectual property rights against any infringement by third parties, which may be costly and time-consuming, and we might be required to devote substantial management time and resources in an attempt to achieve a favorable outcome. Furthermore, the outcome of any legal actions to protect our intellectual property rights may be uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition, results of operations and prospects may be adversely affected.

In addition, other parties may register trademarks which may look similar to our registered trademarks under certain circumstances, which may cause confusion among customers. We may not be able to timely prevent other parties from using trademarks that are similar to ours and the customers may confuse our medical service network with others using similar trademarks. In such case, the goodwill and value of our trademarks and the public perception of our brand image may be adversely affected. A negative perception of our brand image could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**We may be subject to intellectual property rights infringement or misappropriation claims by third parties, which may force us to incur legal expenses and, if determined adversely against us, may materially disrupt our business.**

We may be exposed to intellectual property rights infringement or misappropriation claims by third parties during the course of our operations. Defense against any of these claims would be both costly and time-consuming, and could divert the efforts and resources of our management and other personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to liabilities to third parties, require us to seek consents or licenses from third parties, pay ongoing fees or royalties, or subject us to injunctions prohibiting the provision and marketing of the relevant brand, services or products. To the extent that such consents or licenses are not available to us on commercially reasonable terms or at all, we may be required to expend considerable time and resources sourcing alternative technologies or rebranding healthcare solutions and products provided by us, if any, or we may be forced to delay or suspend the relevant services and products, or the promotion of the relevant brand. We may incur expenses and require attention of management in defending against these third-party infringement claims, regardless of their merit. Protracted litigation could also result in reduced customer visits. In addition, we could face disruptions to our business operations as well as damage to our reputation as a result of such claims, and our business, financial condition and results of operations could be materially and adversely affected.

**We may be subject to disputes arising from intellectual property licensing agreements with third parties.**

We have entered into and may continue to enter into agreements in the future with third parties to provide us with rights to various third-party intellectual property rights, including rights to use software and computer programs. Disputes may arise from such agreements, such as the scope of the rights granted under the license agreements, the interpretation or application of the provisions under the agreements and the extent to which our utilization of intellectual property may infringe, misappropriate or otherwise violate intellectual property rights of the licensor. Any dispute over intellectual property rights that we have licensed may adversely affect our reputation and may in turn affect our business, financial conditions and results of operations.



---

## RISK FACTORS

---

In addition, we may need to obtain additional licenses to intellectual property rights in response to our expanding scale of business and operations. It is possible that we may be unable to obtain additional licenses at a reasonable cost and/or on reasonable terms, or at all. In that event, we may be required to negotiate and enter into new agreements with less favorable terms or obtain licenses to alternative software or computer program which could be time-consuming. Should we fail to obtain additional licenses (or licenses to alternative software or computer program) in a timely manner and/or at commercially reasonable terms, our business, financial conditions and results of operations may be adversely affected.

**If we cannot comply with the evolving requirements or interpretations of relevant laws, regulations and rules on occupational health and safety, we could be subject to investigations and administrative penalties, which may materially and adversely affect our business, results of operations and financial condition.**

We are required to comply with a series of laws, regulations and rules in connection with occupational health and safety, the violation of which may subject us to administrative penalties. Historically, one of our subsidiaries was fined a negligible amount and ordered to rectify within a prescribed period by the relevant government authorities for failure to establish and maintain detailed and accurate records for occupational safety education and training in accordance with applicable PRC laws and regulations. We cannot assure you that we will not be subject to more severe administrative penalties for similar incidents in the future.

With a view to ensuring compliance with relevant laws and regulations on health and safety, our subsidiaries have adopted certain internal rules to enhance our compliance with laws, regulations and rules in connection with occupational health and safety. See “Business—Environmental, Social and Governance (“ESG”).” However, we cannot assure you that physicians, other medical professionals and other staffs at our medical service network will fully comply with relevant laws and regulations on occupational health and safety in the future. If we cannot comply with the evolving requirements or interpretations of such laws and regulations, we could be subject to disciplinary warnings or administrative penalties, which may in turn adversely affect our reputation, our business, results of operations and financial condition.

**If we cannot comply with the evolving requirements or interpretations of the PRC anti-corruption laws, regulations and rules, we and/or the staff, physicians, other medical professionals and administrators at our medical service network could be subject to investigations and administrative or criminal penalties, which may harm our reputation and materially and adversely affect our business, financial condition, results of operations.**

We have established anti-corruption policies and procedures. However, we operate in the healthcare sector in the PRC, which poses elevated risks of violations of anti-corruption laws, rules and regulations, and the PRC government has recently increased its anti-bribery efforts to reduce improper payments and other benefits received by staff, physicians, other medical professionals, and administrators of healthcare providers in connection with the purchase of pharmaceuticals, medical equipment and medical consumables and the provision of healthcare solutions and products. There is no assurance that our policies and procedures will effectively prevent our non-compliance with the PRC anti-corruption laws, regulations and rules arising from actions taken by the individual staff, physicians, other medical professionals and administrators at our medical service network without our knowledge. If this occurs, we and/or the relevant staff, physicians, other medical professionals and

---

## RISK FACTORS

---

administrators may be subject to investigations and administrative or criminal penalties, and our reputation could be harmed by any negative publicity stemming from such incidents, which may materially and adversely affect our business, financial condition and results of operations.

**Failure to deal with any fictitious transactions or other fraudulent conducts effectively would materially and adversely affect our business, financial condition and results of operations.**

We may face risks with respect to fraudulent activities on our medical service network. For example, customers may provide false information to our medical professionals in order to obtain prescriptions and/or healthcare products that they are not supposed to get. We have implemented various measures to detect and reduce the occurrence of fraudulent activities on our medical service network. There can be no assurance that such measures will be effective in combating fraudulent transactions or improving overall satisfaction among our customers. Such fictitious transactions and fraudulent conducts may subject us to lawsuits, regulatory investigations, fines and penalties against us.

**We are not in full compliance with social insurance and housing provident funds regulations.**

During the Track Record Period, we did not make social insurance and housing provident fund contributions for certain of our employees, or we failed to make full social insurance and housing provident fund contributions for certain of our employees. We made provisions in a total amount of RMB32.2 million, RMB35.0 million, RMB26.4 million and RMB28.5 million, respectively, in respect of the potential liabilities arising from our non-compliance concerning social insurance and housing provident fund contributions in 2018, 2019 and 2020 and the six months ended June 30, 2021.

As advised by our PRC Legal Advisors, according to the relevant PRC laws and regulations: (i) with respect to social insurance, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period with a late charge at the daily rate of 0.05% on the outstanding amounts, and if and only if we fail to do so, they may impose a maximum fine or penalty equivalent to three times the outstanding amounts; and (ii) with respect to housing provident funds, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period, and they may apply to a competent court for enforcement of the outstanding amounts if we fail to do so. See “Business—Employees.”

**If we fail to maintain adequate internal controls, we may not be able to effectively manage our business and may experience errors or information lapses affecting our business.**

Our success depends on our ability to effectively utilize our standardized management system, information systems, resources and internal controls. For example, one of our subsidiaries was historically fined a negligible amount by the relevant government authorities for loss of certain invoices. As we will continue to expand our business in the future, we will need to continuously modify and improve our financial and managerial controls, reporting systems and procedures and other internal controls and compliance procedures to meet our evolving business needs going forward. Any failure to manage our business effectively may subject us to reputable and/or financial loss, as well as administrative penalties. If we are unable to improve our internal controls, systems and procedures in pace with our business expansion, relevant control measures, systems and procedures may become ineffective and adversely affect our ability to manage our business and cause errors or information lapses that affect our business. There can be no assurance that we can modify and

---

## RISK FACTORS

---

improve our internal control system effectively in the future. If we are not successful in discovering and addressing the potential weaknesses in our internal controls, our ability to effectively manage our business may be materially and adversely affected.

**We rely on assumptions and estimates to calculate certain key operating data, and inaccuracies in such data may harm our reputation and adversely affect our business.**

Certain key operating data in this prospectus are derived from our internal records. While these data are based on what we believe to be reasonable and accurate for the applicable periods of measurement, there are inherent challenges in measuring customer engagement across our large customer base. In addition, our key operational data are calculated based on different assumptions and estimates, and you should be cautious of such assumptions and estimates when assessing our operating performance. Our measures of customer growth and customer engagement may differ from assumptions and estimates published by third parties or from similarly titled data used by our competitors due to differences in data availability, sources and methodology. If third parties do not perceive our operational data to be accurate representations of our operating performance, or if we discover material inaccuracies in our operational data, our reputation may be harmed and third parties may be less willing to allocate their resources or spending to us, which could adversely affect our business and operating results.

**The proper functioning of our computer network infrastructure and information technology systems is essential to our business operations, and any technological failure, security breach or other disruptions may adversely impact our business.**

Our computer network infrastructure and information technology systems, such as our proprietary cloud-based HIS, help us manage and monitor substantially all aspects of daily operations of our medical service network. We regularly maintain, upgrade and enhance the capabilities of our information technology systems to meet operational needs. Any failure associated with the information technology systems, including those caused by power disruption or loss, natural disasters, computer viruses, hackers, network failures or other unauthorized tampering, may cause interruptions in the ability of our medical service network to provide healthcare solutions and products to customers, keep accurate records, and maintain proper business operations. In addition, if the information technology system relating to the billing and medical insurance reimbursements were to malfunction and result in the loss of related records, our medical institutions may not receive full payment under the national reimbursement programs, which could cause a material adverse impact on their business and results of operations. Any of the foregoing events may adversely affect our business, financial condition and results of operations.

**We may not be able to develop our existing information technology systems or recoup the investments we have made for such development, and failure to continue to innovate or adapt to industry changes may materially and adversely affect our business, financial condition, results of operations and prospects.**

We rely on our existing information technology systems to provide healthcare solutions and products through both offline and online channels. In particular, our proprietary cloud-based HIS is critical to the daily operations of our medical service network. Besides, we are subject to rapid changes and developments of the healthcare, internet and internet healthcare industries. These changes and developments may require us to continue to innovate, and failure to do so would have a material adverse effect on our business, financial condition and results of operations.

---

## RISK FACTORS

---

We may need to constantly upgrade our information technology systems to keep pace with our business development, which may require significant investments in time and resources, including adding new hardware, updating software and recruiting and training new engineering personnel. Failure to improve our information technology systems accordingly may materially affect our ability to support daily operations of our medical service network, and adopt new services and products, and could result in unanticipated system disruptions, slow response times and impaired quality of our customers' experiences, which may, in turn, materially and adversely affect our business, financial condition, results of operation, prospects and reputation.

We invested during the Track Record Period, and are expected to continually invest, significant amounts in upgrading our information technology systems. We are likely to recognize costs associated with these investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expected. We may not be able to recover our capital expenditures or investments, in part or in full, or the recovery of these capital expenditures or investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which may materially and adversely affect our financial condition and results of operations.

**Certain benefits and obligations are applicable to us under PRC tax laws, regulations and policies. Changes to such benefits or failure to fulfill such obligations may have an adverse effect on our financial condition and results of operations.**

During the Track Record Period, certain of our subsidiaries were deemed as “small and micro enterprises” and subject to a preferential enterprise income tax rate ranging from 5% to 10%, which will expire on December 31, 2022. Their eligibility to receive such preferential tax treatment requires that they continue to be qualified as “small and micro enterprises,” and depends on the duration and extension of the relevant government policies.

The PRC government has also granted us various financial subsidies. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we recorded government grant of RMB0.7 million, RMB6.2 million, RMB1.5 million and RMB0.3 million, respectively, in our consolidated statements of comprehensive income. See “Financial Information—Description of Key Consolidated Statement of Comprehensive Income Items—Other Income and Gains.” These financial subsidies have been given at the discretion of the local government authorities. There is no assurance that we would continue to enjoy these preferential tax treatment or financial subsidies at the historical levels, or at all.

In addition, pursuant to applicable laws and regulations, we are subject to various taxes including enterprise income tax, value-added tax and withholding tax, and we are also required to withhold and remit individual income tax for our employees. Any failure to properly pay the relevant taxes or withhold and remit the requisite amount may subject us to fines or administrative penalties. Any change, suspension or discontinuation of the aforementioned preferential tax treatment and financial subsidies to us or failure to fulfill the obligations under the relevant tax laws and regulations could adversely affect our financial condition, results of operations and cash flows.

---

## RISK FACTORS

---

**We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it could adversely affect our results of operations and financial position.**

We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it could adversely affect our results of operations and financial position. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we recorded goodwill of RMB449.3 million, RMB462.6 million, RMB545.1 million and RMB688.6 million, respectively, which primarily arose from our acquisitions of medical institutions and online healthcare platforms. Goodwill represents the excess of the (a) the aggregate of the fair value of consideration transferred over (b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date. Impairment is determined by assessing the recoverable amount of the cash-generating unit (the "CGU") to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized; and it could not be reversed in a subsequent period. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. This analysis further requires us to make assumptions about compounded revenue growth rates, budgeted gross margins and discount rates, etc.. See "Financial Information—Critical Accounting Policies, Estimates and Judgements—Business Combinations and Goodwill—Goodwill" for more details. We recorded impairment of goodwill of RMB2.6 million during the year ended December 31, 2019.

There are inherent uncertainties relating to the factors in relation to the assessment of goodwill impairment that might adversely affect our business operation, or under circumstances where we might fail to sustain the growth as well as the gross profit margin we have estimated. The aforesaid unexpected situations, including but not limit to, significant declines in the operating results of CGU, divestiture of a significant component of the business of CGU, or a decline in our market situation, any of which could be caused by our failure to successfully operate the business in each CGU.

If we were required to recognize material impairment charges due to significant adverse changes in aforesaid factors, our net profit in the corresponding period might be substantially affected. In addition, impairments of goodwill might also adversely affect our financial position and all types of financing activities due to its negative impact to our financial ratios.

---

## RISK FACTORS

---

**Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC could prevent our medical service network from effectively serving our customers and thus adversely affect our results of operations.**

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of a widespread health epidemic, such as swine flu, avian influenza, SARS, Ebola, Zika, COVID-19 or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in the PRC or elsewhere in the world could materially disrupt our business and operations.

These events could also significantly impact our industry and cause a temporary suspension or closure of the facilities we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could be disrupted if any of our physicians, other medical professionals or other staffs were suspected of contracting an epidemic disease, since this could require us to quarantine some or all of these personnel or disinfect the facilities used for our operations. In addition, our revenue and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the PRC and global economy in general. Our operations could also be severely disrupted if our customers were affected by natural disasters, health epidemics or other outbreaks.

**COVID-19 epidemic has caused and may continue to cause adverse effects on our business.**

There has been an outbreak of COVID-19. The disease quickly spread within the PRC and globally and materially and adversely affected the 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. Many medical institutions in the PRC allocated significant resources to contain COVID-19, and patients suffering from other diseases generally avoided going to medical institutions in order to minimize the risk of infection. As a result, the demands for offline healthcare solutions and products decreased and the operations of our medical institutions and pharmacies suspended. In addition, we encountered delay in the supply of, or fluctuation in the price of, certain decocting pieces, TCM patent medicines, authentic medicinal and other healthcare products due to the outbreak and spread of COVID-19. Recently since late May 2021, there has been a resurgence of COVID-19 cases in certain parts of the PRC such as Jiangsu and Guangdong. We are uncertain as to whether there will be any further waves of COVID-19 outbreaks in any part of the world or when the COVID-19 epidemic would be completely contained globally. Outbreaks may occur again and may result in similar adverse effects on our business in the future.

**Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of the other Shareholders.**

Prior to and immediately following the completion of the Global Offering, our Controlling Shareholders will retain substantial control over our Company. Subject to our Articles of Association and the Cayman Companies Act, the Controlling Shareholders will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of other Shareholders and they are free (other than on any matters that they are required to abstain from voting) to exercise their votes according to their interests. To the extent that the interests of the Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be disadvantaged and harmed.



---

## RISK FACTORS

---

### RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

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, we could be subject to severe penalties or be forced to relinquish our interests received through the Contractual Arrangements.

Foreign ownership of certain businesses in the PRC is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to hold more than 70% of the equity interest in a medical institution or more than 50% of the equity interest in an enterprise conducting value-added telecom business (excluding e-commerce, domestic multiparty communication services, store-and-forward services and call center services). As advised by our PRC Legal Advisors, in practice, foreign investors are prohibited from holding equity interest in an enterprise conducting value-added telecom services. Therefore, the Contractual Arrangements have been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are subject to the aforementioned restrictions.

We are an exempted company incorporated in the Cayman Islands, as such, we are classified as a foreign enterprise under the PRC laws and regulations, and Guangzhou Guyi and Wumianshan Investment Holdings (the “**WFOEs**”), our indirect wholly-owned PRC subsidiaries, are considered as foreign-invested enterprises. We have entered into a series of Contractual Arrangements with each of Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy (the “**Onshore Holdcos**”) and Mr. Tu, Mr. Yan Jun and Mr. Zheng Xiang (the “**Relevant Registered Shareholders**”). See “Contractual Arrangements” for a detailed description of the Contractual Arrangements. Through our shareholdings and the Contractual Arrangements, our Company controls the economic benefit of 100% of the equity interest in Onshore Holdcos.

As advised by our PRC Legal Advisors, save as disclosed in “Contractual Arrangements—Legality of the Contractual Arrangements,” our Contractual Arrangements constitute legal, valid, enforceable and binding obligations upon the parties thereto under the current laws and regulations. See “Contractual Arrangements—Legality of the Contractual Arrangements” for more details. However, our PRC Legal Advisors have also advised us that there are substantial uncertainties regarding the interpretation and application of the current and future PRC laws and regulations. In addition, certain PRC court rulings invalidated certain contractual agreements which were considered to be entered into with the intention of circumventing foreign investment restrictions in the PRC in contravention of the *Civil Code of the PRC* (《中華人民共和國民法典》). Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisors.

MOFCOM published a discussion draft of the proposed *Foreign Investment Law* in January 2015, or the 2015 Draft FIL, according to which, variable interest entities that are controlled via contractual arrangements would also be deemed as foreign-invested entities, if they are ultimately “controlled” by foreign investors. On March 15, 2019, the 2nd session of the 13th National People’s Congress approved the FIL which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as “**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other

---

## RISK FACTORS

---

similar rights of PRC domestic enterprises; (3) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws, regulations or guidelines of the State Council. However, the interpretation and application of the FIL remain uncertain. The FIL does not introduce the concept of “control” in determining whether a company would be considered as a foreign-invested enterprise. However, the FIL stipulates that foreign investment includes “Foreign Investors investing in the PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council.” As the FIL is newly adopted and relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the FIL, the possibility cannot be ruled out that the concept of “control” as stated in the 2015 Draft FIL may be embodied in. We cannot assure you that the Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the Contractual Arrangements will be handled.

In the extreme case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of the Consolidated Affiliated Entities, which could have a material and adverse effect on our business, financial conditions and results of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding or disposal or when such requirements are not complied with, the Stock Exchange may consider us to be no longer suitable for listing on the Stock Exchange and delist our Shares.

If Onshore Holdcos were deemed as foreign-invested enterprises under any of such future laws, regulations and rules, further actions will be required to be taken by us under such laws, regulations and rules and may materially and adversely affect our business and financial condition. Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by parties with respect to Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure and business operations. If our ownership structure, Contractual Arrangements and business or that of WFOEs or Onshore Holdcos are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant government authorities would have broad discretion in dealing with such violations, including:

- levying fines on us;
- confiscating our income or the income of WFOEs or Onshore Holdcos;
- revoking our business licenses and/or operating licenses;
- shutting down our institutions;
- discontinuing or placing restrictions or onerous conditions on our operations, requiring us to undergo a costly and disruptive restructuring;
- restricting or prohibiting our use of proceeds from the Global Offering or other of our financing activities to finance our business and operations in the PRC; and
- taking other regulatory or enforcement actions that could be harmful to our business.

---

## RISK FACTORS

---

Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would result in us failing to receive all or part of the economic benefits from Onshore Holdcos, which in turn may materially and adversely affect our business, financial condition and results of operations.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and the Contractual Arrangements.

In addition, if any equity interest in Onshore Holdcos held by their respective shareholders is held in the court custody in connection with their litigation, arbitration or other judicial or dispute resolution proceedings, we cannot assure you that the equity interest will be disposed of to us in such proceedings in accordance with the Contractual Arrangements. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

We will disclose, as soon as possible: (i) updates of changes to the FIL (if applicable) and interpretations or implementing rules of the FIL (if applicable) that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of any new PRC laws, rules or regulations relating to contractual arrangements adopted in the future, specific measures taken by our Company to fully comply with the aforesaid new PRC laws, rules or regulations supported by a PRC legal opinion and any material impact of the aforesaid new PRC laws, rules or regulations on our operations and financial position.

### **Our Contractual Arrangements may result in adverse tax consequences to us.**

Under the PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements were not made on an arm's length basis and adjust Onshore Holdcos' income and expenses for PRC tax purposes by requiring a transfer pricing adjustment. A transfer pricing adjustment could materially and adversely affect us by (i) increasing the tax liabilities of Onshore Holdcos without reducing the tax liability of WFOEs, which could further result in late payment fees and other penalties to Onshore Holdcos for underpaid taxes; or (ii) limiting the ability of Onshore Holdcos to obtain or maintain preferential tax treatment and other financial incentives.

### **Relevant Registered Shareholders may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.**

Our control over Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department, Ningbo Gushengtang Pharmacy and 30% equity interest in Guangdong Gushengtang is based upon the Contractual Arrangements with, among others, such Onshore Holdcos and their respective shareholders. These shareholders may potentially have a conflict of interest with us, and they may breach their agreements with us or if they otherwise act in bad faith, if they believe the Contractual Arrangements would adversely affect their own interests. We cannot assure you that when conflicts of interest arise between us and Relevant Registered Shareholders, such shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favor. If Relevant Registered Shareholders do not act completely in our interests or the conflicts of interest between us and them are not resolved in our favor, our business and financial condition may be materially and adversely affected.

---

## RISK FACTORS

---

We cannot assure you that Relevant Registered Shareholders will always act in the best interests of our Company should any conflicts of interest arise, or that any conflicts of interest will always be resolved in our favor. We rely on such shareholders to comply with the PRC laws and regulations, which protect contracts and provide that a director or senior management owe a duty of loyalty to us and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors and officers have a duty to act in good faith in the interests of us and to avoid conflicts between personal interests and interests of us. However, the legal frameworks of the PRC and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime.

In addition, Relevant Registered Shareholders may breach or refuse to renew, or cause Onshore Holdcos to breach or refuse to renew, the Contractual Arrangements with us. If any such shareholder breaches his agreements with us or otherwise has disputes with us, we may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly distract our management's attention, adversely affect our ability to control Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department, Ningbo Gushengtang Pharmacy and 30% equity interest in Guangdong Gushengtang and otherwise result in negative publicity and adversely affect the reputation of Onshore Holdcos. We cannot assure you that the outcome of any such dispute or proceeding will be in our favor.

**Our 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 our Contractual Arrangements.**

We have no equity interest in Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy and we only have 70% equity interest in Guangdong Gushengtang. Therefore, we rely on the Contractual Arrangements with Onshore Holdcos and their shareholders to control the entire equity ownership interest in Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy, as well as 30% equity interest in Guangdong Gushengtang. See “Contractual Arrangement—Our Contractual Arrangements” for more details. Although we have been advised by our PRC Legal Advisors that, save as disclosed in “Contractual Arrangements—Legality of the Contractual Arrangements,” our Contractual Arrangements constitute legal, valid, enforceable and binding obligations upon the parties thereto under the current laws and regulations, these Contractual Arrangements may not be as effective in providing us with control over Onshore Holdcos as direct ownership. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the board of directors of Onshore Holdcos, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level. If Onshore Holdcos or any of their respective shareholders fails to perform its respective obligations under the Contractual Arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Guangzhou Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. Although the arbitration award shall be final and binding on all parties, any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of the WFOEs are located for interim remedies or injunctive relief. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties

---

## RISK FACTORS

---

could limit our ability to enforce these Contractual Arrangements. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of Onshore Holdcos, injunctive relief and/or winding up of them. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under the PRC laws, these terms may not be enforceable. Under the PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong may not be recognizable or enforceable in the PRC. In the event we are unable to enforce these Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcing these Contractual Arrangements, we may not be able to exert effective control over Onshore Holdcos or obtain the full economic benefits of the same. Our ability to conduct our business may be negatively affected.

**We 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.**

Our Contractual Arrangements contain terms that specifically provide that Onshore Holdcos may not be voluntarily liquidated without the written consent of WFOEs. However, if Relevant Registered Shareholders breach this obligation and voluntarily liquidate Onshore Holdcos or if Onshore Holdcos declare bankruptcy, all or part of their assets may become subject to liens or rights of third-party creditors and we may be unable to continue to control Onshore Holdcos and may not enjoy the full economic benefits of the same, which could adversely affect our business, financial condition and results of operations.

If Relevant Registered Shareholders were to attempt to voluntarily liquidate Onshore Holdcos without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request such shareholders to transfer all of their equity ownership interests in Onshore Holdcos to us or to an entity designated by us in accordance with the exclusive option agreement between Onshore Holdcos, their respective shareholders and us. In addition, under the Contractual Arrangements, Relevant Registered Shareholders do not have the right to issue dividends to themselves or otherwise distribute the retained earnings or other assets of Onshore Holdcos without our prior consent. In the event that Relevant Registered Shareholders initiate a voluntary liquidation proceeding without our authorization or attempt to distribute the retained earnings or assets of Onshore Holdcos without our prior consent, we may need to resort to legal proceedings to enforce the terms of the Contractual Arrangements. Any such legal proceeding may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such legal proceeding will be uncertain.

**If we exercise the option to acquire equity ownership of Onshore Holdcos, the ownership or asset transfer may subject us to certain limitations and substantial costs.**

Pursuant to the Contractual Arrangements, WFOEs or their designated person(s) have the exclusive right to purchase all or any part of the equity interest in Onshore Holdcos from their respective shareholders free of charge or at a nominal consideration, or if the aforementioned consideration is not permitted under then applicable PRC laws, at the minimum consideration permitted under such laws.



---

## RISK FACTORS

---

The equity transfer may be subject to approvals from and filings with the MOFCOM or its local counterparts. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax authority. Relevant Registered Shareholders will pay the remaining amount to WFOEs under the Contractual Arrangements. The amount to be received by WFOEs may also be subject to enterprise income tax. Such tax amounts could be substantial and our financial condition may be adversely affected as a result.

**We do not maintain any insurance policy which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder.**

We do not maintain any insurance policy to cover the risks relating to the Contractual Arrangements and the transactions contemplated thereunder, and we have no intention to purchase any new insurance in this regard. If any risk arises from the Contractual Arrangements in the future, such as those affecting the enforceability of the contracts among the Onshore Holdcos and the relevant Registered Shareholders and we do not have any insurance to cover our losses, our financial condition and results of operations may be adversely affected.

### **RISKS RELATING TO DOING BUSINESS IN THE PRC**

**A severe or prolonged downturn in the PRC's or global economy could materially and adversely affect our business, results of operations and financial condition.**

The global macroeconomic environment is facing challenges. For example, the growth of the PRC's economy has shown slower growth compared to the previous decade and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of leading economies in the world, including the United States and the PRC. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in volatility in oil and other markets. There have also been concerns on the relationship between the PRC and other countries, including the surrounding Asian countries, which may potentially result in foreign investors exiting the PRC market and other economic effects. Economic conditions in the PRC are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate.

Any severe or prolonged slowdown or instability in the global economy, the PRC's economy, the industries in which we operate or the industries which have material influence over the industries in which we operate, may materially and adversely affect our business, financial condition and results of operations.

**PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects.**

Substantially all of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC government regulates the economy and the industries by imposing industrial policies and regulating the PRC's macro economy through fiscal and monetary policies.



---

## RISK FACTORS

---

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. The PRC government has, in recent years, taken various actions to introduce market forces for economic reform, to reduce State ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the economy and the industries by issuing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, monetary policies and preferential treatments to particular industries or enterprises.

Our performance has been and will continue to be affected by the PRC's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact the PRC's economic growth. While the PRC's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained. The global economic slowdown and the turmoil in the global financial markets that began in the second half of 2008, continued weakness in the U.S. economy and the sovereign debt crisis in Europe have collectively added downward pressure to economic growth in the PRC. The growth rate of the PRC's real GDP has decreased from 7.3% in 2014 to 6.1% in 2019.

We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social, and regulatory developments and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

**The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of the PRC companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in the PRC.**

The M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the *PRC Anti-Monopoly Law* (《中華人民共和國反壟斷法》) requires that the relevant anti-monopoly authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the *Rules of Ministry of Commerce on Implementation of Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《商務部實施外國投資者併購境內企業安全審查制度的規定》) issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the abovementioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required

---

## RISK FACTORS

---

approval processes, including obtaining approval from the MOFCOM or other competent government authorities, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**Our operations are subject to the uncertainties and particularities associated with the legal system in the PRC, which could adversely affect our business, or limit the legal protection available to us or to existing or potential investors.**

We conduct our business primarily through our operating subsidiaries in the PRC, which are governed by the PRC laws and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

The legal protection available to us under the PRC laws and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you and may adversely affect the value of your investment.

Meanwhile, laws, regulations or enforcement policies in the PRC, including those regulating healthcare, internet and internet healthcare industry, are evolving and subject to frequent changes. Further, regulatory agencies in the PRC may periodically, and sometimes abruptly, change their enforcement practices. Therefore, prior enforcement activity, or lack of enforcement activity, is not necessarily predictive of future actions. Any enforcement actions against us could have a material adverse effect on us. Any litigation or government investigation or enforcement proceedings in the PRC may be protracted and may result in substantial cost and diversion of resources and management attention, negative publicity, and damage to reputation. In addition, such changes may be applied retroactively and thus subject our business and operations to increased uncertainties and risks.

---

## RISK FACTORS

---

**We may be deemed to be a PRC tax resident enterprise under the EIT Law, which could result in unfavorable tax consequences to us, and may materially and adversely affect our profitability and the value of your investments.**

We are a company incorporated under the laws of the Cayman Islands. Pursuant to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) and its implementation rules, if an enterprise incorporated outside the PRC has its “de facto management bodies” within the PRC, such enterprise would generally be deemed a “PRC resident enterprise” for tax purposes and be subject to an enterprise income tax rate of 25% on its global income. “De facto management bodies” is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, July 2011 and January 2014, the STA issued several circulars, as amended from time to time, to clarify certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by the PRC enterprises. However, there have been no official implementation rules regarding the determination of the “de facto management bodies” for foreign enterprises not controlled by the PRC enterprises (including companies like ourselves). We believe that we should not be regarded as a PRC tax resident enterprise. Nevertheless, if we are regarded as a PRC tax resident enterprise by the PRC tax authorities, we would have to pay the PRC enterprise income tax at a rate of 25% for our entire global income, which may materially and adversely affect our profits and hence our retained profit available for distribution to our Shareholders.

**You may be subject to the PRC withholding tax on dividends from us and the PRC income tax on any gain realized on the transfer of our Shares.**

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, the PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Under the *PRC Individual Income Tax Law* (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described under “—We may be deemed to be a PRC tax resident enterprise under the EIT Law, which may materially and adversely affect our profitability and the value of your investments,” dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within the PRC and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected.

---

## RISK FACTORS

---

**The heightened scrutiny over acquisitions from the PRC tax authorities may have a material and adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.**

On February 3, 2015, the STA issued the *Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises* (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “**Circular 7**”), which abolished certain provisions in the *Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises* (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) (the “**Circular 698**”), which was previously issued by the STA on December 10, 2009, as well as certain other rules providing clarification on Circular 698. Circular 7 provided comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the “**PRC Taxable Assets**”).

For example, Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose.

Except as provided in Circular 7, transfers of the PRC taxable property under the following circumstances shall be automatically deemed as having no reasonable commercial purpose, and are subject to PRC enterprise income tax: (i) more than 75% of the value of the overseas enterprise is directly or indirectly from the PRC taxable properties; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise are directly or indirectly composed of investment in the PRC at any time during the year prior to the indirect transfer of the PRC taxable property, or more than 90% of the income of the overseas enterprise is directly or indirectly from the PRC during the year prior to the indirect transfer of the PRC taxable property; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold the PRC taxable property and have registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet prove to be inadequate in their ability to perform their intended functions and withstand risks as their alleged organization forms suggest; or (iv) the income tax from the indirect transfer of the PRC taxable property payable abroad is lower than the income tax in the PRC that may be imposed on the direct transfer of such PRC Taxable Assets.

Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

---

## RISK FACTORS

---

Provisions of Circular 7, which impose PRC tax liabilities and reporting obligations, do not apply to “a non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market” (the “**Public Market Safe Harbor**”), which is determined by whether the parties and number and price of the shares acquired and disposed are not previously agreed upon, but determined in accordance with general trading rules in the public securities markets, according to one implementing rule for Circular 698. In general, transfers of the Shares by Shareholders on the Stock Exchange or other public markets would not be subject to the PRC tax liabilities and reporting obligations imposed under the Circular 7 if the transfers fall under the Public Market Safe Harbor. As stated in the section headed “Information about this Prospectus and the Global Offering,” potential investors should consult their professional advisers if they are in any doubt as to the tax implications of subscribing for, purchasing, holding, disposing of and dealing in the Shares.

**We rely on dividends paid by our subsidiaries for our cash needs, and limitations under the PRC laws on the ability of our PRC subsidiaries to distribute dividends to us could adversely affect our ability to utilize such funds.**

As a holding company, we conduct substantially all of our business through our consolidated subsidiaries incorporated in the PRC. We rely on dividends paid by these PRC subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any foreign currency debt we may incur and to make any offshore acquisitions. The payment of dividends by entities established in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC. Each of our PRC subsidiaries is required to set aside (i) at least 10% of its after tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve funds until the aggregate amount of such reserves reaches 50% of its respective registered capital; and (ii) discretionary reserve funds as approved by its shareholders meeting. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends, loans or advances. In addition, certain loan agreements signed or to be signed by our PRC subsidiaries may contain covenants that restrict their ability to pay out dividends. These limitations on the ability of our PRC subsidiaries to transfer funds to us limit our ability to receive and utilize such funds.

**The PRC government’s control of foreign currency conversion and restrictions on the remittance of RMB out of the PRC may limit our foreign exchange transactions and our ability to pay dividends and meet other obligations, and affect the value of your investment.**

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenue in RMB. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency out of the PRC, or otherwise satisfy their foreign currency denominated obligations.



---

## RISK FACTORS

---

Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows of the PRC in 2016 due to the weakening of the RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movements. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

### **Fluctuations in exchange rates could result in foreign currency exchange losses.**

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals.

During the Track Record Period, substantially all of our revenues, expenditures and financial assets were denominated in RMB. Therefore, we mainly rely on dividends and other fees paid to us by our PRC subsidiaries. Any significant change in the exchange rates of the Hong Kong dollar against RMB may materially and adversely affect our cash flows, earnings and financial position, and the value of, and any dividends payable on, our Shares in Hong Kong dollars.

The proceeds from the Global Offering will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, the Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

**PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant government authorities in the PRC.



---

## RISK FACTORS

---

According to the relevant PRC regulations on foreign-invested enterprises in the PRC, capital contributions by us to our PRC subsidiaries are subject to the requirement of making necessary filings in the Enterprise Registration System and registration with other government authorities in the PRC. In addition, any foreign loan provided by us to our PRC subsidiaries is required to be registered with the SAFE, or its local counterparts. We may not be able to complete such recording or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording or registration, our ability to use the proceeds of this Global Offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the *Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises* (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Circular 19**”), which took effect on June 1, 2015 and was amended on December 30, 2019. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises and allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the *Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange* (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Circular 16**”). SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capital for expenditure beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to and use in the PRC the proceeds from this Global Offering, which may materially and adversely affect our business, financial condition and results of operations.

**We may be subject to penalties, including restrictions on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our PRC resident Shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.**

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with and obtain approval from local counterparts of the SAFE in connection with their direct or indirect offshore investment activities.

---

## RISK FACTORS

---

In October 2005, SAFE issued the *Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”), which became effective as of November 1, 2005, and was further supplemented by an implementing notice issued on November 24, 2005. Under the SAFE Circular 75, PRC residents must register with the relevant local counterparts of the SAFE prior to their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with SAFE thereafter upon the occurrence of certain material capital changes. The SAFE Circular 37, which replaced the SAFE Circular 75, was promulgated by the SAFE in July 2014 and requires PRC residents or entities to register with SAFE or its local counterparts in connection with their establishment or control of an offshore entity, for the purpose of overseas investment or financing, with assets or equity interests of onshore companies or offshore assets or interests held by the PRC residents, referred to in SAFE Circular 37 as a “special purpose vehicle.” Further, on February 13, 2015, SAFE promulgated the SAFE Circular 13, which came into effect on June 1, 2015 and was partially abolished on December 30, 2019. SAFE Circular 13 cancels two administrative approval items: foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment. Instead, banks shall directly examine and handle foreign exchange registration under both domestic direct investment and overseas direct investment, and SAFE and its local counterparts shall indirectly regulate the foreign exchange registration of direct investment through banks. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local counterpart of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger or division.

If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, if we cannot comply with the evolving requirements or interpretations of the various foreign exchange registration requirements described above, we could face liability under PRC laws for evasion of applicable foreign exchange restrictions, including but not limited to (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into the PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into the PRC and deemed to have been evasive or illegal; and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

---

## RISK FACTORS

---

We have requested PRC residents that to our knowledge hold direct or indirect interest in our Company to make the necessary applications, filings and amendments as required by applicable foreign exchange regulations. Each of our Onshore Individual Owners who is required to complete the registration under SAFE Circular 75, SAFE Circular 37 and SAFE Circular 13 has duly completed the foreign exchange registrations in relation to their offshore investments as PRC residents. However, there can be no assurance that the subsequent amendment of registration, when required, can be successfully completed in a timely manner. We may not be fully aware or informed of the identities of all the PRC residents holding direct or indirect interests in us, and we cannot assure you that all of our shareholders and beneficial owners who are PRC residents will comply with these foreign exchange regulations. Failure by any Shareholders to comply with SAFE Circular 37, SAFE Circular 13 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may materially and adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could materially and adversely affect our business and prospects.

**You may experience difficulties in effecting service of legal process and seeking recognition and enforcement of foreign judgments in the PRC.**

Substantially all of our assets and current operations are located or conducted in the PRC. In addition, substantially all of our current Directors and senior management members are nationals and residents of the PRC with substantially all of their assets are located in the PRC. It may not be possible for investors to effect service of process upon us or those persons in the PRC for disputes brought in courts outside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions.

On July 14, 2006, Hong Kong and the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned* (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”), pursuant to which a party with an enforceable final court judgment rendered by any designated PRC court or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant PRC court or Hong Kong court. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which

---

## RISK FACTORS

---

a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute did not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against us, certain of our assets, our Directors and senior management members in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC. On January 18, 2019, Hong Kong and the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region* (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the “**New Arrangement**”), which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in wider range of civil and commercial matters between Hong Kong and the PRC. The New Arrangement discontinued the requirement for a choice of court agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme People’s Court of the PRC and the completion of the relevant legislative procedures in Hong Kong. The New Arrangement will, upon its effectiveness, supersede the Arrangement. Therefore, before the New Arrangement becomes effective, it may be difficult or impossible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing.

**We may be subject to the approval or other requirements of the China Securities Regulatory Commission or other PRC governmental authorities in connection with future capital raisings activities.**

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the *Opinions on Severely Cracking Down on Illegal Securities Activities According to Law* (《關於依法從嚴打擊證券違法活動的意見》) (the “**6 July Opinion**”), which called for the enhanced administration and supervision of overseas-listed China-based companies (中概股公司), proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. As of the Latest Practicable Date, due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the 6 July Opinion, including on China-based companies with a VIE structure. In addition, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the 6 July Opinion will not impose any additional requirement on us. If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements for future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions. Furthermore, any uncertainty and/or negative publicity regarding such an approval, filing or other requirements may also have a material adverse effect on us.

---

## RISK FACTORS

---

### RISKS RELATING TO THE GLOBAL OFFERING

**No public market currently exists for our Shares; the market price of our Shares may be volatile and an active trading market for our Shares may not develop.**

No public market currently exists for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments in the PRC affecting us, our customers or our competitors;
- investors' perception of us and of the investment environment in Asia;
- developments in the global and PRC healthcare, internet and internet healthcare markets;
- changes in pricing made by us or our competitors;
- acquisitions by us or our competitors;
- the depth and liquidity of the market for our Shares;
- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock up or other transfer restrictions on our Shares;
- sale or anticipated sale of additional Shares; and
- the general economy and other factors.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

**You will incur immediate and significant dilution and may experience further dilution if we issue additional Shares in the future.**

The Offer Price of the Offer Shares is higher than the net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible assets value to HK\$3.77 per Share, based on the mid-point of the Offer Price range of HK\$27.40. There can be no assurance that if we were to immediately liquidate after the Global Offering, any assets will be distributed to Shareholders after the creditors' claims. To expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the Offer Shares may experience dilution in the net tangible assets value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible assets value per Share at that time.



---

## RISK FACTORS

---

**Future sale or perceived sale of our Shares in the public market by major Shareholders following the Global Offering could materially and adversely affect the price of our Shares.**

Prior to the Global Offering, there has not been a public market for our Shares. Future sales or perceived sales by our existing Shareholders, or issuance by us of significant amounts of our Shares after the Global Offering, could result in a significant decrease in the prevailing market prices of our Shares. Only a limited number of the Shares currently outstanding will be available for sale or issuance immediately after the Global Offering due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sale of significant amounts of our Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price for our Shares and our ability to raise equity capital in the future.

**There will be a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the Offer Price.**

The initial price to the public of our Shares sold in the Global Offering is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

**We may not pay any dividends on the Shares.**

We cannot guarantee when, if, or in what form, dividends will be paid on the Shares following the Global Offering. A declaration of dividends must be proposed by our Board and will be based on, and limited by, various factors, including our business and financial performance, capital and regulatory requirements and general business conditions. Furthermore, we may not have sufficient profits to make dividend distributions to Shareholders in the future, even if our financial statements prepared under HKFRS indicate that our operations have been profitable.

**Facts, forecasts and statistics in this prospectus relating to the PRC economy and healthcare (including grand TCM healthcare), internet and internet healthcare industries may not be fully reliable.**

Facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy and healthcare (including grand TCM healthcare), internet and internet healthcare industries are obtained from various official government information sources including official government publications that we believe are reliable. However, we cannot guarantee the quality or reliability of these official government information sources. Neither we, the Joint Representatives, the Joint Global Coordinators nor our or their respective affiliates or advisers have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these official government information sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this prospectus relating to the PRC economy and the healthcare (including grand TCM healthcare), internet and internet healthcare industries may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from various official government information sources is made. Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries.



---

## RISK FACTORS

---

**If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations, the market price and trading volume may decline.**

The trading market for our Shares will be influenced by research or reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our Shares or publish negative opinions about us, the market price for our Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume of our Shares to decline.

**Our future results could differ materially from those expressed or implied by the forward-looking statements.**

The forward-looking statements included in this prospectus are based on various assumptions. There are also uncertainties, risks and other unforeseen factors which may cause our actual performance or achievements to be materially different from those expressed or implied by such forward-looking statements. See “Forward-looking Statements” for details of these statements and the associated risks.

You should only rely on the information included in this prospectus to make your investment decision, and we strongly caution you not to rely on any information contained in press articles or other media coverage relating to us, our Shares or the Global Offering.

There had been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. We have not authorized the disclosure of any information concerning the Global Offering in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

---

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

---

In preparation for the Listing, our Company has applied for the following waivers from strict compliance with the relevant provisions of the Listing Rules.

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since substantially all of the business operations of our Group are managed and conducted outside of Hong Kong, and our executive Director ordinarily resides in the PRC, we do not have, and for the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules. Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules in accordance with HKEX-GL9-09 subject to the following conditions:

- (a) we have appointed Mr. Tu and Ms. Lau Jeanie (“**Ms. Lau**”), as our authorized representatives for the purposes of Rule 3.05 of the Listing Rules to serve as our principal channel of communication with the Stock Exchange. We have provided their contact details to the Stock Exchange, and they will be available to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;
- (b) as and when the Stock Exchange wishes to contact our Directors on any matters, each of our authorized representatives will have means to contact all of our Directors promptly at all times. We will implement measures such that (i) each Director must provide his or her mobile phone number, office phone number, facsimile number (if any) and email address to our authorized representatives and the Stock Exchange; and (ii) in the event that a Director expects to travel or otherwise be out of office, he or she will provide the phone number of the place of his or her accommodation to our authorized representatives. We have provided the contact details of each Director to the Stock Exchange to facilitate communication of such Directors with the Stock Exchange;
- (c) each Director who is not an ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time;
- (d) we have appointed a compliance adviser, Guotai Junan Capital Limited, pursuant to Rules 3A.19 of the Listing Rules, which will act as our additional and alternative channel of communication with the Stock Exchange, and its representative(s) will be fully available to answer enquiries from the Stock Exchange. The compliance adviser will advise our Company on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing, and will have access at all times to our authorized representatives, our Directors and the other senior management team of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company; and
- (e) any meeting between the Stock Exchange and our Directors will be arranged through our authorized representatives or compliance adviser or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorized representatives and compliance adviser.

### APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our company secretary must be an individual who by virtue of his or her academic or professional qualifications or relevant experience is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (a) length of employment with the listing applicant and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”);
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Ms. Xie Xiaoping (“**Ms. Xie**”) as one of the joint company secretaries. Ms. Xie has extensive knowledge of our business operations and corporate culture and has extensive experience in matters concerning the Board and our corporate governance. However, Ms. Xie does not possess the specified qualifications strictly required by Rule 3.28 of the Listing Rules. As a result, we have appointed Ms. Lau, who meets the requirements under Rule 3.28 of the Listing Rules, to act as the other joint company secretary and to assist Ms. Xie in the compliance matters for the Listing as well as other Hong Kong regulatory requirements for an initial period of three years from the Listing Date. Over such period, we will implement the following measures to assist Ms. Xie to satisfy the requisite qualifications as prescribed in Rules 3.28 and 8.17 of the Listing Rules:

- (a) Ms. Lau will assist Ms. Xie so as to enable her to discharge her duties and responsibilities as a joint company secretary of our Company. Given Ms. Lau’s relevant experiences, she will be able to advise both Ms. Xie and us on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;
- (b) Ms. Xie will be assisted by Ms. Lau for an initial period of three years commencing from the Listing Date, which should be sufficient for her to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;
- (c) we will ensure that Ms. Xie has access to the relevant trainings and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Ms. Xie has undertaken to attend such trainings;

---

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

---

- (d) Ms. Lau will communicate with Ms. Xie on a regular basis regarding matters on corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of the Group. Ms. Lau will work closely with, and provide assistance to Ms. Xie with a view to discharging her duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' meetings; and
- (e) pursuant to Rule 3.29 of the Listing Rules, Ms. Lau and Ms. Xie will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarize themselves with the requirements of the Listing Rules and other legal and regulatory requirements of Hong Kong. Both Ms. Lau and Ms. Xie will be advised by our legal advisors as to Hong Kong law and our compliance adviser as and when appropriate and required.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date (“**Waiver Period**”). Pursuant to HKEX-GL-108-20, the waiver is granted on the following conditions: (1) Ms. Xie must be assisted by Ms. Lau, who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (2) the waiver can be revoked if there are material breaches of the Listing Rules by the Company. Prior to the expiry of the three-year period, we will conduct a further evaluation of the qualification and experience of Ms. Xie to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied, and we will liaise with the Stock Exchange to assess whether Ms. Xie, having had the benefit of Ms. Lau assistance for an initial period of three years, would have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules such that there is no need to further apply for a waiver.

See “Directors and Senior Management” for further details of Ms. Lau and Ms. Xie’s biographies.

## CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions of our Company under the Listing Rules upon the Listing. We have applied for, and the Stock Exchange has granted, a waiver 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 our Shares are listed on the Stock Exchange, subject to certain conditions. For details of such continuing connected transactions and the waiver, please see the section headed “Connected Transactions” in this prospectus.

**DIRECTORS' RESPONSIBILITY STATEMENT**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

**THE HONG KONG PUBLIC OFFERING AND THIS DOCUMENT**

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document sets out the terms and conditions of the Hong Kong Public Offering. The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and the **GREEN** Application Form, and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this document and the **GREEN** Application Form, and any information or representation not contained herein and therein must not be relied upon as having been authorized by (i) our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, (ii) any of their respective directors, agents, employees or advisers, or (iii) any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. The Offer Price is expected to be fixed among the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, December 3, 2021 and, in any event, not later than Monday, December 6, 2021 (unless otherwise determined between the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Joint Representatives and our Company on or before Monday, December 6, 2021, the Global Offering will not become unconditional and will lapse immediately.

See section headed “Underwriting” for further information about the Underwriters and the underwriting arrangement.

**STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

---

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

---

### PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedures for applying for our Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and in the **GREEN** Application Form.

### OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

### COMMENCEMENT OF DEALING IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, December 10, 2021. The Shares will be traded in board lots of 100 Shares each. The stock code of the Shares will be 2273.

### SELLING RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required to, or be deemed by their acquisition of Offer Shares to, confirm that they are aware of the restrictions on offers of the Offer Shares described in this document.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this document in any jurisdiction other than Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares in issue (including the shares on conversion of the Preferred Shares), to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued under the Pre-IPO Share Option Plan.

We have applied on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2020, being RMB925.4 million (equivalent to HK\$1,127.9 million), which is over HK\$500 million and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.



---

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

---

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, December 10, 2021. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the register of members maintained by the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance, and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **SHARE REGISTRAR AND HONG KONG STAMP DUTY**

Our principal register of members will be maintained by its principal share registrar, Harneys Fiduciary (Cayman) Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited. All Offer Shares will be registered on the Company's register of members in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

**EXCHANGE RATE CONVERSION**

Unless otherwise specified, this prospectus contains certain translations for the convenience purposes at the following rates:

RMB6.3682: US\$1.00

HK\$7.7620: US\$1.00

RMB0.8204: HK\$1.00

No representation is made that any amounts in HK\$, RMB and US\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

**ROUNDING**

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

**LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. However, the translated English names of the PRC and foreign national, entities, departments, facilities, certificates, titles, laws, regulations (including certain of our subsidiaries) and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the names in their original languages shall prevail.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name	Address	Nationality
<b>Executive Director</b>		
Mr. TU Zhiliang (涂志亮)	Flat 501, No. 132 Huijing North Road Tianhe District, Guangzhou PRC	Chinese
<b>Non-executive Directors</b>		
Mr. JIANG Xiaodong (蒋晓冬)	Room 105, Building 2 No. 12, Beidongguashi Gulou District, Nanjing City PRC	Chinese
Mr. HUANG Jingsheng	Room 702, Unit 2, Building 2 No. 91, Jianguo Road Chaoyang District, Beijing PRC	American
Mr. XU Yongjiu (徐永久)	No. 84, 288 Lane Shuangyang North Road Yangpu District, Shanghai PRC	Chinese
Mr. LIU Kanghua (刘康华)	Room 904 No. 1, Yinglin Street Huangpu District, Guangzhou PRC	Chinese
Mr. GAO Jian (高建)	Room 202, Unit 4, South Building 6 Tsinghua University Haidian District, Beijing PRC	Chinese
<b>Independent Non-executive Directors</b>		
Ms. JIN Xu (金旭)	Room 502, No. 1 Lane 1399, Dingxiang Road Pudong New Area, Shanghai PRC	Chinese
Mr. LI Tie (李铁)	Room 601, Unit 2, Building 5 No. 15, Xueyuan South Road Haidian District, Beijing PRC	Chinese
Mr. WU Taibing (吴太兵)	Room 10D, Building B2 Cuihai Garden No. 2 Zetian Road Futian District, Shenzhen PRC	Chinese

For further information regarding our Directors, see “Directors and Senior Management.”

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

**Merrill Lynch (Asia Pacific) Limited**  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Haitong International Capital Limited**  
Suites 3001-3006 and 3015-3016  
One International Finance Centre  
No.1 Harbour View Street  
Central, Hong Kong

#### Joint Representatives

**Merrill Lynch (Asia Pacific) Limited**  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Haitong International Securities Company Limited**  
22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

#### Joint Global Coordinators

**Merrill Lynch (Asia Pacific) Limited**  
55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Haitong International Securities Company Limited**  
22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**China International Capital Corporation**  
**Hong Kong Securities Limited**  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**GF Securities (Hong Kong) Brokerage Limited**  
29-30/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### **Joint Bookrunners**

#### **Merrill Lynch (Asia Pacific) Limited**

55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

#### **Haitong International Securities Company Limited**

22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

#### **China International Capital Corporation**

##### **Hong Kong Securities Limited**

29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

#### **GF Securities (Hong Kong) Brokerage Limited**

29-30/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

#### **ICBC International Capital Limited**

37/F ICBC Tower  
3 Garden Road  
Hong Kong

### **Joint Lead Managers**

#### **Merrill Lynch (Asia Pacific) Limited**

55/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

#### **Haitong International Securities Company Limited**

22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

#### **China International Capital Corporation**

##### **Hong Kong Securities Limited**

29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

**GF Securities (Hong Kong) Brokerage Limited**

29-30/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**ICBC International Securities Limited**

37/F ICBC Tower  
3 Garden Road  
Hong Kong

**Futu Securities International (Hong Kong) Limited**

Unit C1-2 13/F  
United Centre  
No. 95 Queensway  
Admiralty  
Hong Kong

**Co-Lead Manager**

**Sinomax Securities Limited**

Room 2705-6, 27/F  
Tower One  
Lippo Centre  
89 Queensway  
Hong Kong

**Legal Advisors to our Company**

*As to Hong Kong Laws*

**Tian Yuan Law Firm LLP**

Suites 3304-3309, 33/F  
Jardine House  
One Connaught Place  
Central, Hong Kong

*As to United States Laws*

**O'Melveny & Myers LLP**

31/F, AIA Central  
1 Connaught Road  
Central, Hong Kong

*As to PRC Laws*

**Tian Yuan Law Firm**

10/F, CPIC Plaza B  
No. 28, Fengsheng Lane  
Xicheng District  
Beijing, PRC



---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

	<i>As to Cayman Islands Laws</i> <b>Harney Westwood &amp; Riegels</b> 3501 The Center 99 Queen's Road Central Central, Hong Kong
<b>Legal Advisors to the Joint Sponsors and Underwriters</b>	<i>As to Hong Kong Laws and United States Laws</i> <b>Linklaters</b> 11/F, Alexandra House Chater Road Central Hong Kong
	<i>As to PRC Laws</i> <b>Zhong Lun Law Firm</b> 23-31/F South Tower, CP Center 20 Jin He East Avenue Chaoyang District, Beijing PRC
<b>Auditor and Reporting Accounts</b>	<b>Ernst &amp; Young</b> <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 27/F, One Taikoo Place 979 King's Road Qurray Bay, Hong Kong
<b>Compliance Adviser</b>	<b>Guotai Junan Capital Limited</b> <i>(A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO)</i> 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
<b>Industry Consultant</b>	<b>Frost &amp; Sullivan (Beijing) Inc., Shanghai Branch Co.</b> Room 1018, Tower B 500 Yunjin Road Xuhui District Shanghai, PRC
<b>Receiving Bank</b>	<b>Bank of China (Hong Kong) Limited</b> 1 Garden Road Hong Kong

---

## CORPORATE INFORMATION

---

<b>Registered Office</b>	Harneys Fiduciary (Cayman) Limited 4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
<b>Headquarters in the PRC</b>	Units 01-04, 36 Floor, Lifeng Centre No. 761 Dongfeng East Road Yuexiu District, Guangzhou PRC
<b>Principal Place of Business in Hong Kong</b>	40th Floor, Dah Sing Financial Centre No. 248 Queen's Road East Wanchai Hong Kong
<b>Company's Website</b>	<u><a href="http://www.gstzy.cn">www.gstzy.cn</a></u> <i>(the information contained on the website does not form part of this prospectus)</i>
<b>Joint Company Secretaries</b>	<p>Ms. Xie Xiaoping (謝小平) Room 502 No. 3, Dongsheng Street, Dongsha Road Panyu District, Guangzhou PRC</p> <p>Ms. Lau Jeanie (劉准羽) (ACG, ACS) 40th Floor, Dah Sing Financial Centre No. 248 Queen's Road East Wanchai Hong Kong</p>
<b>Authorized Representatives</b>	<p>Mr. Tu Zhiliang (涂志亮) Flat 501, No. 132 Huijing North Road Tianhe District, Guangzhou PRC</p> <p>Ms. Lau Jeanie (劉准羽) (ACG, ACS) 40th Floor, Dah Sing Financial Centre No. 248 Queen's Road East Wanchai Hong Kong</p>

---

## CORPORATE INFORMATION

---

<b>Audit Committee</b>	Mr. Li Tie (李鐵) ( <i>Chairperson</i> ) Mr. Jiang Xiaodong (蔣曉冬) Mr. Wu Taibing (吳太兵)
<b>Remuneration Committee</b>	Ms. Jin Xu (金旭) ( <i>Chairperson</i> ) Mr. Li Tie (李鐵) Mr. Huang Jingsheng
<b>Nomination Committee</b>	Mr. Tu Zhiliang (涂志亮) ( <i>Chairperson</i> ) Ms. Jin Xu (金旭) Mr. Wu Taibing (吳太兵)
<b>Principal Share Registrar and Transfer Office</b>	<b>Harneys Fiduciary (Cayman) Limited</b> 4th Floor, Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman, KY1-1002 Cayman Islands
<b>Hong Kong Share Registrar</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal Bankers</b>	<b>Industrial and Commercial Bank of China Limited</b> <b>Guangzhou Dezheng Middle Road Branch</b> No. 316 to 318 Dezheng Middle Road Yuexiu District, Guangzhou PRC  <b>Shanghai Pudong Development Bank Co., Ltd.</b> <b>Guangzhou Panyu Branch</b> No. 1, Kouan Street Qinghe East Road Panyu District, Guangzhou PRC

---

## INDUSTRY OVERVIEW

---

*Certain information and statistics set out in this section and elsewhere in this prospectus are derived from various government and other publicly available sources and from the market research report prepared by Frost & Sullivan. We believe that the sources of such information are appropriate for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false in any material respect or misleading or that any fact has been omitted that would render such information false in any material respect or misleading. None of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors, officers, employees, agents or advisers have verified the information and statistics from official government sources, thus makes no representation as to the accuracy, fairness and completeness of the information and statistics from official government sources. Accordingly, information from official government sources should not be unduly relied upon. For discussions of risks relating to our industry, see “Risk Factors—Risks Relating to Our Business and Industry.”*

*Except as otherwise noted, all data and forecasts contained in this section have been derived from the Frost & Sullivan Report.*

### SOURCE AND RELIABILITY OF INFORMATION

In connection with the Global Offering, we engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare an industry report on the markets we operate with a commission fee of RMB600,000. Founded in 1961, Frost & Sullivan provides market research on a variety of industries, among other services. The information from Frost & Sullivan disclosed in this prospectus is extracted from the Frost & Sullivan Report with its consent.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan used the following key methodologies to collect multiple sources, validate the data and information collected, and cross-check each respondent’s information and views against those of others: (i) secondary research, which involved reviewing published sources including national statistics, annual reports of listed companies, industry reports and data based on Frost & Sullivan’s in-house research database; and (ii) primary research, which involved in-depth interviews with the industry participants.

Frost & Sullivan adopted the following primary assumptions while making projections for preparing the Frost & Sullivan Report: (i) China’s economy is expected to grow at a steady rate supported by favorable government policies as well as global economic recovery, among other factors; (ii) China’s total population remains an increasing trend and the elderly population is expected to grow rapidly; (iii) there are no material changes in government policies in respect of the healthcare service markets in China; and (iv) there are no major technological breakthrough in the healthcare service industry during the forecast period. In addition to the macroeconomic factors, certain industry drivers, including but not limited to the increasing disposable income and increasing healthcare awareness, are likely to drive the demand for healthcare services in the forecast period.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Our Directors confirm that after taking reasonable care, there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

### THE HEALTHCARE SERVICE INDUSTRY IN CHINA

#### Overview

China has a sizable and steadily expanding healthcare market. China’s total healthcare expenditure increased from RMB4,635 billion in 2016 to RMB7,231 billion in 2020 at a CAGR of 11.8%. China’s total healthcare expenditure is forecasted to reach RMB17,616 billion by 2030, representing a CAGR of 9.3% from 2020 to 2030, according to NBSC and the forecast of Frost & Sullivan. Meanwhile, the healthcare expenditure per capita in China has grown at a CAGR of 11.4% from RMB3,352 in 2016 to RMB5,163 in 2020, and is forecasted to reach RMB12,191 by 2030, representing a CAGR of 9.0% from 2020 to 2030.

### Market Size of the Healthcare Service Industry in China

As an essential component of healthcare industry, healthcare service industry accounted for 57.1% of the market share of healthcare industry in 2019. Healthcare services comprise out-patient examination on treatment of diseases or sub-health conditions. Healthcare service industry consists of (i) medical service, including provisions of in-patient and out-patient examination and treatment of diseases or sub-health conditions; (ii) sale of medicine; and (iii) sale of diagnostic and treatment devices. The market size of China's healthcare service industry experienced significant growth from RMB2,954 billion in 2015 to RMB4,644 billion in 2019 at a CAGR of 12.0%, and is expected to reach RMB10,062 billion in 2030 at a CAGR of 7.3% from 2019 to 2030, according to NHC and the forecast of Frost & Sullivan.

### Key Drivers of the Healthcare Service Industry in China

According to Frost & Sullivan, China's healthcare service market is primarily driven by the following key factors:

- *Aging population.* The number of China's population aged 65 and above is expected to increase from 191 million in 2020 to 318 million in 2030, representing a CAGR of 5.3%. In addition, the average life expectancy increased from 73.0 years in 2005 to 76.3 years in 2015, and is expected to reach 79.4 years in 2025, according to NBSC and the forecast of Frost & Sullivan;
- *Rising disposable income per capita.* From 2016 to 2020, annual disposable income per capita increased from RMB23,821 to RMB32,189, representing a CAGR of 7.8%, according to the World Bank and the forecast of Frost & Sullivan, along with economic growth and urbanization;
- *Growing health awareness and increasing 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. The 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 NBSC and the forecast of Frost & Sullivan;
- *Increasing demand for primary care services in China.* The size of China's primary care service market increased rapidly from RMB435 billion in 2015 to RMB699 billion in 2019 at a CAGR of 12.6%, and is expected to reach RMB1,948 billion in 2030 at a CAGR of 9.8% from 2019 to 2030 according to NHC and the forecast of Frost & Sullivan; and
- *Favorable policy tailwind.* In recent years, China has issued multiple policies to promote the development of healthcare service industry, especially the "Internet + Healthcare." As a result, the number of online hospitals increased significantly from 119 as of December 31, 2018 to over 1,100 as of March 31, 2021, according to NHC. Moreover, in May 2021, three-child policy was promulgated, allowing every couple to have three children, which is expected to further drive the population growth and healthcare needs, according to Frost & Sullivan.

TCM healthcare service represents an essential part of healthcare service. TCM healthcare providers mainly comprise TCM hospital, TCM clinic, TCM center and other primary healthcare institutions that provide TCM healthcare services. TCM healthcare services complement other healthcare services in the whole healthcare service market. In recent years, numerous government policies favorable to TCM healthcare providers have been promulgated and TCM healthcare services have gained larger customer base. Compared with other healthcare service providers, TCM healthcare providers provide healthcare services covering the entire life cycle of healthcare management, from disease prevention to disease treatment and rehabilitation and thus illustrating its unique strength in chronic disease management and health management. The market share of TCM diagnosis and treatment services segment in healthcare service market in China was 6.3% in 2019, which is expected to increase to 18.3% in 2030.

### THE GRAND TCM HEALTHCARE INDUSTRY IN CHINA

#### Grand TCM Healthcare Industry and the participants in China

China has one of the world's most ancient medical systems, dating back to the 21st century before the common era (BCE) with development for thousands of years. The grand TCM healthcare industry in China has become a significant segment of China's healthcare industry. It consists of six components: (i) TCM diagnosis and treatment services; (ii) TCM medicine; (iii) TCM health supplements; (iv) TCM IT infrastructures; (v) TCM health monitor devices; and (vi) TCM diagnosis and treatment devices. Among all these components, TCM diagnosis and treatment services component is the only major TCM healthcare services component, while the TCM IT infrastructures component focuses on provision of software and hardware and represents the only other emerging TCM service related component. The remaining components are mainly related to the development, production and sale of pharmaceuticals, healthcare supplements, and medical devices.

TCM medical institutions comprise four categories based on the categories registered with NHC: (i) TCM hospitals; (ii) TCM out-patient departments; (iii) TCM clinics; and (iv) other TCM healthcare providers.

Compared to Western medicine, TCM has its unique strength to cover full life cycle of healthcare management, in particular, chronic diseases management. Grand TCM healthcare management is able to provide patients with comprehensive TCM conditioning on a continuous basis with controlled medical cost. Through close monitor of relevant physiological indicators of patients with chronic diseases or sub-healthy population, such as blood pressure and blood glucose, grand TCM healthcare management is able to offer personalized health regimen, preventative treatment, long-term recuperation and lifestyle enhancement according to patients' specific conditions.

#### Recent Milestones of the Grand TCM Healthcare Industry in China

- The SARS Prevention and Treatment Leading Group of the Ministry of Health of the PRC promulgated *the Technical Proposal of Traditional Medicine Therapy for SARS (Trial)* (《非典型肺炎中醫藥防治技術方案(試行)》) across China and emphasized that TCM played an important role in the fight against atypical pneumonia.
- Tu Youyou (屠呦呦), a researcher at China Academy of Chinese Medical Sciences (中國中醫科學院), won the Nobel Prize in Physiology or Medicine for the discovery of Artemisinin, which signaled a great contribution of TCM to human health.
- The 72nd World Health Assembly approved *the 11th Revision of the International Classification of Diseases* (《國際疾病分類第十一次修訂本(ICD-11)》) which included TCM for the first time, indicating that TCM has been recognized as a standard therapy.
- During the outbreak of COVID-19, TCM treatments have also been proven effective in the prevention and treatment of this infectious disease.

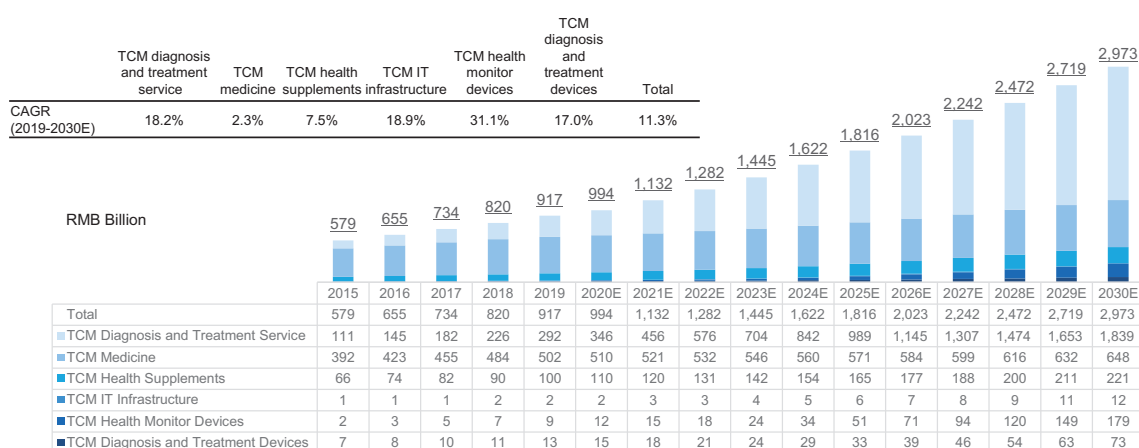
#### Market Size of the Grand TCM Healthcare Industry in China

The grand TCM healthcare industry in China has expanded substantially in recent years, occupying a market share of 19.7% of the total healthcare market in China in 2019. According to Frost & Sullivan, the market size of China's grand TCM healthcare industry grow at a CAGR of 11.3% from 2019 to 2030 and is expected to reach RMB2,973 billion in 2030, which is at a faster pace than the overall healthcare industry in China over the same period. The following diagram sets forth the historical and forecasted market size of China's grand TCM healthcare industry and its components from 2015 to 2030.



## INDUSTRY OVERVIEW

### Market Size of Grand TCM Healthcare Industry in China, 2015-2030E



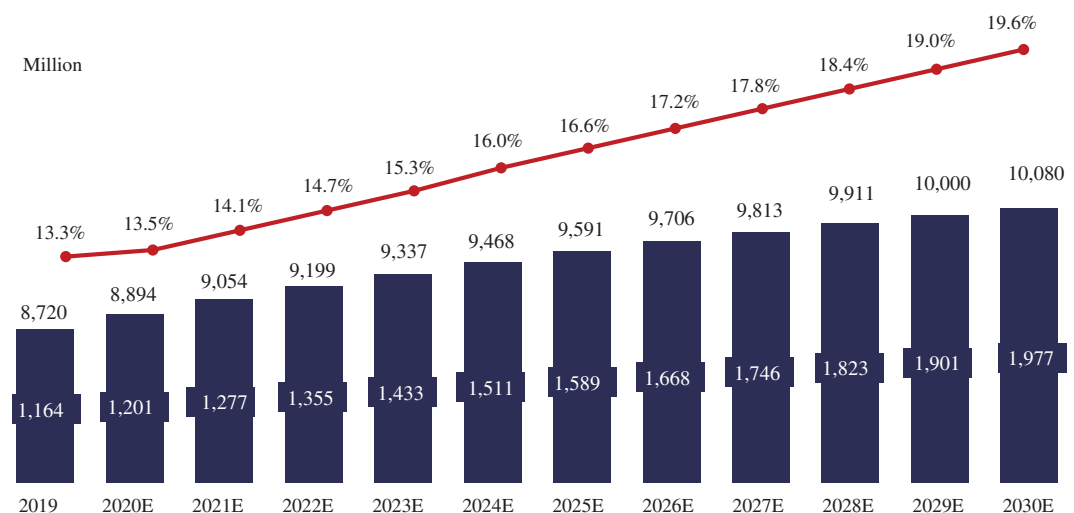
Note: TCM diagnosis and treatment service market refers to all costs incurred during the whole process that patient receives diagnosis and treatment, including the payment for prescription drugs during such process.

Source: NHC and the forecast of Frost & Sullivan

The market size of private healthcare providers in the TCM diagnosis and treatment services segment of China's grand TCM healthcare industry increased from 29.0% in 2015 to 41.2% in 2019, and is expected to increase to 51.2% in 2030. There are numerous market players in the private TCM diagnosis and treatment services segment of the grand TCM healthcare industry in China. We took a market share of 0.6% in this highly fragmented market in terms of revenue generated from providing healthcare solutions in 2020. We ranked eighth among all private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in the same year.

It is expected that the penetration rate of out-patient visit in TCM diagnosis and treatment service providers in China healthcare service industry to increase from 13.3% in 2019 to 19.6% in 2030, according to Frost & Sullivan. The following diagram sets forth the forecasted penetration rate and the number of out-patient visits in China's TCM diagnosis and treatment service providers from 2019 to 2030.

### Penetration Rate of Out-Patient Visits in TCM Diagnosis and Treatment Service Providers in China Healthcare Service Industry, 2019-2030E



— Out-patient visits in TCM diagnosis and treatment service provider as a % of total out-patient visits in China's healthcare service industry

## INDUSTRY OVERVIEW

Notes:

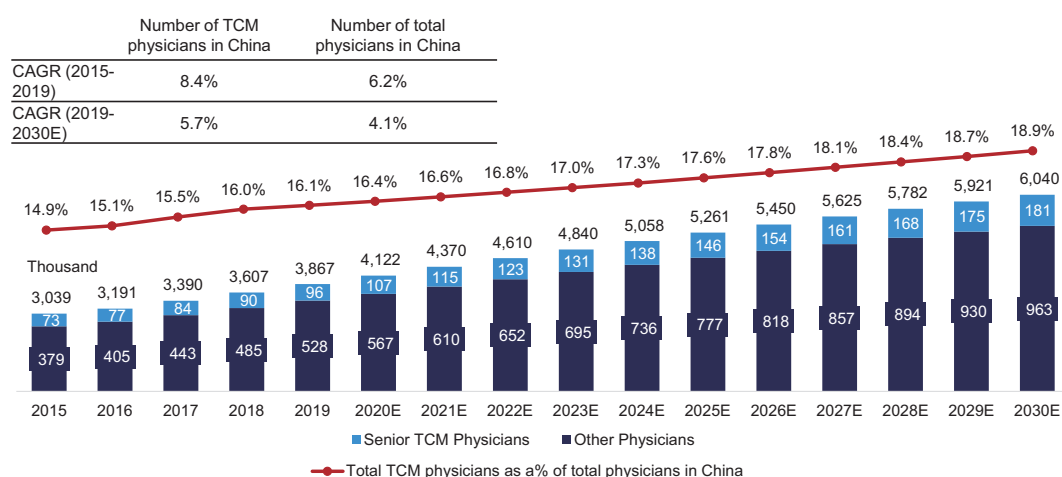
- (1) Penetration rate = number of out-patient visits in TCM diagnosis and treatment service providers/number of out-patient visits in China's healthcare service industry;
  - (2) The number at the top of each bar refers to the total out-patient visits in China's healthcare service industry in the relevant year.
- Sources: NHC and the forecast of Frost & Sullivan

According to Frost & Sullivan, there are numerous market players in the TCM diagnosis and treatment services segment of the grand TCM healthcare industry, which makes the market highly fragmented. Our revenue generated from healthcare solutions in 2020 was RMB892 million, accounted for 0.3% of the entire TCM diagnosis and treatment services segment in the same year.

In addition, according to Frost & Sullivan, private TCM healthcare providers in China are mainly out-patient departments and clinics focusing on primary care. Public TCM healthcare providers in China are mainly comprehensive state-owned hospitals and have been dominating the TCM diagnosis and treatment service segment with long establishment history and good reputation among patients, sufficient physician resources and advanced medical facilities, as well as support from local governments. Hence, we mainly compete with other private TCM healthcare providers in China in our principal businesses.

The number of TCM physicians in China increased from 452,190 in 2015 to 624,248 in 2019 at a CAGR of 8.4%, and is expected to reach 1,143,994 in 2030 at a CAGR of 5.7% from 2019 to 2030, according to Frost & Sullivan. Among such TCM physicians, the proportion of senior TCM physicians was 16.2% in 2015, which decreased to 15.4% in 2019, and is expected to maintain at 15.8% in 2030, implicating the foreseeable scarcity of senior TCM physicians in the long run. The following diagram sets forth the historical and forecasted number of TCM physicians and total physicians in China from 2015 to 2030.

**Number of TCM Physicians in China, 2015-2030E**



Notes:

- (1) Senior TCM physicians refer to chief physicians and associate-chief physicians;
- (2) The number at the top of each bar refers to the total number of physicians in China in the relevant year

Sources: NHC and the forecast of Frost & Sullivan

The gap between growing demand of healthcare services and scarcity of physicians represents vast unmet medical needs. In 2019, the number of out-patient visits per TCM physician was 13.1 per day, 45.6% higher than the number of out-patient visits per physician per day, indicating short supply of TCM physicians. This represents an opportunity for further enhancing the operating efficiency through adopting “Internet + Healthcare” model and releasing market potential.

### Key Drivers of Grand TCM Healthcare Industry in China

According to Frost & Sullivan, China's grand TCM healthcare industry has been and is expected to be primarily driven by the following factors:

#### Demand-side drivers:

- *Chronic diseases become more common.* In recent years, there has been (i) increasing aging population, coupled with increasing prevalence of chronic diseases; (ii) rising population having multisystemic diseases; (iii) increasing prevalence of diseases with unclear pathological mechanisms, such as trisomia, cutaneous anaphylaxis and female menoxenia; and (iv) rising prevalence rate of chronic diseases in younger generation. In particular, there is no specific western medicine for multisystemic diseases and diseases with unclear pathological mechanisms. For these diseases, TCM can provide systemic and effective treatment;
- *Significant increase in sub-healthy population.* The increasing sub-healthy population drives the demand for preventative care and chronic disease management. To this end, TCM emphasizes the prevention and control of chronic diseases and promotes maintenance of healthy diet and living habits to remain energetic and keep fit thus boosts immune system;
- *Growing health awareness.* See “— The Healthcare Service Industry in China — Key Drivers of the Healthcare Service Industry in China” for details;
- *Increasing diseases with complicated symptoms.* TCM can offer a symptomatic treatment plan for diseases with complicated and unexplained symptoms, which may not be able to be addressed by western medicine accurately; and
- *Increasing acceptance and popularity of TCM healthcare and deepening recognition of TCM culture.* In recent years, TCM has been made part of the primary and secondary school curriculum in certain provinces to inculcate traditional Chinese culture among the youngsters. Meanwhile, the market size of TCM supplements has grown rapidly, implicating the increase of public awareness on TCM healthcare.

#### Supply-side drivers:

- *Promulgation of government incentive policies.*

Year	Policies
2021 . . . . .	• <i>Several Policies and Measures on Promoting the Development of Traditional Chinese Medicine</i> 《關於加快中醫藥特色發展的若干政策措施》
2020 . . . . .	• <i>Implementation Opinions of NMPA on Promoting the Inheritance and Innovative Development of Traditional Chinese Medicine</i> 《國家藥監局關於促進中藥傳承創新發展的實施意見》
2019 . . . . .	• <i>Circular on Practically Strengthening the Work on Traditional Chinese Medicine During the Development of Medical Alliances</i> 《關於在醫療聯合體建設中切實加強中醫藥工作的通知》
	• <i>Opinions of the State Council of the CPC Central Committee on Promoting the Inheritance and Innovation of Traditional Chinese Medicine</i> 《中共中央國務院關於促進中醫藥傳承創新發展的意見》
2018 . . . . .	• <i>Guiding Opinions on Improving Science and Technology Innovation in Traditional Chinese Medicine Healthcare Services</i> 《關於加強中醫藥健康服務科技創新的指導意見》
2017 . . . . .	• <i>Opinions on Encouraging Social Forces to Provide Multi-layered and Diverse Healthcare Services</i> 《關於支援社會力量提供多層次多樣化醫療服務的意見》
	• <i>Traditional Chinese Medicine “Belt and Road” Development Plan (2016-2020)</i> 《中醫藥“一帶一路”發展規劃(2016-2020年)》
	• <i>“13th Five-Year” Special Plan on Science and Technology Innovation for Traditional Chinese Medicine</i> 《“十三五”中醫藥科技創新專項規劃》
	• <i>Guiding Opinions of Traditional Chinese Medicine on Integrating the Development of the Traditional Chinese Medicine Health Services and the Internet</i> 《關於推進中醫藥健康服務與互聯網融合發展的指導意見》

## INDUSTRY OVERVIEW

Year	Policies
2016 . . . . .	<ul style="list-style-type: none"> <li>• <i>Outline of the Development Strategic Plan for Traditional Chinese Medicine</i> 《中醫藥發展戰略規劃綱要(2016–2030年)》</li> <li>• <i>Traditional Chinese Medicine Law of the PRC</i> 《中華人民共和國中醫藥法》</li> <li>• <i>Guiding Opinions on Promoting the Sound Development of the Medical Industry</i> 《關於促進中醫藥產業健康發展的指導意見》</li> </ul>
2011 . . . . .	<ul style="list-style-type: none"> <li>• <i>Opinions on Strengthening the Role of Traditional Chinese Medicine in Deepening the Reform of the Medical and Health System</i> 《關於在深化醫藥衛生體制改革工作中進一步發揮中醫藥作用的意見》</li> </ul>
2010 . . . . .	<ul style="list-style-type: none"> <li>• <i>Management Measures for sit-in TCM Clinics (Trial)</i> 《中醫坐堂醫診所管理辦法(試行)》</li> </ul>
	<ul style="list-style-type: none"> <li>• <i>Talent cultivation through the combination of TCM college education and master-apprentice education model</i> (師承教育模式). The TCM college education continuously supply qualified TCM personnel. The number of new graduates majored in TCM increased from 232,723 in 2015 to 297,794 in 2018, representing a CAGR of 8.6%. Meanwhile, with its long heritage and vast knowledge base, TCM has accumulated abundant practical experience to be inherited. Under the master-apprentice education model, valuable practical experiences are taught by experienced TCM physicians through consecutive teaching and training. This can cultivate more and more application-oriented TCM talents with strong professional skills; and</li> <li>• <i>Increase of TCM healthcare providers with both offline and online medical service network</i>. Leveraging the strong capability of solving the pain points of conventional TCM healthcare diagnosis and treatment methods, TCM healthcare providers who expand their business from offline medical institutions to online platforms are expected to continue to increase in China's grand TCM healthcare industry. Meanwhile, the popularity of TCM health supplements in China has been increasing. See “—Recent Trend of Grand TCM Healthcare Market” for details.</li> </ul>

### Key Entry Barriers of the Grand TCM Healthcare Industry in China

According to Frost & Sullivan, new entrants of China's grand TCM healthcare industry primarily face the following entry barriers:

- *Scarcity of high quality TCM physician resources*. The number of TCM physicians in China accounted for only 16.1% of the total number of physicians in 2019, amounting to 624,248. New market entrants generally have greater difficulty in recruiting seasoned physicians, such as National TCM Great Masters (國醫大師). As of June 30, 2021, there were only 56 National TCM Great Masters in China, according to Frost & Sullivan; and
- *Challenges for geographic expansion*. The expansion of TCM medical network generally requires extensive experience and deep understanding of the TCM healthcare industry and familiarity to the relevant local policies and requirement, which make it difficult for new entrants to replicate the business model and expand geographically.

### RECENT TREND OF GRAND TCM HEALTHCARE MARKET

#### Overview

Recently, more and more TCM healthcare providers have been establishing and developing their online healthcare network while strengthening the existing offline presence, leveraging internet technology to provide patients with digitalized and standardized TCM healthcare services (including but not limited to online appointment for healthcare services), integrating both offline and online TCM resources. In addition, western medicine has been combined with conventional TCM diagnosis and treatment. Leveraging the interaction of offline and online operations and the combination of western medicine, TCM healthcare providers are able to provide patients with comprehensive healthcare management services more effectively and efficiently, especially chronic disease management, throughout the whole process of disease diagnosis and treatment and healthcare management.

## INDUSTRY OVERVIEW

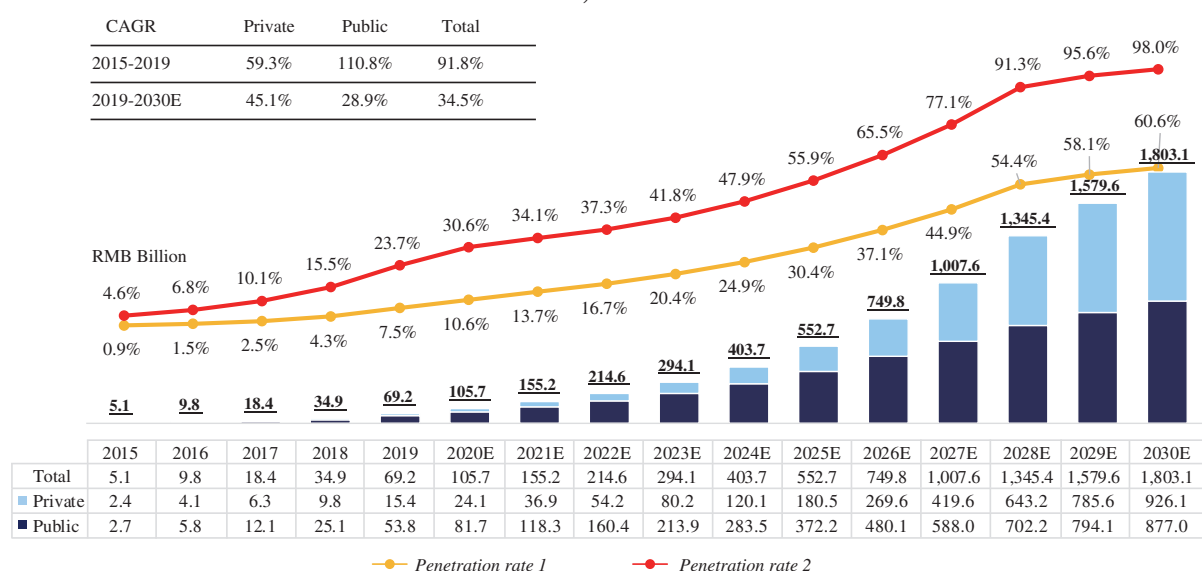
Establishing and integrating the online and offline business, TCM healthcare providers aim to solve the following pain points of conventional TCM diagnosis and treatment methods:

- *Dispersive and uneven supplies of medical resources nationwide:* As majority of the experienced TCM physicians are located in the tier one and tier two cities in China, it has been challenging for people in lower tiers cities to benefit from quality TCM services. However, TCM healthcare providers could effectively broaden service coverage by leveraging their online component;
- *Lack of integration between offline and online resources:* Different from (i) conventional TCM market participants that can only provide consultation and diagnosis and follow-up healthcare services offline; and (ii) TCM market participants with online TCM platforms only which can only provide follow-up healthcare services, TCM healthcare providers with both offline and online medical service network are able to fully utilize interaction of offline and online TCM platforms to enhance their capability in providing comprehensive TCM treatment; and
- *Lack of TCM know-how among public:* Nowadays many people still do not have sufficient knowledge of TCM. Through internet platforms and applications, TCM healthcare providers with both offline and online medical service network are able to promote the philosophy and knowledge of TCM to broader customers and improve people's acceptance and recognition.

### Market Size and Penetration Rate of TCM Industry Participants with both Offline and Online Medical Service Network in China

Before 2018, some public TCM hospitals and TCM out-patient departments in the grand TCM healthcare industry had stepped into providing the online healthcare services in embryonic forms. However, such initial attempts are limited to providing patients with online appointment registration services. Gradually, more and more TCM healthcare providers with existing offline presence are developing online healthcare services, including, among others, the provision of follow-up consultation and diagnosis, prescription services, decoction services and sale of healthcare products. Since 2018, such trend has been continuously developing and the penetration rate of these TCM industry participants has increased significantly. The market size of such China's TCM industry participants increased significantly from RMB5 billion in 2015 to RMB69 billion in 2019 at a CAGR of 91.8%, and is expected to reach RMB1,803 billion in 2030 at a CAGR of 29.4%. Such penetration rate is expected to grow significantly from 10.6% in 2020 to 60.6% in 2030, according to Frost & Sullivan analysis, indicating the great growth potential of such trend. The following diagram sets forth the historical and forecasted size and penetration rate of such China's TCM industry participants from 2015 to 2030.

### Market Size of TCM Healthcare Providers with Both Offline and Online Medical Service Network in China, 2015-2030E



Notes:

1. Penetration rate 1 = Market size of TCM healthcare providers with both offline and online medical service network/Market size of grand TCM healthcare industry.
2. Penetration rate 2 = Market size of TCM healthcare providers with both offline and online medical service network/Market size of diagnosis and treatment component of grand TCM healthcare industry.
3. The market size is calculated based on the total revenue generated by all TCM healthcare providers with both offline and online medical service network in China.

Sources: Frost & Sullivan analysis



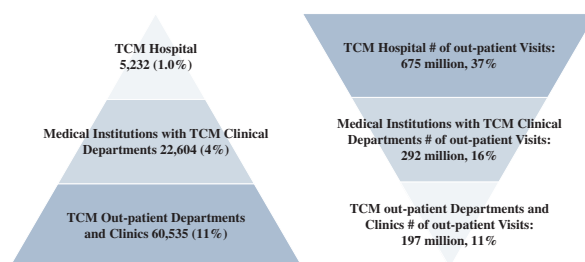
## INDUSTRY OVERVIEW

### Key Drivers for the Recent Trend of Grand TCM Healthcare Market

In addition to the drivers of China's grand TCM healthcare industry, the development of TCM healthcare providers establishing and integrating both offline and online medical service network is driven by the following factors:

- *Favorable government policies.* The PRC government promulgated several policies favorable to online healthcare service providers, such as *Opinions on the National Health and Family Planning Commission on Promoting Telemedicine Services in Medical Institutions* (《國家衛生和計劃生育委員會關於推進醫療機構遠端醫療服務的意見》) and *Guidance from the National Healthcare Security Administration on Improving the Policy of "Internet +" Medical Service Price and Medical Insurance Payment* (《國家醫療保障局關於完善“互聯網+”醫療服務價格和醫保支付政策的指導意見》), which in turn encouraged the expansion of online consultation, legalized and standardized the online consultation, supported reimbursement of online consultation through medical insurances, encouraged offline hospitals to establish of online hospitals, and promoted the integration of TCM and western medicine;
- *Increasing interaction of offline and online business.* Technology advancement has significantly encouraged the rapid development of the online healthcare services. Leveraging the internet platform, market participants can expand their coverage to online customers without time and space constraints. Offline TCM institutions are able to acquire new customers through online channels. Meanwhile, as customers can only receive follow-up visits through online platforms, offline TCM medical institutions play an essential role in TCM healthcare industry, providing diagnosis and treatment for customers, as well as healthcare services that must be performed offline, such as acupuncture, massage, cupping etc.;
- *Advances in diagnosis and treatment technology.* With the development of technologies, TCM healthcare providers with both offline and online medical service network are able to achieve more accurate decision-making and effective allocation of resources;
- *Implementation of inclusive medical insurance (普惠醫療) policy.* TCM hospitals have only 1% of the TCM medical resources in China, but need to accommodate 37% of the total patients. The mismatch of supply and demand results in inefficient utilization of TCM medical resources in China. Following the implementation of inclusive medical insurance policy, medical resources will be more appropriately reallocated to other TCM medical institutions. The following diagram illustrates the significant mismatch between supply of and demand of TCM medical resources in China in 2019;

### Mismatch between Supply and Demand of TCM Medical Resources in China in 2019



Sources: NHC

- *Increasing demand for more accessible TCM healthcare services.* In 2019, the actual TCM diagnosis time on average is only 15 minutes out of the whole 3-hour out-patient diagnosis process, which calls for better efficiency, according to Frost & Sullivan. "Internet + Healthcare" enables TCM medical institutions to allocate resources without time and space constraints. Such advantages are likely to improve patients' user experience and encourage more and more people to choose TCM services;



- *Changes in the disease spectrum.* In recent decades, the burden of chronic disease has increased significantly. It has been confirmed and recognized in the long-term clinical application that the integration of offline and online medical service network, has unique advantages in providing healthcare and preventative care of some chronic diseases efficiently and accurately;
- *Increasing acceptance and popularity of services with medical resources available both online and offline.* Nowadays, with the technology advancements and cultivation of patients' consumption habits, more people have been seeking for online TCM healthcare services under the "Internet + Healthcare" model, while most of the current online service providers mainly focus on western medicine, it implicates vast unmet needs for the integration of offline and online TCM healthcare services; and
- *Industry consolidation.* Currently, TCM industry is still fragmented with quite a few local players and ununified standards, which offers significant consolidation opportunity for players with scale.

### Key Barriers for the Recent Trend of Grand TCM Healthcare Market

New entrants primarily faces the following barriers:

- *Digitalization capability.* The ability to effectively invest in technology and digitalization has been an increasingly important factor for a market entrant in optimizing the customer experience and operating efficiency. As such trend is data-driven, a market player's success highly depends on its capabilities of building database, developing frontier technologies, and analyzing big data. It is challenging for new entrants to compete with existing players with established data base and scale;
- *Requirement under the relevant government policies.* According to the requirements of the NHC, medical institutions that can provide online healthcare services must obtain an Internet hospital license (互聯網醫院牌照). Such requirement for TCM healthcare providers prohibits TCM healthcare providers without the license from providing online healthcare services. In addition, NHC also stipulates that medical institutions which provide online healthcare services should strengthen the management of online diagnosis and treatment activities, establish and improve relevant management systems and services and ensure the traceability of online diagnosis and treatment activities. Online healthcare providers are also required to provide relevant data interface for regulatory authorities' inspection, which is an entry barrier for healthcare providers without the SaaS system to provide online healthcare services;
- *Restrictions of TCM healthcare providers with online presence only.* Physicians can only provide follow-up diagnosis services through online platforms for customers that have been diagnosed with certain common diseases or chronic diseases. See "Regulatory Overview – Regulations Relating to Internet Hospital." This could be a barrier for TCM healthcare providers with online presence only to develop the interaction of offline and online healthcare services as such TCM healthcare providers usually have limited offline physician resources and customer base;
- *Standardization capability.* Standardization of TCM healthcare products and services, as well as the management of TCM medical institutions have been adopted to ensure unified quality, streamlined procedures and effective management, which is essential for building and raising brand awareness;
- *Expansion capability.* Brand awareness and reputation amongst customers is crucial to the success of developing the offline and online medical service network. It is difficult for new market entrants to establish and maintain a large-scale TCM healthcare network. The development of the offline and online medical service network requires cross-regional replication. However, the level of economic strength, medical services and public awareness of a new market player may restrict the cross-regional development of such trend;
- *Capabilities in integrating offline and online resources.* The progress and degree of offline and online integration is one of the key barriers. Without a solid and stable offline network, it would be difficult for a market entrant to compete with existing market players in conventional TCM market. The main TCM diagnostic methods, namely, "observing, smelling, consulting and pulse-taking (望聞問切)," in particular, pulse-taking can be only undertaken in offline medical institutions;

## INDUSTRY OVERVIEW

- *Capabilities to manage supply chain.* The current supply chain of the TCM industry has numerous pain points, including low efficiency, insufficient traceability and vulnerability to adulteration. With the evolving customer demand for TCM healthcare products and the development of TCM healthcare services, the ability to provide high-quality TCM herb in an efficient and convenient manner has been essential for the competitiveness of market participants; and
- *Brand recognition and quality services.* There are a variety of TCM medical institutions offering TCM services, including TCM specialized hospitals, public general hospitals that offer TCM healthcare services, as well as renowned conventional TCM medical institutions with long operating history that have built up their own brand and customer stickiness. Thus, it is challenging for new entrants to attract customers from existing market players.

### COMPETITIVE LANDSCAPE AND RANKING

According to Frost & Sullivan, there are numerous market players in the TCM diagnosis and treatment services segment of the grand TCM healthcare industry, which makes the market highly fragmented. Our revenue generated from healthcare solutions in 2020 accounted for 0.3% of the entire TCM diagnosis and treatment services segment in the same year. According to Frost & Sullivan, private TCM healthcare providers in China are mainly out-patient departments and clinics focusing on primary care, while public TCM healthcare providers in China are mainly comprehensive state-owned hospitals and have been dominating the TCM diagnosis and treatment service segment with long establishment history and good reputation among patients, sufficient physician resources and advanced medical facilities, as well as support from local governments. Therefore, we mainly compete with other private TCM healthcare providers in China in principal businesses. According to Frost & Sullivan, the market size of private healthcare providers providing TCM diagnosis and treatment services accounted for 42.0% of the entire TCM diagnosis and treatment industry segment in terms of revenue in 2020. The private TCM diagnosis and treatment services segment of the grand TCM healthcare industry in China is highly fragmented. We took a market share of 0.6% in the private TCM diagnosis and treatment services segment in terms of revenue generated from providing healthcare solutions in 2020. According to Frost & Sullivan, we ranked eighth among all private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020. The table below sets forth the top ten private TCM healthcare service providers in China in terms of total revenue generated from the provision of healthcare solutions in 2020.

Ranking	Company	Revenue Generated by TCM Diagnosis and Treatment in 2020	Market Share in Private TCM Diagnosis and Treatment Market
		<i>(RMB in millions)</i>	<i>(%)</i>
1	Competitor A	4,201	2.9
2	Competitor B	2,983	2.1
3	Competitor C	2,460	1.7
4	Competitor D	1,020	0.7
5	Competitor E	953	0.7
6	Competitor F	950	0.7
7	Competitor G	899	0.6
<b>8</b>	<b>Our Group</b>	<b>892</b>	<b>0.6</b>
9	Competitor H	860	0.6
10	Competitor I	854	0.6

As of December 31, 2020, we have achieved accomplishments in terms of our solution revenue, physician resources and geographic coverage.

## INDUSTRY OVERVIEW

According to Frost & Sullivan analysis, we ranked first in terms of the revenue generated from providing healthcare solutions in 2020 among all private TCM healthcare providers that have developed both offline and online medical service network in China. The chart below sets forth the top five participants among all private TCM healthcare providers that have developed both offline and online medical service network in China in terms of the revenue generated from providing healthcare solutions in 2020.

Ranking	Company	Revenue from providing healthcare solutions for the year ended December 31, 2020 (RMB in millions)
1	<b>Our Group</b>	892
2	Competitor J	438
3	Competitor K	401
4	Competitor L	384
5	Competitor M	357

According to Frost & Sullivan analysis, we ranked first in terms of the number of TCM physicians as of December 31, 2020 among all TCM industry participants that have developed offline and online medical service network in China. The chart below sets forth the top five participants among all TCM industry participants that have developed offline and online medical service network in China in terms of the number of TCM physicians in the medical service network as of December 31, 2020.

Ranking	Company	Number of TCM physicians as of December 31, 2020
1	<b>Our Group</b>	Over 16,000
2	Competitor N	9,000
3	Competitor O	1,500
4	Competitor L	800
5	Competitor J	350

According to Frost & Sullivan analysis, we ranked first in terms of the number of cities covered by offline medical institution network in 2020 among all TCM industry participants that have developed offline and online medical service network in China. The chart below sets forth the top five participants among all TCM industry participants that have developed offline and online medical service network in China in terms of the number of cities covered by offline medical institution network in 2020.

Ranking	Company	Number of cities covered by offline medical institution network as of December 31, 2020	Number of offline medical institutions as of December 31, 2020
1	<b>Our Group</b>	11	37
2	Competitor N	10	10
3	Competitor L	8	27
4	Competitor P	5	8
5	Competitor Q	3	4

The table below sets forth background information of the top competitors listed above.

Company	Background
Competitor A. .	A comprehensive TCM group, whose business includes providing TCM healthcare services, sale of TCM medicines, production and sale of TCM patent medicines, and nursing services, etc., among which the production and sale of TCM-related products are its core businesses.
Competitor B. .	Providing TCM healthcare services as well as sale of TCM decocting pieces, TCM patent medicines, dietary supplement and medical devices, etc.
Competitor C. .	Providing TCM healthcare services as well as sale of TCM medicines, herbal extracts and Chinese medical diet (藥膳)
Competitor D. .	A chain of TCM pharmacies which mainly sell western pharmaceutical preparations, TCM patent medicines, TCM decocting pieces and packaged food, other healthcare products and cosmetics, etc.
Competitor E. .	A chain of TCM pharmacies which mainly sell healthcare products, TCM patent medicines and biological products for use, etc. This competitor also provides TCM healthcare services for customers

## INDUSTRY OVERVIEW

Company	Background
Competitor F . .	A chain of pharmacies focusing on both provision of healthcare services and sale of TCM healthcare products
Competitor G . .	Providing TCM healthcare services to patients through TCM hospitals
Competitor H . .	A chain of TCM clinics incubated by an A share-listed pharmaceutical manufacturer, providing TCM healthcare services and sale of TCM medicines
Competitor I . .	Focusing on sale of TCM medicines, TCM decocting pieces and providing TCM healthcare services
Competitor J . .	A chain of TCM clinics providing TCM healthcare services to customers
Competitor K . .	A private TCM hospital that primarily focuses on provision of TCM healthcare services and western healthcare services
Competitor L . .	A chain of TCM clinics providing TCM diagnosis and treatment services to patients and sale of TCM medicines
Competitor M . .	A TCM healthcare service provider transformed from public to private TCM hospital, providing TCM healthcare services and healthcare products
Competitor N . .	A chain of TCM healthcare service platforms providing TCM healthcare services with “TCM + Internet” business model and sale of TCM products
Competitor O . .	A TCM medical institution providing TCM diagnosis and treatment and TCM physical examination
Competitor P . .	A chain of TCM clinics providing TCM healthcare services to customers, focusing on building an offline chain of TCM clinics and online TCM appointment platforms
Competitor Q . .	A chain of TCM clinics providing TCM healthcare services to customers and integrated with TCM medical education and research

### IMPACT OF COVID-19 ON THE GRAND TCM HEALTHCARE MARKET IN CHINA

During the COVID-19 pandemic, TCM healthcare had high degree of engagement with positive effect. Under the guidance of National Administration of Traditional Chinese Medicine (國家中醫藥管理局) and National Health Commission (國家衛生健康委員會), the adoption of TCM, especially the adoption of “Three Medicines and Three Prescriptions (三藥三方),” played an important and 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. In addition, a variety of non-drug treatment methods of TCM, such as acupuncture, massage, acupoint application (穴位貼敷) and cupping, had positive effect in alleviating symptoms, eliminating lung inflammation and the recovery of the patients’ immune system. As of March 31, 2021, TCM healthcare had involved in over 90% of the treatment of COVID-19 in China, according to the NHC. Based on the observation of clinical effects, the efficacy rate of TCM healthcare in the treatment of COVID-19 reached over 90% in China, according to National Administration of Traditional Chinese Medicine.

Since the COVID-19 outbreak, the grand TCM healthcare market has been activated and the immediate and distance-free diagnosis and treatment method has become much more popular. During the online TCM consultation, patients are able to connect with TCM physicians in other cities and obtain online diagnosis and treatment services through communications on websites, apps or social platforms. As to offline and online integrated TCM healthcare services, TCM medical institutions have established a network platform to enable patients to make online appointments for TCM medical services, including out-patient treatment, rehabilitation care, and elderly care, paving a new way for patients, especially for those with limited mobility, to access to online healthcare services.

The outbreak of COVID-19 encouraged the publishment of favorable policies for the development of TCM healthcare providers who have developed offline and online medical service network in the grand TCM healthcare market, optimized the allocation of medical resources and accelerated the cultivation of user habit.

- *Implementation of favorable policies.* The pandemic accelerated the PRC government’s actions in supporting the development of healthcare providers with offline and online medical service network, and introducing multiple policies to support its development,

## INDUSTRY OVERVIEW

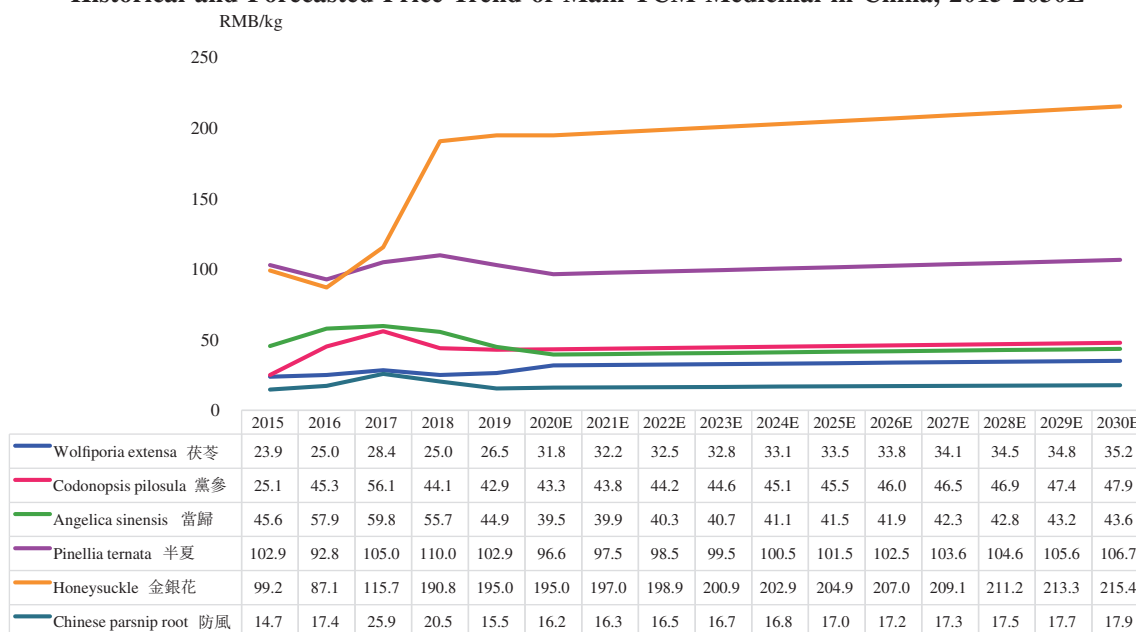
including *Notice on Strengthening Informationization to Support the Prevention and Control of Coronavirus* (《關於加強信息化支撐新型冠狀病毒感染的肺炎疫情防控工作的通知》), *Notice on “Internet + Diagnosis and Treatment” Consultation Service in the Prevention and Control of Coronavirus* (《關於在疫情防控中做好互聯網診療諮詢服務工作的通知》) and *Guiding Opinions on Promoting “Internet +” Medical Insurance Services in COVID-19 Prevention* (《關於推進新冠肺炎疫情期間開展“互聯網+”醫保服務的指導意見》);

- *Consumer habits cultivation has been accelerating.* The outbreak of COVID-19 has transformed customers' long-term healthcare habit by not only generating greater health and wellness awareness, but also increasing the popularity of online healthcare services. The number of online consultation that took place on the platform of internet hospitals under the administration of the National Health Commission has increased 17 times during the first quarter of 2020 over the same period of 2019;
- *Medical resources allocation has been optimized.* Accelerated by the outbreak of COVID-19, online medical services have increased and offline resources have been relieved. The number of newly established digital health and wellness companies has exceeded 16,000 in 2020; and
- *The development of combined offline and online medical service network has been promoted.* During the outbreak of COVID-19, Internet hospitals have made contributions to hierarchical medical system. Patients would choose to get professional diagnosis and treatment either from online platforms or offline medical institutions based on their needs, which further promoted the development of online medical service network centered on offline medical institutions.

## COST ANALYSIS OF TCM GRAND HEALTHCARE INDUSTRY

As our major supplies, the prices of TCM medicinal materially affect our cost of sales. There are over 1,000 types of decocting pieces used by us and the top 50 decocting pieces used in terms of costs only represented less than 30% of the total cost of our pharmaceutical, implicating the diversification and fragmentation of types of decocting pieces used. Wolfiporia extensa (茯苓), codonopsis pilosula (黨參), angelica sinensis (當歸), pinellia ternata (半夏), honeysuckle (金銀花) and Chinese parsnip root (防風) are the most commonly used TCM medicinal. Generally, the prices of TCM medicinal increase when available supply on the market decreases, while the prices of TCM medicinal decrease when the planting area of TCM medicinal increases. The below table illustrates the historical and forecasted price trends of these TCM medicinal from 2015 to 2030.

**Historical and Forecasted Price Trend of Main TCM Medicinal in China, 2015-2030E**



Source: Frost & Sullivan and [www.zyctd.com](http://www.zyctd.com) (中藥材天地網)

The price trend indicated above reflected the change in the historical average price in the PRC, which has not taken into account the quality of raw materials and seasonal factors.



### REGULATIONS RELATING TO THE REFORM OF MEDICAL INSTITUTIONS

The *Opinions of the Central Committee of the Communist Party and the State Council on Promoting Further Reform of the Healthcare System* (《中共中央、國務院關於深化醫藥衛生體制改革的意見》) (the “**Opinions**”), which was promulgated by the State Council on March 17, 2009, advocates a range of measures to reform medical institutions in China and to establish a basic healthcare system covering urban and rural residents. The Opinions encourage private capital to invest in medical institutions (including investments by foreign investors), the development of private medical institutions and the reform of public medical institutions (including those established by state-owned enterprises) through private capital investment.

On November 26, 2010, the General Office of the State Council promulgated the Notice of the General Office of the State Council on Forwarding the Opinions of the National Development and Reform Commission (the “**NDRC**”), the Ministry of Health (the “**MOH**”) and Other Ministries on *Further Encouraging and Guiding the Establishment of Medical Institutions by Social Capital* (《關於進一步鼓勵和引導社會資本舉辦醫療機構意見》) (the “**Notice**”). The Notice set out the following measures with respect to expanding the scope for social capital to set up medical institutions, including social capital is permitted and encouraged to set up various medical facilities, social capital may apply for establishing and operating either for-profit medical institutions (the “**PMIs**”) or not-for-profit medical institutions (the “**NMIs**”) according to its purposes; priority shall be given to social capital when adjusting or increasing medical and health resources; to reasonably determine the scope of practice for NMIs; overseas medical institutions, enterprises and other economic organizations are permitted to establish medical institutions together with domestic medical institutions, enterprises or other economic organizations in the form of equity or cooperation joint venture. The restrictions on maximum equity that can be owned by overseas capital in domestic medical institutions will be lifted step by step. Simplify and standardize the approval procedures for medical institutions by overseas capital. The establishment of Sino-foreign equity joint venture and Sino-foreign cooperative joint venture medical institutions can be approved by provincial level health authority and commerce authority. In addition, for encouraging and guiding social capital in setup of medical facilities, the Notice also proposes on tax and price policies for the NMIs, entry policy for service providers under medical insurance plans, employment conditions and purchase of large medical equipment.

*Opinions on Accelerating the Development of Setup Medical Institutions by Social Capitals* (《關於加快發展社會辦醫的若干意見》), which was promulgated by the National Health and Family Planning Commission (the “**NHFPC**”) and the State Administration of Traditional Chinese Medicine (the “**SATCM**”) on December 30, 2013, stipulates the policies to support the development of private-invested healthcare institutions, including but not limited to the (i) gradual relaxation of investment in healthcare institutions by foreign capital; (ii) relaxation of requirements for service sectors, allowing social capital’s investment in the areas which are not explicitly prohibited; and (iii) acceleration of the approval procedures regarding the establishment and operation of private hospitals.



*Opinions on Encouraging Social Forces to Provide Multi-layered and Diverse Healthcare Services* (《關於支持社會力量提供多層次多樣化醫療服務的意見》), which was promulgated by the General Office of the State Council on May 16, 2017, stipulates the policies to actively support social forces to go deep into the niche service market, such as specialized medical services, expand the effective supply of services, and foster professionalized advantages. A number of competitive branded service agencies will be formed at a rapid pace for such specialties including but not limited to oncology.

In order to solve the problem of imbalanced and inadequate development of medical insurance, the Central Committee of the Communist Party and the State Council promulgated the *Opinions on Deepening the Reform of the Medical Insurance System* (《關於深化醫療保障制度改革的意見》) (the “**Medical Insurance System Opinions**”) on February 25, 2020, main opinions as follows: (i) improve the treatment guarantee mechanism; (ii) consummate the financing operation mechanism; (iii) establish the efficient medical insurance payment mechanism; and (iv) sound and strict fund supervision mechanism. Based on the main opinions aforementioned, the Medical Insurance System Opinions mainly target on benefiting the patients to enjoy quality medical services, increasing the rate of patient visits and the utilization of medical insurance funds.

### REGULATIONS RELATING TO TCM AND TCM MEDICAL INSTITUTIONS

According to the *Traditional Chinese Medicine Law of the PRC* (《中華人民共和國中醫藥法》), which was promulgated by the Standing Committee of the National People’s Congress (the “**SCNPC**”) on December 25, 2016 and came into effect on 1 July 2017, the government supports the establishment of Traditional Chinese Medicine (the “**TCM**”) medical institutions with private capital. TCM medical institutions established with private capital are entitled to identical rights as the TCM medical institutions sponsored by the government in respect of access, practice, basic medical insurance, scientific research and teaching, and medical personnel title assessment. TCM medical institutions shall be staffed by medical personnel who are mainly TCM professionals and mainly provide TCM services. TCM physicians who have obtained the physician qualification upon examination may, according to the relevant provisions of the government, adopt modern scientific and technical methods relating to their specialties in practice activities after receiving training and passing the examination.

*The Strategic Plan on the Development of Traditional Chinese Medicine (2016-2030)* (《中醫藥發展戰略規劃綱要(2016-2030年)》) (the “**Strategic Plan**”), which was promulgated by the State Council on February 22, 2016, made TCM a national strategy, with systemic plans for TCM development in the subsequent era. The Strategic Plan has mapped out a grand blueprint that focuses on the full revitalization of TCM, especially the upgrade of TCM service capabilities (including but not limited to elevating TCM service system covering urban and rural residents, improving the capability of TCM to prevent and treat diseases, and promoting the integration of TCM and western medicine) as well as the accelerated establishment of the “Internet +” TCM on the basis of new TCM medical service models such as telemedicine, mobile medical treatment, and smart medical treatment, etc.

---

## REGULATORY OVERVIEW

---

In order to implement the task of medical and health system reform, the State Council promulgated *Several Opinions of on Supporting and promoting the Development of Traditional Chinese Medicine* (《國務院關於扶持和促進中醫藥事業發展的若干意見》) on April 21, 2009, which aims to (i) develop the TCM and preventive healthcare services; (ii) promote the inheritance and innovation of the TCM; (iii) strengthen the construction of the TCM qualified personnel; and (iv) improve the industry development of the TCM.

On August 30, 2018, *Guidance Opinions on Strengthening the Scientific and Technological Innovations of the Medical Devices of the Traditional Chinese Medicine* (《關於加強中醫醫療器械科技創新的指導意見》) was jointly issued by the SATCM, Ministry of Science and Technology, Ministry of Industry and Information Technology (the “MIIT”) and the NHC, which stipulates the following main opinions: (i) strengthening the innovation and development of TCM medical devices; (ii) improving the standard system of TCM medical devices; and (iii) promoting the construction and international development of innovation platform for TCM medical devices.

On July 25, 2019, the *Circular on Practically Strengthening the Work on Traditional Chinese Medicine During the Development of Medical Alliances* (《關於在醫療聯合體建設中切實加強中醫藥工作的通知》) was jointly issued by the SATCM and the NHC, which stipulates the following main requirements: (i) promoting the establishment of various forms of the Medical Treatment Partnership Systems (the “MTPS”) led by TCM hospitals; (ii) improving the comprehensive capabilities of county-level TCM hospitals; and (iii) strengthening the policy protection for the establishment of MTPS led by TCM hospitals.

On October 20, 2019, *Opinions on Promoting the Inheritance and Innovation of the Traditional Chinese Medicine* (《關於促進中醫藥傳承創新發展的意見》) was jointly issued by the Central Committee and the State Council, which stipulates the following main opinions: (i) improving the TCM service system; (ii) strengthening the unique role of the TCM in maintaining and promoting people’s health; (iii) promoting the quality improvement and the high-quality industry development of the TCM; (iv) strengthening the construction of the TCM qualified personnel; (v) promoting the inheritance and innovation of the TCM; and (vi) reforming and improving the management system and mechanism of the TCM.

### REGULATIONS RELATING TO THE CLASSIFICATION OF MEDICAL INSTITUTIONS

The *Opinions on Implementing Classification Administration of Urban Medical Institutions* (《關於城鎮醫療機構分類管理的實施意見》), jointly promulgated by the MOH, SATCM, Ministry of Finance (the “MOF”) and NDRC on July 18, 2000 and came into effect on September 1, 2000, provides that medical institutions in the PRC are mainly identified as PMIs and NMIs, and NMIs is further divided into public NMIs and private NMIs. NMIs and PMIs shall be classified based on their business objectives, service purposes and implementation of various financial, taxation, pricing and accounting policies. Also, governments shall not operate for-profit medical institutions. On the other hand, NMIs must comply with the pricing guidance for medical service stipulated by governments from time to time, and the rules and policies issued by the NHC and the MOF including Hospital Finance System and Hospital Accounting System. PMIs may distribute their profit to their investors as economic returns. Based on its marketing needs, PMIs have the discretion to set the fees and prices for their medical and healthcare services. In establishing internal control system, they may apply the finance and accounting system and other policies suitable for corporate enterprise. Medical

institutions shall file with relevant authorities of health written statements of their not-for-profit/for-profit status when they go through the application, registration and re-examination procedures in accordance with the relevant laws, and the handling authority of health shall, jointly with other relevant authorities, decide the not-for-profit/for-profit status for such medical institution based on the source of its investment and the nature of its business.

### REGULATIONS RELATING TO THE MANAGEMENT OF MEDICAL INSTITUTIONS

The *Administrative Regulations on Medical Institutions* (《醫療機構管理條例》), which was promulgated on February 26, 1994 by the State Council, came into effect on September 1, 1994 and amended on February 6, 2016, and its Implementation Measures, which was promulgated by the MOH on August 29, 1994 and amended on November 1, 2006, June 24, 2008 and February 21, 2017, stipulate that the establishment of a medical institution by any entity or individual must be reviewed and approved by health administrative departments of people's governments at or above the county level and obtain the *Medical Institution Practising License* (醫療機構執業許可證). The Medical Institution Practising Certificate shall not be forged, altered, sold, transferred or lent. Where a medical institution violates the provisions hereof, and sells, transfers or lends the Medical Institution Practising Certificate, the health administrative department of the people's government at the county level or above shall confiscate its illegal gains and may impose a fine of less than RMB5,000; where the circumstance is serious, the Medical Institution Practising Certificate shall be revoked. The *Administrative Measures for Verification of Medical Institutions (For Trial Implementation)* (《醫療機構校驗管理辦法(試行)》), which was promulgated by the MOH and came into effect on June 15, 2009, stipulates that the Medical Institution Practising Certificate is subject to periodic examinations and verifications by registration authorities. Verification period shall be 3 years for general hospitals, hospitals of traditional Chinese medicine, hospitals of western medicine and traditional Chinese medicine, hospitals of ethnic minority medicine and specialized hospitals, as well as sanitariums, rehabilitation hospitals, maternity and children's health care centers, emergency centers, clinical laboratories and specialized disease prevention institutions equipped with more than 100 beds, while the verification period shall be 1 year for other medical institutions. In the event that a medical institution fails to apply for verification as required and post re-verification procedures or unsuccessful in its re-verification application, the registration authorities may cancel its Medical Institution Practising Certificate.

According to *Administrative Measures on the Radiotherapy* (《放射診療管理規定》), which was promulgated by the MOH on January 24, 2006 and amended on January 19, 2016 by NHFPC, medical institutions engaged in the radio diagnosis and radiotherapy shall have conditions corresponding to the radiological diagnosis and treatment services. Prior to carrying out radiodiagnosis and radiotherapy, medical institutions shall submit relevant materials, including but not limited to the Medical Institution Practising Certificate or the Approval Certificate for Establishment of a Medical Institution, the list of radiodiagnosis and radiotherapy equipment and apply for the Radiation Treatment License (放射診療許可證) issued by the competent public health administrative authorities. Medical institutions shall be respectively equipped with the corresponding equipment in carrying out different kinds of radiodiagnosis and radiotherapy. After obtaining the License for Radiotherapy, medical institutions shall undertake registration of the relevant diagnosis and treatment items with health administrative and registration authorities, which issued the Medical Institution Practising Certificate. The License for Radiotherapy and the Medical Institution Practising Certificate shall be verified at the same time.

---

## REGULATORY OVERVIEW

---

According to *Regulations on the Safety and Protection of Radioisotopes and Radiationemitting Devices* (《放射性同位素與射線裝置安全和防護條例》), which was promulgated by the State Council on September 14, 2005 and amended on July 29, 2014 and March 2, 2019, and *Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment* (《放射性同位素與射線裝置安全許可管理辦法》), which was promulgated by the State Environment Protection Administration on January 18, 2006, amended on December 6, 2008, December 20, 2017, August 22, 2019 and January 4, 2021 by the Ministry of Environmental Protection and Ministry of Ecology and Environment respectively, any entity conducts activities of production, sale, and use of radioactive isotopes and radial equipment within the territory of PRC shall obtain the *Radiation Safety Licenses* (輻射安全許可證).

According to the *Administrative Measures for Food Operation Licensing* (《食品經營許可管理辦法》) promulgated by the China Food and Drug Administration (the “CFDA”) on August 31, 2015 and amended on November 17, 2017, a *Food Distribution License* (食品經營許可證) shall be obtained in accordance with the law to engage in food selling and catering services within the PRC.

### REGULATIONS RELATING TO MEDICAL ADVERTISEMENT

Pursuant to the *Advertising Law of the PRC* (《中華人民共和國廣告法》) (the “**Advertising Law**”) promulgated by the SCNPC on October 27, 1994, amended on April 24, 2015, October 26, 2018 and April 29, 2021, advertisements shall not contain false statements that are deceitful or misleading to consumers. Advertisements are legally required to receive censorship, including those relating to medical treatment, pharmaceuticals and medical devices, shall be reviewed by the relevant authorities in accordance with relevant rules before being distributed by broadcasting, movies, television, newspapers, journals or otherwise. No such advertisement shall be published without being reviewed. If the advisers published such advertisements without being reviewed in violation of the provisions, the market regulation departments shall order the cessation of the publishing of advertisements, order the advertisers concerned to eliminate the ill-effects within the corresponding scope, and impose a fine equivalent to the amount to three times the amount of the advertising fees; where the advertising fees cannot be calculated or are significantly low, a fine of not less than RMB100,000 and not more than RMB200,000 shall be imposed; where the circumstance is serious, a fine of not less than three times and not more than five times the advertising fees shall be imposed; in case that the advertising fees cannot be calculated or are significantly low, a fine of not less than RMB200,000 and not more than RMB1 million shall be imposed; and the business licenses may be revoked, and the advertisement review authorities shall revoke the approval documents for advertisement review and shall not accept the relevant party’s application for advertisement review for one year.

Pursuant to the *Administrative Measures on Medical Advertisement* (《醫療廣告管理辦法》), which was jointly promulgated by the MOH and the State Administration of Industry and Commerce (the “SAIC”) on September 27, 1993 and amended on September 28, 2005 and November 10, 2006 and came into effect on January 1, 2007, any medical institution that intends to publish any medical advertisement shall apply for medical advertisement examination and obtain *Medical Advertisement Examination Certificate* (醫療廣告審查證明). The Medical Advertisement Examination Certificate shall be valid for one year.

---

## REGULATORY OVERVIEW

---

According to the *Notice of the Ministry of Health on Further Strengthening the Administration of Medical Advertisements* (《衛生部關於進一步加強醫療廣告管理的通知》), which was promulgated by the MOH on July 17, 2008 and became effective on the same date, the *Medical Advertisement Examination Certificate* (醫療廣告審查證明) shall be examined strictly, the medical advertisement monitoring system shall be gradually established and improved and the penalty for illegal medical advertisement shall be increased.

Pursuant to the *Provisional Measures for the Administration of Internet Advertisement* (《互聯網廣告管理暫行辦法》) promulgated by the State Administration for Industry and Commerce on July 4, 2016 and became effective on September 1, 2016, no advertisement of any medical treatment, medicines, foods for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplement or other special commodities or services which are subject to examination by an advertising examination authority as stipulated by laws and regulations shall be published unless it has passed such examination.

Pursuant to the *Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose* (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), which were promulgated by the State Administration for Market Regulation on December 24, 2019, effective on March 1, 2020, an enterprise seeking to advertise its drugs, medical devices, dietary supplement or food for special medical purpose must apply for an advertisement approval number. The validity period of the advertisement approval number concerning a drug, medical device, dietary supplement or food for special medical purpose shall be consistent with that of the registration certificate or record-filing certificate or the production license of the product, whichever is the shortest. Where no validity period is set forth in the registration certificate, record-filing certificate or the production license of the product, the advertisement approval number shall be valid for two years. The content of an approved advertisement may not be altered without prior approval. Where any alteration to the advertisement is needed, a new advertisement approval shall be obtained.

### REGULATIONS RELATING TO INTERNET HOSPITAL

According to the *Guiding Opinions on Vigorously Advancing the “Internet +” Action* (《國務院關於積極推進“互聯網+”行動的指導意見》) (the “**Opinions**”) issued by the State Council on July 1, 2015, Internet enterprises are encouraged to cooperate with medical institutions in establishing online medical information platforms, strengthen the integration of regional health care service resources, and make full use of the Internet, Big Data and other means to improve the capability to prevent and control major diseases and unexpected public health incidents.

Pursuant to the *Opinions on Promoting the Development of “Internet + Healthcare”* (《國務院辦公廳關於促進“互聯網+醫療健康”發展的意見》) issued by the General Office of the State Council on April 25, 2018, which encouraged medical institutions to apply the internet and other information technologies to expand the space and content of medical services, and develop an online-offline integrated medical service model covering stages before, during and after diagnosis. The development of Internet hospitals depending on medical institutions shall be permitted. Medical institutions may use Internet hospital as the second name and, based on physical hospitals, use



---

## REGULATORY OVERVIEW

---

Internet technology to provide safe and appropriate medical services, allowing online subsequent visits for some common diseases and chronic diseases. After reviewing documents of the medical records and profiles of patients, doctors shall be allowed to prescribe online for some common diseases and chronic diseases.

In addition, Opinions on the National Health and Family Planning Commission on Promoting Telemedicine Services in Medical Institutions and Guidance on Improving the Policy of “Internet +” Medical Service Price and Medical Insurance Payment encouraged the expansion of online consultation, which legalized and standardized the online medical service. These regulations supported reimbursement of online consultation through medical insurances. The PRC government also encouraged offline hospitals to establish online hospitals and promoted the integration of TCM healthcare and Western healthcare.

Pursuant to *The 13th Five-year Plan for Health and Wellness* (《“十三五”衛生與健康規劃》) (the “**Plan**”), which was promulgated by the State Council on December 27, 2016, it is proposed to strengthen the informatization of the population health and fully implement “Internet +” medical and healthcare people-benefiting service. The Plan also encourages the establishment of regional telemedicine platform and enhances the flow of high-quality healthcare resources to the Midwest and the primary level. On July 17, 2018, the NHC and the National Administration of Traditional Chinese Medicine jointly promulgated three documents, including the Measures for the Administration of Internet Diagnosis and Treatment (Trial), the Measures for the Administration of Internet Hospitals (Trial) and the *Specifications for the Administration of Remote Medical Services (Trial)* (《遠程醫療服務管理規範(試行)》), and amended on September 28, 2018. Pursuant to the Measures for the Administration of Internet Hospitals (Trial), “internet hospitals” include: (a) internet hospitals as the second name of physical medical institutions, and (b) internet hospitals that are independently established on the support of physical medical institutions.

According to the Measures for the Administration of Internet Hospitals (Trial), the state implements access management for internet hospitals pursuant to the Administrative Regulations on Medical Institutions and the *Implementation Measures of the Administrative Regulations on Medical Institutions* (《醫療機構管理條例實施細則》), promulgated on August 29, 1994 and amended on February 21, 2017. Before implementing access for internet hospitals, provincial health administrative departments shall establish provincial internet medical service supervision platforms to connect with information platforms of internet hospitals to achieve real-time supervision. Establishing an internet hospital is governed by the administrative approval process as stipulated in the Measures for the Administration of Internet Hospitals (Trial). According to the Measures for the Administration of Internet Hospitals (Trial), applying for establishing an internet hospital is required to submit an application to the practice registration authority of its supported physical medical institution, and submit the application form, the feasibility research report on the establishment, the address of the supported physical medical institution, and the agreement jointly signed by the applicant and the supported physical medical institution in relation to establishing an internet hospital through cooperation. If a physical medical institution intends to establish an internet hospital information platform through cooperation with a third-party institution, the relevant cooperation agreement should be submitted. For an internet hospital sets up through cooperation, if the cooperation partner changes or other circumstance occurs that will invalidate the cooperation agreement, reapplication for establishing an internet hospital shall be required. The health administrative department of the State Council and the competent departments of traditional Chinese medicine shall be responsible for the supervision and administration of the Internet hospitals across China. The local health administrative



---

## REGULATORY OVERVIEW

---

departments at all levels (including the competent departments of traditional Chinese medicine) shall be responsible for the supervision and management of Internet hospitals within their respective jurisdictions. The competent authority for issuing our internet hospital license and implement the Measures for the Administration of Internet Hospitals is Health Bureau of Nansha District of Guangzhou City, and the competent authority for issuing the Measures for the Administration of Internet Hospitals is NHC.

In terms of practicing rules on internet hospitals, the Measures for the Administration of Internet Hospitals (Trial) provides that where a third-party institution jointly establishes an internet hospital on the support of its physical medical institution, it shall provide the physical medical institution with professional services such as physicians and pharmacists, and information technology support services, and clarify the responsibilities and rights of all parties in respect of medical services, information security, and privacy protection through agreements and contracts. In terms of supervision and management of internet hospitals, the Measures for the Administration of Internet Hospitals (Trial) clarifies that provincial health administrative departments and the registration authorities for internet hospitals jointly implement supervision on internet hospitals through the provincial internet medical service supervision platform, focusing on the supervision on internet hospitals' personnel, prescriptions, diagnosis and treatment behaviors, patients' privacy protection and information security. Internet hospitals shall adopt information security protection measures for Level 3 information system in accordance with relevant information security laws and regulations, including completion of filings with local public security authorities. Doctors can only provide follow-up diagnosis services through internet hospitals for patients that have been diagnosed with certain common diseases or chronic diseases, unless the patients are in physical hospitals and the doctors in the physical hospital invite other doctors to provide diagnosis services through internet hospital.

According to the Measures for the Administration of Internet Diagnosis and Treatment (Trial), Internet diagnosis and treatment activities shall be provided by the medical institutions that have obtained a "Practicing License for Medical Institution," and the Internet-based diagnosis services provided by a medical institution shall be consistent with its diagnosis subjects. Physicians and nurses carrying out Internet diagnosis and treatment activities shall be able to be found in the national electronic registration system of physicians and nurses. A medical institution shall conduct electronic real-name verification for the medical staff members carrying out Internet diagnosis and treatment activities.

According to the Measures for the Administration of Internet Hospital (Trial), Internet hospital must inform the patients of the risks and obtain their consents. When a patient receives medical treatment in a physical medical institution and the physician receiving such patient invites other physicians to hold group consultation of physicians through the Internet hospital, the physicians attending the group consultation may issue diagnosis opinions and a prescription; and when a patient does not receive medical treatment in a physical medical institution, a physician may only provide subsequent visits for a patient of some common diseases and chronic diseases through the Internet hospital. Internet hospital may provide contract signing service for family doctors. When a patient's condition changes or there are other circumstances under which online diagnosis and treatment services are inappropriate, the physician shall direct the patient to receive medical treatment in a physical medical institution. Internet diagnosis and treatment activities shall not be carried out for any patient receiving initial diagnosis.

---

## REGULATORY OVERVIEW

---

On October 26, 2021, the NHC published the October 26 Draft, which aims to standardize internet diagnosis and treatment activities and reinforce the construction of internet diagnosis and treatment supervision system. The October 26 Draft specifies the Internet hospitals' obligation (i) to effectively connect with provincial Internet medical service supervision platform and conform to the interface requirements stipulated thereto, (ii) to conduct real-name authentication of physicians for ensuring the legal qualifications thereof, (iii) to collect former diagnosed medical records as the prerequisites for follow-up consultation and diagnosis, and (iv) to establish a patient safety adverse event reporting system with a specialized department for effective implementation.

### REGULATIONS RELATING TO PHARMACEUTICAL OPERATION

In September 1984, the SCNPC promulgated the Drug Administration Law, which was amended in 2001, 2013, 2015 and 2019 respectively to regulate all entities or individuals engaging in research, manufacture, operation, use, supervision and management of drugs within the PRC. According to the Drug Administration Law, no pharmaceutical operation, including pharmaceutical wholesale and pharmaceutical retail business, is permitted without obtaining the Pharmaceutical Operation License. Where the trading of drugs is conducted without a Pharmaceutical Operation License, the illegal incomes by selling drugs shall be confiscated and the local Food and Drug Administration (the “FDA,” now known as the Medical Products Administration, or the “MPA”) shall impose the fine ranging from 15 to 30 times of the value of the illegally sold drugs (including sold or unsold drugs). *The Implementation Rules for the Drug Administration Law* (《藥品管理法實施條例》), was promulgated by the State Council in August 2002 and amended in 2016 and 2019, which emphasized the detailed implementation rules of drugs administration. The China Food and Drug Administration (the “CFDA,” now known as the National Medical Products Administration, or the “NMPA”) promulgated the *Measures for the Administration of Pharmaceutical Operation License* (《藥品經營許可證管理辦法》) in February 2004 as amended in 2017, which stipulates the procedures for applying the Pharmaceutical Operation License and the requirements and qualifications for pharmaceutical wholesalers or pharmaceutical retailers with respect to their management system, personnel, facilities and etc. The valid term of the Pharmaceutical Operation License is five years and shall be renewed through application six months prior to its expiration date.

According to the *Measures on Prescription Drugs and OTC Drugs Classification Management (Trial)* (《處方藥與非處方藥分類管理辦法(試行)》) and the *Interim Provisions on the Circulation of Prescription and OTC Drugs* (《處方藥與非處方藥流通管理暫行規定》), which were both promulgated by the State Drug Administration, which was restructured and integrated into the CFDA, in 1999 and became effective in January 2000, drugs are divided into prescription drugs and over-the-counter drugs, or OTC drugs. For prescription drugs, the dispensing, purchase and use can only be based on the prescription issued by the certified medical practitioner or certified medical assistant practitioner. In addition, the prescription drugs can only be advertised and promoted in professional medical magazines. OTC drugs, on the other hand, are further divided into Class A and Class B and they both can be purchased and used without a prescription and promoted in public upon approval by the relevant governmental authorities. The pharmaceutical wholesale enterprises distributing prescription drugs and/or OTC drugs, as well as pharmaceutical retail enterprises selling prescription drugs and/or Class A OTC drugs, are required to obtain the Pharmaceutical Operation License.

---

## REGULATORY OVERVIEW

---

According to the Administrative Measures for the Supervision and Administration of Circulation of Pharmaceuticals, promulgated by the State Food and Drug Administration (the “SFDA”) in January 2007 and effective in May 2007, pharmaceutical manufacture and operation enterprises and medical institutions shall be responsible for the quality of pharmaceuticals they manufacture, provide or use. The operation of prescription drugs is highly regulated under these rules. Prescription drugs may not be sold by pharmaceutical retail enterprises without valid prescriptions and an enterprise in violation of such restriction will be instructed to rectify any violation, given a disciplinary warning, and/or imposed a fine of no more than RMB1,000. In addition, a pharmaceutical manufacture or operation enterprise shall not sell prescription drugs directly to the public by post or over the internet, and the enterprise in violation of such restriction shall be instructed to rectify, given a disciplinary warning, and imposed a fine of not more than two times the value of the pharmaceuticals sold, but not more than RMB30,000. The newly revised Drug Administration Law in 2019 abolishes the restriction on online sale of prescription drugs and adopts the principle of keeping online and offline sales consistent. However, as of the Latest Practicable Date, none of the regulations or implementation rules regulating online drug sales has yet been promulgated and implemented, which may further introduce and impose certain conditions and restrictions to the online sale of drugs. Furthermore, the GSP, promulgated by the CFDA in April 2000 and amended in 2012, 2015 and 2016 respectively, the pharmaceutical operation enterprises shall take effective quality control measures over the process of procurement, storage, transportation and sale of drugs in order to ensure their quality.

### REGULATIONS RELATING TO INTERNET PHARMACEUTICAL TRANSACTION SERVICES

According to *Interim Provisions on the Examination and Approval of Internet Drug Transaction Services* (《互聯網藥品交易服務審批暫行規定》), promulgated by CFDA on September 29, 2005 and effective since December 1, 2005, the enterprises engaging in the internet pharmaceutical transaction service shall be subject to examination and acceptance, and obtain the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services. The Qualification Certificate for Providing Internet Pharmaceutical Dealing Services shall be valid for five years. The CFDA is in charge of examination and approval of the services provided for Internet pharmaceutical transactions between pharmaceutical production enterprises, pharmaceutical marketing enterprises and medical institutions, and the provincial FDA shall implement the examination and approval of the services provided for Internet pharmaceutical transactions with third-party enterprises engaged by pharmaceutical production enterprises, pharmaceutical wholesales enterprises on their own websites, as well as Internet pharmaceutical transactions services to individual consumers. The Interim Provisions on the Examination and Approval of Internet Drug Transaction Services further stipulates that any enterprise engaging in online pharmaceutical product trading services to individual consumers shall be established in the form of a pharmaceutical retail chain enterprise. According to the Drug Administration Law and the Administrative Standard of Pharmaceutical Operating Quality, the operation of pharmaceutical retail chain enterprise shall be in compliance with the acceptance standards provided by regulations and the CFDA. After obtaining the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services issued by the competent food and drug supervision and administration authority, the applicant shall obtain the permit for operation of telecommunications services as required by the Internet Measures, or go through the formalities for record-filing. According to the *Decision on the Cancellation of the Third Batch of Items Subject to Administrative Permission by Local Governments Designated by the Central Government* (《國務院關於第三批取消中央指定地方實施行政許可事項的決定》), promulgated by the State Council on

---

## REGULATORY OVERVIEW

---

January 12, 2017, except for the third party platform, all the examination and approval of Internet drug trading service company implemented by FDAs of provincial level are canceled. According to the *Decision on the Cancellation of Various Items Subject to Administrative Permission* (《國務院關於取消一批行政許可事項的決定》) by the State Council, on September 22, 2017, the CFDA shall no longer accept applications for examination and approval of Internet drug transaction service enterprises engaging the business as the third party platform. In November 2020, NMPA published for public comment the Draft Measures for Online Pharmaceutical Sales, aiming to enhance the supervision of online pharmaceutical sales and related platform services. The Draft Measures for Online Pharmaceutical Sales provides specific and explicit rules for the online sales of prescription drugs, which is perceived to be more conducive online prescription drug sellers including us. The Draft Measures for Online Pharmaceutical Sales provides that, among others, online prescription drug sellers shall (i) ensure the accuracy and reliability of the source of e-prescription, (ii) keep records of any e-prescription for at least five years and no less than one year after the expiration date of the prescription drugs, and (iii) disclose safety warnings including “prescription drugs should only be purchased and used with prescriptions and guidance of licensed pharmacists” when displaying information of prescription drugs. The Draft Measures for Online Pharmaceutical Sales also imposes certain obligations on platform service providers for online pharmaceutical sales, including, among others, that platform service providers should (i) enhance the scrutiny on the required licenses and permits of online pharmaceutical merchants for online pharmaceuticals sales, (ii) establish the examination and inspection system for drug information published on the platforms and report to competent governmental authorities when discovering any significant issue in connection with drug quality and safety, and (iii) promptly stop any illegal behavior upon discovery and report it to the relevant local governmental authorities. However, the Draft Measures for Online Pharmaceutical Sales was released for public comment only and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty.

### REGULATIONS RELATING TO ONLINE DRUG INFORMATION SERVICES

According to the *Measures Regarding the Administration of Drug Information Service over the Internet* (《互聯網藥品信息服務管理辦法》), promulgated by SFDA on July 8, 2004 and amended on November 17, 2017, the operational Internet drug information service refers to the activities of providing medical information (including medical devices) and other services to Internet users through the Internet, and where any website intends to provide Internet drug information services, it shall, prior to applying for an operation permit or record-filing from the State Council’s department in charge of information industry or the telecom administrative authority at the provincial level, file an application with the provincial FDA, and shall be subject to the examination and approval thereof for obtaining the qualifications for providing Internet drug information services. The validity term for a Qualification Certificate for Internet Drug Information Services is five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority. Pursuant to the Measures Regarding the Administration of Drug Information Service over the Internet, the Internet drug information services are classified into two categories, namely, profit-making services and non-profitmaking services. Profit-making services refers to that of providing Internet users with drug information in return for service fees whilst non-profit-making services refers to that of providing Internet users with drug information which is shared and accessible by the public through the Internet free of charge. Furthermore, the information relating to drugs shall be accurate and scientific in nature, and its provision shall comply with the relevant laws and regulations. No product information of stupeficient, psychotropic drugs, medicinal toxic drugs,

---

## REGULATORY OVERVIEW

---

radiopharmaceutical, detoxification drugs and pharmaceuticals made by medical institutes shall be distributed on the website. In addition, advertisements relating to drugs (including medical devices) shall be approved by the NMPA or its competent branches, and shall specify the approval document number.

### REGULATIONS RELATING TO MEDICAL DEVICES OPERATION

*The Measures on the Supervision and Administration of the Business Operations of Medical Devices* (《醫療器械經營監督管理辦法》) (the “**Measures on Medical Devices**”), which was promulgated by CFDA on July 30, 2014 and amended on November 17, 2017, applies to any business activities of medical devices as well as the supervision and administration thereof conducted within the territory of the PRC. Pursuant to the Measures on Medical Devices, CFDA shall be responsible for the supervision and administration of nationwide business operations concerning medical devices. Medical devices are divided into three classes depending on the degree of risks of medical devices. Entities engaged in distribution of Class III medical devices shall obtain a medical device operating license and entities engaged in distribution of Class II medical devices shall complete filings with the competent local MPA, while entities engaged in distribution of medical devices of Class I are not required to conduct any filing or obtain any license.

Pursuant to the *Regulations on the Supervision and Administration of Medical Devices* (《醫療器械監督管理條例》), which is lastly amended by the State Council on February 9, 2021 and has become effective on June 1, 2021, the Medical Products Administration of the State Council shall be responsible for the supervision of medical devices of the PRC. All relevant departments of the State Council shall be responsible for the supervision of medical devices within their respective scope of duties. The medical products administration departments of the local people’s governments at the county level and above are responsible for the supervision of medical devices within their own administrative jurisdictions. The relevant departments of the local people’s governments at the county level and above are responsible for the supervision of medical devices within their respective scope of duties.

In the PRC, medical devices have been classified into three categories based on the degree of risk. Class I medical devices shall refer to those devices with low risk and whose safety and effectiveness can be ensured through routine administration. Class II medical devices shall refer to those devices with medium risk and whose safety and effectiveness should be strictly controlled. Class III medical devices shall refer to those devices with high risk and whose safety and effectiveness must be strictly controlled with special measures.

### REGULATIONS RELATING TO THE PRICE OF HEALTHCARE SERVICE AND MEDICINE

According to the *Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Medical Institutions* (《關於非公立醫療機構醫療服務實行市場調節價有關問題的通知》) promulgated and implemented on March 25, 2014 by NDRC, the NHFPC and the Ministry of Human Resources and Social Security (the “**MHRSS**”), the price of healthcare services provided by non-public medical institutions to be set with reference to the market level. Non-public medical institutions which are for-profit in nature may set the price list for their healthcare services at their own discretion. Non-public medical institutions which are non-profit in nature shall set the price list for their healthcare services according to the *National Standard Price List of Healthcare Services* (《全國醫療服務價格項目規範》). For non-public medical institutions qualified to become



designated medical institutions covered by medical insurance, they should be included as designated service providers covered by social insurance such as basic medical insurance for employees and urban residents, new-type rural cooperative medical insurance, work-related injury insurance and maternity insurance in accordance with relevant procedures and adopt the same payment policy as in public hospitals. To efficiently utilise funds, medical insurance agents should determine specific payment methods and standards with such non-public medical institution by ways of negotiation under the requirements of medical insurance payment system reform.

### REGULATIONS RELATING TO MEDICAL INSURANCE AND MEDICAL LIABILITY INSURANCE FOR URBAN EMPLOYEES

According to the *Interim Measures for the Administration of Medical Insurance Designated Medical Institutions and the Provision of Basic Medical Insurance for Urban Employees* (《城鎮職工基本醫療保險定點醫療機構管理暫行辦法》), which was promulgated by the MOH, the Ministry of Labor and Social Security and the SATCM on May 11, 1999, and the *Decision of the State Council on Canceling the First Batch of 62 Items Subject to Administrative Examination and Approval of Local Governments Designated by the Central Government* (《國務院關於第一批取消62項中央指定地方實施行政審批事項的決定》), which was promulgated by the State Council on October 11, 2015 and the *Guiding Opinions of the MHRSS on Improving the Management of Designated Medical Institutions and Pharmacies of Basic Medical Insurance through Agreements* (《人力資源和社會保障部關於完善基本醫療保險定點醫藥機構協議管理的指導意見》) promulgated by MHRSS on December 2, 2015, and became effective on the same day, the license for qualifying a medical institution as a designated medical institution to provide medical service to urban employees with basic medical insurance was cancelled. Agencies and the medical institutions should strictly comply with the stipulations in the service agreement and perform the agreement seriously. The defaulting party shall be held liable for the violations of the agreement.

According to the *Interim Measures for the Management of Medical Insurance in Designated Medical Institutions* (《醫療機構醫療保障定點管理暫行辦法》), which was promulgated by National Healthcare Security Administration on December 30, 2020 and came into effect on February 1, 2021, to be qualified as a Designated Medical Institution, the medical institutions shall have, besides obtaining the Medical Institution Practicing License, met the following requirements: (i) at least three months of official operation; (ii) at least one certified medical practitioner, whose first registered practicing place is in such medical institution; (iii) the principal manager shall be in charge of medical insurance and assisted by a full-time or part-time medical insurance manager; (iv) having the medical insurance management system, financial system, statistical information management system, core system of medical quality and safety that meet the requirements of managing the medical insurance agreement; (v) having the medical security management mechanisms as well as the medical institution information system technology and interface standards that could realize effective connection between such medical institution and the governmental medical security information system, which shall meet the requirements of managing the medical insurance agreement; and (vi) complying with other conditions stipulated in other applicable laws and regulations on medical service. Furthermore, to maintain the qualification, the Designated Medical Institution should strictly comply with the stipulations in the medical insurance agreement and perform the duties set out in the agreement. As the term of the medical insurance agreement is one year generally, the Designated Medical Institution shall apply to medical insurance authority for contract extension three months prior to expiration of the medical insurance agreement. The renewal of the medical insurance agreement shall be subject to the consultation by and between the Designated Medical Institution and



---

## REGULATORY OVERVIEW

---

the medical insurance authority based on the Designated Medical Institution's performance in fulfilling the medical insurance agreement. Any breach of the medical insurance agreement discovered by the medical insurance authority shall be duly dealt with in a timely manner as stipulated in such agreement, which may result in cancellation of the qualification of Designated Medical Institution. The administrative department of medical insurance, in accordance with applicable laws and regulations, applies methodologies, including but not limited to field inspections, onsite checks, information monitoring and big data analysis, to supervise the execution of the medical insurance agreement, usage of medical insurance fund and medical service behaviors by the Designated Medical Institution. Therefore, the Designated Medical Institution shall constantly comply with applicable laws, regulations and standards on medical insurance.

According to the *Interim Measures for the Management of Medicine within the Scope of Basic Medical Insurance for Urban Employee*, the scope of essential medicine covered by medical insurance shall be managed through formulating the *Essential Medicine Catalog for Medical Insurance* (the “**Essential Medicine Catalog**”). The medicine listed in the Essential Medicine Catalog includes western medicine, Chinese traditional medicine (including ethnic drug), ready-for-use Chinese herbs (including ethnic drug), with the western medicine and the Chinese traditional medicine listed in the medical catalog approved for payment by the basic medical insurance funds, and the ready-for-use Chinese herbs listed in the medical catalog disapproved for payment by the basic medical insurance funds. In the Essential Medicine Catalog, western medicine and Chinese traditional medicine are divided into “Class A Catalog” and “Class B Catalog.” The formulation of “Class A Catalog” shall be unified by the State and not be subject to local adjustment. The “Class B Catalog” formulated by the State may be subject to appropriate adjustment by various provinces, autonomous regions and municipalities directly under the central government. The sum for the increase and decrease of the varieties shall not exceed 15% of the total number of medicine varieties in the “Class B Catalog” formulated by the State.

### REGULATIONS RELATING TO MEDICAL PRACTITIONERS OF MEDICAL INSTITUTIONS

Pursuant to the *Law on Practising Physicians of the People's Republic of China* (《中華人民共和國執業醫師法》) promulgated by the SCNPC on June 26, 1998, became effective on May 1, 1999 and amended on August 27, 2009, medical physicians in the PRC must obtain licenses of medical professional qualifications. Qualified physicians and assistant physicians must register with the relevant health administrative authorities at county level or above. After registration, physicians may practise in medical institutions of their registered location under the type of registered specialty to provide the relevant medical, preventive or healthcare services.

Pursuant to the *Administrative Measures for the Registration of Practising Physicians* (《醫師執業註冊管理辦法》) promulgated by the NHFPC on February 28, 2017 and became effective on April 1, 2017, medical physicians must register and obtain the *Physician Practising Certificate* (醫師執業證書) before they commence practice and, those who are not registered or have not obtained the Physician Practising Certificate are not allowed to engage in medical, preventive and healthcare services. The registration details of practising physicians include the place of practice, type of registered specialty and scope of practice. The place of practice refers to the county and provincial administrative region of the medical, preventive and healthcare institutions where the physician is practising. For practising physician who wants to practice in multiple institutions within the same place of practice, he/she shall determine a specific institution as the main practicing institution, apply

---

## REGULATORY OVERVIEW

---

for registration with the competent health authority which approved the aforesaid institution's operation; as to other institutions where the practitioner is to practice, the practising physician shall apply the record filing with the health authorities competent to approve the institutions' operation and indicate the name of the institutions.

The *Notice on Certain Opinions on Promoting and Standardizing Multi-site Practice of Physicians from the MOH* (《關於印發<推進和規範醫師多點執業的若干意見>的通知》) jointly promulgated by 5 departments, on November 5, 2014, and became effective on the same date, stipulates clinical physicians, dentists and Chinese medicine physicians are permitted for practising at multiple sites. Physicians practising in multiple sites shall have intermediary or above technical skills and has been in the same profession for more than five years. Practising physicians practising outside of their first practice site shall practice the same registered specialty as their first practice site and the scope of practice shall be the same as Class II diagnosis and treatment of the first practice site.

The *Regulations on Nurses* (《護士條例》) which was promulgated by the State Council on January 31, 2008, came into effect on May 12, 2008 and amended on March 27, 2020, provides that for nursing practice, a nurse must obtain the Nurse Practising Certificate, which is valid for five years. The number of nurses deployed to a medical institution shall not be less than the standard number as prescribed by the competent health administration authority.

Pursuant to the *Administrative Measures for the Registration of Practising Nurses* (《護士執業註冊管理辦法》) promulgated by the MOH on May 6, 2008 and became effective on May 12, 2008 and amended on January 8, 2021, nurses must register and obtain the Nurse Practising Certificate before they practice nursing at the registered practising place.

### REGULATIONS RELATING TO MEDICAL INCIDENTS

The *Tort Liability Law of PRC* (《中華人民共和國侵權責任法》), which was promulgated by the SCNPC on December 26, 2009 and came into effect on July 1, 2010, provides that, if a medical institution, its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation. Medical institution shall liable and pay for the damage caused by the failure of the medical personnel to fulfill their statutory obligations in the course of diagnosis and treatment. On May 28, 2020, the Civil Code of the PRC was adopted by the third session of the 13th National People's Congress, which became effective on January 1, 2021 and simultaneously replace the current effective Tort Liability Law of the PRC. The Civil Code of the PRC provides that if a medical institution or its medical personnel is at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation, which further clarifies that either the medical institution or its medical personnel is at fault, the medical institution should bear the relevant responsibilities.

The *Regulations on Handling Medical Incidents* (《醫療事故處理條例》), which was promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provides a legal framework and specific regulations regarding the prevention, identification, compensation and penalties of or relating to cases involving personal injury to patients caused by medical institutions or medical personnel due to malpractice.

### REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATIONS SERVICES

On September 25, 2000, the State Council promulgated the *Telecommunications Regulations of the PRC* (《中華人民共和國電信條例》) (the “**Telecommunications Regulations**”), as amended on July 29, 2014 and February 6, 2016, to regulate telecommunications activities and related operations in China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services, where value-added telecommunications services are defined as the telecommunications and information services provided through public networks. Pursuant to the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT, or its provincial level counterparts.

The *Administrative Measures on Internet Information Services* (《互聯網信息服務管理辦法》) promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, further regulated the internet information services as a subsector of the telecommunications industry. “Internet information services” are defined as services that provide information to online users through the Internet. Internet information service providers that provide commercial services are required to obtain an operating license with the business scope of internet information service (the “**ICP License**”) and service providers that provide online data processing and transaction processing services (for-profit e-commerce) are required to obtain an operating license with the business scope of online data processing and transaction processing service (the “**EDI License**”) from the MIIT or its provincial level counterparts.

For the purpose of strengthening the administration of telecommunications business licensing, the MIIT issued the *Administrative Measures for Telecommunications Business Operating Permit* (《電信業務經營許可管理辦法》) (the “**Telecom Permit Measures**”), which took effect on September 1, 2017. Telecommunications business may not be operated unless a business operating license has been obtained from the telecommunications administration. An applicant for operating the value-added telecommunications business shall satisfy several requirements provided by Telecom Permit Measures. And the telecommunications operator shall submit the required information to the license-issuing authority each year.

### REGULATIONS RELATING TO INTERNET SECURITY

Internet information in China is regulated and restricted from a national security standpoint. The SCNPC has enacted the *Decisions on Maintaining Internet Security* (《關於維護互聯網安全的決定》) on December 28, 2000, amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security of the PRC has promulgated the *Administration Measures on the Security Protection of Computer Information Network with International Connections* (《計算機信息網絡國際聯網安全保護管理辦法》) on December 16, 1997, and the State Council of the PRC has amended it on January 8, 2011 to prohibit use of the Internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

---

## REGULATORY OVERVIEW

---

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law, which became effective on June 1, 2017. The Cybersecurity Law requires network operators to comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. The Cybersecurity Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

On July 12, 2018, the National Health Commission promulgated the *Administrative Measures on Standards, Security and Services of National Healthcare Big Data (for Trial Implementation)* (《國家健康醫療大數據標準、安全和服務管理辦法(試行)》) (the “**Measures on Healthcare Big Data**”), which became effective on the same day. The *Measures on Healthcare Big Data* set out the guidelines and principles for standards management, security management and services management of healthcare big data. Pursuant to the Measures on Healthcare Big Data, the healthcare data produced by the PRC citizens in the PRC can be managed and used by the state for the purposes of the state strategic safety and the benefits of the life and health of the PRC citizens, provided that the state guarantees the PRC citizens their respective right of information, usage and personal privacy. The National Health Commission (including National Administration of Traditional Chinese Medicine) shall establish a mechanism for healthcare big data sharing, promote healthcare big data sharing and exchange, and lead the establishment of platform for the submission of the healthcare data, the catalog system of information resources and the system for information exchange. The National Health Commission with other relevant authorities shall be responsible for administration of healthcare big data nationwide together and each health authority above county level together with other relevant authorities shall be responsible for administration of healthcare big data within its jurisdiction. Medical institutions and relevant enterprises, including those entrusted by medical institutions to storage or operate healthcare big data, shall, among other things, take measures such as data classification, data backup and encryption to ensure data security, and provide secured channels for information inquiries and copying. Medical institutions and relevant enterprises shall also comply with laws and regulation on classified protection of cyber security and cybersecurity reviews. When selecting a service provider of healthcare big data, the medical institution shall ensure that the provider complies with national and industrial regulations and rules such as Cybersecurity Law, Measures on Healthcare Big Data, Draft Cybersecurity Review Measures, and *Administrative Measures for the Graded Protection of Information Security* (《信息安全等級保護管理辦法》), is competent in carrying out the relevant regulations, systems and standards such as *Information Security Technology—Personal Information Security Guidelines* (《信息安全技術-個人信息安全規範》), *Information Security Technology—Guide for De-Identifying Personal Information* (《信息安全技術個人-信息去標識化指南》), and the *National Standard on Information Technology—Evaluation Indicators for Data Quality* (GB/T 36344-2018) (《信息技術-資料品質評價指標》), and guaranteeing data security, and has established systems for data security management, personal privacy protection and emergency response management.

On April 13, 2020, the Cyberspace Administration of China, NDRC and several other administrations jointly promulgated the Draft Cybersecurity Review Measures, which became effective on June 1, 2020. Draft Cybersecurity Review Measures establish the basic framework for national security reviews of network products and services, and provide the principle provisions for undertaking cyber security reviews.

On 10 July 2021, the CAC has publicly solicited opinions on the Draft Cybersecurity Review Measures, which stipulates that operators of critical information infrastructure purchasing network products and services, and data processors (together with the operators of critical information infrastructure, the “**Operators**”) carrying out data processing activities that affect or may affect national security, shall conduct cyber security review. According to the Draft Cybersecurity Review Measures, an Operator who controls more than 1 million users’ personal information must report to the cyber security review office for a cyber security review if it intends to be listed abroad (國外上



---

## REGULATORY OVERVIEW

---

市). However, the Draft Cybersecurity Review Measures provides no further explanation or interpretation for “listed abroad.” Given that the expression used in the Draft Cybersecurity Review Measures is “listing in a foreign country” rather than “offshore listing” and that Hong Kong is likely to be considered as “offshore” rather than “foreign country,” it is not likely that a listing in Hong Kong will be considered as “listing in a foreign country.” As of the Latest Practicable Date, the Draft Cybersecurity Review Measures has not been formally adopted.

On November 14, 2021, the CAC publicly solicited the Draft Regulations on Cyber Data Security Management. The Draft Regulations on Cyber Data Security Management covers a wide range of cyber data security issues and applies to the use of networks to carry out data processing activities, as well as the supervision and management of data security in the PRC. It sets out general guidelines, protection of personal information, security of important data, security management of cross-border data transfer, obligations of internet platform operators, supervision and management, and legal liabilities. Most of the regulatory details under the Draft Regulations on Cyber Data Security Management have already been embodied in the now-effective texts of the Data Security Law and the PIPL. Key requirements include: data processors should be in compliance with the requirements of cybersecurity multi-level protection, strengthen the data processing system, data transmission network, data storage environment and other security protection, processing of important data systems in principle should meet more than the third level of cybersecurity multi-level protection and critical information infrastructure security protection requirements; data processors should establish a data security emergency response mechanism, and promptly start the emergency response mechanism in the event of a data security incident; the detailed rules for data processors to apply when providing personal information to third parties, or sharing, trading or entrusting important data to third parties; the scenarios of cybersecurity review which shall be subject to Measures on Cybersecurity Review; the definitions of important data and operators’ security protection obligations; the detailed rules on cross-border data transfer which added missing details to the PIPL; data processors processing personal information of more than one million people shall also comply with the regulations for processing of important data; data processors dealing with important data or listing overseas (including Hong Kong) should carry out an annual data security assessment by themselves or by entrusting data security service agencies, and each year before January 31, data security assessment report for the previous year shall be submitted to the districted city level cyberspace administration department. The enforcement includes fines of up to RMB10 million depending on the severity of the effects of violation, potential business suspension and/or revocation of business license.

According to the Draft Regulations on Cyber Data Security Management, data processors shall, in accordance with relevant state provisions, apply for cybersecurity review when carrying out the following activities: (i) the merger, reorganization or separation of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests, which affects or could affect national security; (ii) data processors that handle the personal information of more than one million people intend to be listed abroad; (iii) data processors seeking to be listed in Hong Kong that affect or may affect national security; and (iv) other data processing activities that affect or may affect national security. However, the Draft Regulations on Cyber Data Security Management provides no further explanation or interpretation for “affect or may affect national security,” which remains to be clarified and are subject to further elaboration by CAC. In addition, in one of the following situations, data processors shall delete or anonymize personal information within 15 business days: (i) the purpose of processing personal information has been achieved or the purpose of processing is no longer needed; (ii) the storage term agreed with the users or specified in the personal information processing rules has expired; (iii) the service has been terminated or the account has been canceled by the individual; or (iv) unnecessary personal information or personal information unavoidably collected due to the use of automatic data collection technology but without the consent of the individual.

As of the Latest Practicable Date, the Draft Regulations on Cyber Data Security Management had not come into effect and the public comment period of the Draft Regulations on Cyber Data Security Management will end on December 13, 2021.

### REGULATIONS RELATING TO PERSONAL INFORMATION OR DATA PROTECTION

On December 29, 2011, the MIIT issued *Several Provisions on Regulating the Market Order of Internet Information Services* (《規範互聯網信息服務市場秩序若干規定》), which became effective on March 15, 2012. *Several Provisions on Regulating the Market Order of Internet Information Services* provides that an internet information service provider may not collect any user's personal information or provide any such information to third parties without such user's consent. Pursuant to the *Several Provisions on Regulating the Market Order of Internet Information Services*, internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing of such users' personal information and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users' personal information, and in case of any leak or possible leak of a user's personal information, online information service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the *Decision on Strengthening the Protection of Online Information* (《關於加強網絡信息保護的決定》), issued by the SCNPC on December 28, 2012, and the *Order for the Protection of Telecommunication and Internet User Personal Information* (《電信和互聯網用戶個人信息保護規定》), issued by the MIIT on July 16, 2013, which became effective on September 1, 2013, any collection and use of any user personal information must be subject to the consent of the user, and abide to the applicable law, rationality and necessity of the business and fall within the specified purposes, methods and scopes in the applicable laws.

In addition, pursuant to Cybersecurity Law, the "personal information" refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify individuals' personal information including but not limited to: individuals' names, dates of birth, ID numbers, biologically identified personal information, addresses and telephone numbers, etc. The Cybersecurity Law also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered and thus it is impossible to match such information with specific persons, such circumstance is an exception. Furthermore, under the Cyber Security Law, network operators of key information infrastructure generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of the PRC. On August 22, 2019, the Cyberspace Administration of China (the "CAC") issued the *Provisions on the Cyber Protection of Children's Personal Information* (《兒童個人信息網絡保護規定》), which became effective on October 1, 2019 and apply to the collection, storage, use, transfer and disclosure of the personal information of the minors under the age of 14, or the Children, via the Internet.



---

## REGULATORY OVERVIEW

---

Pursuant to the *Ninth Amendment to the Criminal Law* (《刑法修正案(九)》), issued by the SCNPC on August 29, 2015, which became effective on November 1, 2015, any Internet service provider that fails to fulfill its obligations related to Internet information security administration as required under applicable laws and refuses to rectify upon orders shall be subject to criminal penalty. In addition, *Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information* (《最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), issued on May 8, 2017 and effective as of June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement. In addition, on May 28, 2020, the National People's Congress adopted the Civil Code of the PRC, which came into effect on January 1, 2021. Pursuant to the Civil Code of the PRC, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

Pursuant to the *Regulations for Medical Institutions on Medical Records Management* (《醫療機構病例管理規定》) released on November 20, 2013, and effective from January 1, 2014, the medical institutions and medical practitioners shall strictly protect the privacy information of patients, and any leakage of patients' medical records for non-medical, non-teaching or non-research purposes is prohibited. The NHFPC released the *Measures for Administration of Population Health Information (Trial)* (《人口健康信息管理辦法(試行)》) on May 5, 2014, which refers the medical health service information as the population healthcare information, and emphasizes that such information cannot be stored in offshore servers, and the offshore servers shall not be hosted or leased.

On June 10, 2021, the Standing Committee of the National People's Congress passed the Data Security Law, which became effective as of September 1, 2021. The Data Security Law is broadly applicable to and will impact all operators that engage in the processing of all types of data. The Data Security Law defines data as any record of information in electronic or other forms. China will establish a data categorization and classification system and implement a multilevel protection scheme imposing different levels of security requirements based on the importance of specific data to China's national economy, national security, public interest, and possible level of harm to be caused by a data security incident. The Data Security Law introduces the new concept of national core data—data related to national security, the lifeline of the national economy and people's livelihoods and that is important to major public interests. The Data Security Law further requires that important data will be subject to stricter management and protection requirements. The Data Security Law authorizes the national data security coordination mechanism to coordinate with the relevant departments to formulate an important data catalogue at the national level, and different administrative regions and industrial sectors to formulate their own specific important data catalogues. Key obligations of operators include: establish and complete a data security management system for the entire workflow, organize and conduct data security education and training, and adopt corresponding technical measures and other necessary measures to ensure data security; operators shall perform the data security protection obligations on the basis of the cybersecurity Multi-Level Protection System; the conduct of data handling activities shall strengthen risk monitoring, and when data security shortcomings, leaks, or other such risks are discovered, remedial measures shall be taken immediately; when data security incidents occur, methods to address them shall be taken immediately, promptly notifying users and reporting to relevant departments in charge as provided; operators handling important data shall periodically conduct risk assessments of such data handling activities

---

## REGULATORY OVERVIEW

---

as provided and submit risk assessment reports to the relevant departments in charge (risk assessment reports shall include the type and amount of important data being handled, the circumstances of the data handling activities, the data security risks faced and measures to address them, etc.). Critical information infrastructure operators must comply with the cross-border transfer rules established under the Cybersecurity Law, which require critical information infrastructure operators to locally store important data that is collected or generated within the territory of China; if the cross-border transfer of certain important data is necessary for business, the critical information infrastructure must carry out a security assessment in accordance with the measures jointly formulated by national Cyberspace Administration and relevant departments of the State Council. For non-critical information infrastructure operators, national Cyberspace Administration and relevant departments of the State Council will formulate separate implementing rules for cross-border transfer of important data. The Data Security Law explicitly prohibits business operators from providing any data stored in China to foreign law enforcement authorities or other foreign judicial departments without obtaining prior approval from the Chinese government. On August 20, 2021, the Standing Committee of the National People's Congress passed the PIPL, which became effective on November 1, 2021. The PIPL defines personal information as all kinds of information, recorded by electronic or other means, related to identified or identifiable natural persons, not including information after anonymization. The law mandates additional protections for "sensitive personal information," defined as personal information that, once disclosed or illegally used, is likely to infringe the human dignity of natural persons or endanger the personal and property safety, including biometrics, religious beliefs, specific identity, medical health, financial accounts, whereabouts and other information, as well as the personal information of minors under the age of 14. When processing "sensitive personal information," processors must only use information necessary to achieve the specified purpose of the collection, adopt strict protective measures, and obtain the data subjects' specific consent. Processing personal information shall follow the principles of legality, legitimacy, necessity, good faith, transparency, and accuracy and completeness, and shall have a clear and reasonable purpose, be directly related to the processing purpose, and adopt the method that has the minimum impact on personal rights and interests. Processors shall take necessary measures to ensure the security of the personal information processed. The PIPL stipulates that processors may process personal information only after obtaining fully informed consent in a voluntary and explicit statement. Where consent is required, processors should obtain a new consent where it changes the purpose or method of personal information processing after the initial collection. PIPL mandates that processors keep the personal information only for the shortest period of time necessary to achieve the original purpose of the collection. Except consent, the PIPL also set forth certain legal bases of processing personal information where obtaining consent is unnecessary: where necessary to conclude or fulfill a contract in which the individual is an interested party, or where necessary to conduct human resources management according to lawfully formulated labor rules and structures and lawfully concluded collective contracts; where necessary to fulfill statutory duties and responsibilities or statutory obligations, etc. The PIPL provides the rights of data subjects, including right to information, right to object and right to restriction of processing, right of access, right to portability, right to rectification, right to erasure, right to explain processing rules, right for close relatives of a dead person. Processors' obligations under the PIPL also includes: develop internal management systems and operating procedures; implement categorized management of personal information; take appropriate security technical measures such as encryption and de-identification; reasonably determine the operating permission for personal information processing, conduct security education and training for employees on a regular basis; develop and organize the implementation of emergency plans for personal information security incidents; and take other measures as prescribed by laws and administrative regulations. Processors shall conduct personal information protection impact assessment in advance when handling sensitive personal information, using personal information to

---

## REGULATORY OVERVIEW

---

conduct automated decision-making, entrusting personal information handling, providing personal information to other personal information handlers, or disclosing personal information, providing personal information abroad, and conducting other personal information handling activities with a major influence on individuals. Critical information infrastructure operators and processors who process personal information up to the amount specified by the State cyberspace authority need to fulfil the data localization obligations. Where cross-border personal data transfer is necessary, a government security assessment shall be passed in advance. For other cross-border personal data transfer, certain conditions specified by PIPL shall be met prior to such transfer.

On October 29, 2021, the Cyberspace Administration of China published Draft Outbound Data Transfer Security Assessment Measures that outline the security assessment process for the outbound data transfer. It references the Cybersecurity Law, the Data Security Law, and the PIPL, and supplements the implementation of their provisions on cross-border data transfer. Data handlers that provide outbound important data that is collected or produced through operations within the territory of the PRC, or personal information where a security assessment shall be conducted according to the law, shall conduct a security assessment according to the provisions of these Measures. Data handlers providing data outbound shall apply for outbound data transfer security assessment with the Cyberspace Administration in any of the following circumstances: personal information and important data collected and produced by critical information infrastructure operators; where the data transferred outbound contains important data; personal information handlers handling the personal information of over 1 million people providing personal information outbound; cumulative provision outbound of the personal information of more than 100,000 people or the sensitive personal information of more than 10,000 people; other circumstances where the Cyberspace Administration provides data export security assessment must be applied for. The Draft Outbound Data Transfer Security Assessment Measures also provides the security assessment procedures, submissions, important assessment factors, and legal liabilities.

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

*The Copyright Law of the PRC* (《中華人民共和國著作權法》), which was promulgated by the SCNPC on September 7, 1990, came into effect on June 1, 1991 and was amended on October 27, 2001, February 26, 2010, November 11, 2020 and came into effect on June 1, 2021. Copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc. In addition, the *Regulations on the Protection of Rights to Information Network Communication* (《信息網絡傳播權保護條例》) promulgated by the State Council on May 18, 2006 as amended in 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

---

## REGULATORY OVERVIEW

---

*The Measures for the Registration of Computer Software Copyright* (《計算機軟件著作權登記辦法》), which was promulgated by the National Copyright Administration on February 20, 2002, and came into effect on the same day, regulates the registration of software copyright, the exclusive licensing contract and assignment contracts of software copyright. The National Copyright Administration is mainly responsible for the registration and management of national software copyright and designates the China Copyright Protection Center as the agency for software registration. The China Copyright Protection Center will grant certificates of registration to computer software copyright applicants.

According to the *Patent Law of the PRC* (《中華人民共和國專利法》), promulgated by the SCNPC on March 12, 1984 and further amended on September 4, 1992, August 25, 2000, December 27, 2008, October 17, 2020 and came into effect on June 1, 2021 and the *Implementing Rules of the Patent Law of the PRC* (《中華人民共和國專利法實施細則》), promulgated by the China Patent Bureau Council on January 19, 1985, and further amended of December 21, 1992, June 15, 2001, December 28, 2002, January 9, 2010 and came into effect on February 1, 2010, the term “invention-creations” refers to inventions, utility models and designs. The duration of a patent right for inventions shall be 20 years and the duration of a patent right for utility models and designs shall be 10 years, both commencing from the filing date. In the event that a dispute arises due to a patent being exploited without the prior authorization of the patentee, that is to say an infringement upon the patent right of the patentee.

Trademarks are protected by the *Trademark Law of the PRC* (《中華人民共和國商標法》) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013, April 23, 2019 and took effect on November 1, 2019 as well as the *Implementation Regulation of the PRC Trademark Law* (《中華人民共和國商標法實施條例》) adopted by the State Council on August 3, 2002 and revised on April 29, 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks. The Trademark Office of National Intellectual Property Administration handles trademark registrations and grants a term of 10 years to registered trademarks, renewable every 10 years where a registered trademark needs to be used after the expiration of its validity term.

The *Administrative Measures for Internet Domain Names* (《互聯網域名管理辦法》), which was promulgated by the MIIT on August 24, 2017 and became effective on November 1, 2017, regulates the “.CN” and the “.zhongguo (in Chinese character)” shall be China’s national top level domains. Any party that engages in internet information services shall use its domain name in compliance with laws and regulations and in line with relevant provisions of the telecommunications authority, but shall not use its domain name to commit any violation. On November 27, 2017, the MIIT promulgated the *Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services* (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an Internet-based information service provider in providing Internet-based information services must be registered and owned by such provider in accordance with the law. If the Internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity’s shareholders), or the entity’s principal or senior manager.

### REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION RELATED TO MEDICAL INSTITUTIONS

Pursuant to the *Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》) promulgated by the SCNPC on December 26, 1989 and became effective on the same day, amended on April 24, 2014 and became effective on January 1, 2015, the waste discharge licensing system has been implemented in the PRC and entities that discharge medical sewage to water bodies directly or indirectly shall obtain a waste discharge license. Furthermore, installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project.

Pursuant to the *Environmental Impact Assessment Law of the People's Republic of China* (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on October 28, 2002, became effective on September 1, 2003 and amended on July 2, 2016 and December 29, 2018, the State implements administration by classification on the environmental impact of construction projects according to the level of impact on the environment. The construction entity shall prepare an environmental impact report, or an environmental impact form or complete an environmental impact registration form (the “**Environmental Impact Assessment Documents**”) for reporting and filing purpose. If the Environmental Impact Assessment Documents of a construction project have not been reviewed by the approving authority in accordance with the law or have not been granted approval after the review, the construction entity is prohibited from commencing construction works.

Pursuant to *Fire Protection Law of the PRC* (《中華人民共和國消防法》), which was promulgated by the SCNPC on April 29, 1998 and last revised on April 23, 2019, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. The construction project fire safety design examination and acceptance system shall be implemented for a construction project that needs a fire protection design under the national fire protection technical standards for project construction.

Upon completion of construction of a development project which is required to apply for fire safety inspection and acceptance as stipulated by the housing and urban-rural development authority of the State Council, the developer shall apply to the housing and urban-rural development authority for fire safety inspection and acceptance. For development projects other than those stipulated in the preceding paragraph, the developer shall, after inspection and acceptance, report it to the housing and urban-rural development department for archival purposes, and the housing and urban-rural development department shall conduct a spot check. A construction project that is subject to a fire protection as-built acceptance according to law but fails to undergo or pass the fire protection as-built acceptance shall be forbidden to be put into use. Any other construction project that fails to pass a spot check shall cease to be used.

The *Administrative Measures on Licensing of Urban Drainage* (《城鎮污水排入排水管網許可管理辦法》), which was promulgated by the Ministry of Housing and Urban-rural Development on January 22, 2015 and came into effect on March 1, 2015, provides that enterprises, institutions and individual industrial and commercial households engaging in industry, construction, catering industry, medical industry and discharging sewage into the urban drainage network must apply for and obtain a License for Urban Drainage (排水許可證).



---

## REGULATORY OVERVIEW

---

*Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (For Trial Implementation)* (《排污許可管理辦法(試行)》), which was promulgated by the Ministry of Environmental Protection (repealed) on 10 January 2018, and amended on 22 August 2019, stipulate that the enterprises, public institutions and other production operators (hereinafter referred to as the “pollutant discharge entities”) included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge permit as per the prescribed time limit; and those are not included in the catalog are not required to do so for the time of being.

Pursuant to the *Classified Management Catalog of Pollutant Discharge Permits for Stationary Sources of Pollution (2019 Edition)* (《固定污染源排污許可分類管理名錄(2019年版)》), which was promulgated by the Ministry of Ecology and Environment on 20 December 2019 and became effective on the same day, a pollutant discharge entity subject to registration management is not required to apply for a pollutant discharge permit. It shall fill in the pollutant discharge registration form on the management information platform of state pollutant discharge permits, and register with its basic information, pollutant discharge route, pollutant discharge standards implemented, pollution prevention and control measures adopted, and other information.

According to the *Regulations on the Management of Medical Waste* (《醫療廢物管理條例》), which was promulgated by the State Council on June 16, 2003 and amended on January 8, 2011, and the *Implementation Measures of the Management of Medical Waste* (《醫療衛生機構醫療廢物管理辦法》), which was promulgated by the MOH on October 15, 2003 and came into effect on the same day, medical or health institution shall register medical wastes, manage medical wastes under classification and undertake management of duplicate forms for transfer of hazardous waste in accordance with the *Catalogue of Classified Medical Wastes* (《醫療廢物分類目錄》), and deliver medical wastes to an entity for centralized disposal of medical wastes and licensed by a relevant environment protection administrative department for dispose. Sewage generated by any health institution and excretion of its patients or suspected patients of infectious diseases shall be sterilized in strict accordance with the relevant provisions, and shall not be discharged into sewage disposal systems until the discharging standards are met.

Pursuant to the *Law of the People’s Republic of China on Prevention and Control of Radioactive Pollution* (《放射性污染防治法》) promulgated by the SCNPC on June 28, 2003 and became effective on October 1, 2003, stipulates that, an entity generating radioactive waste liquid must, in accordance with the requirements of the national standards on the prevention and control of radioactive pollution, dispose or store the radioactive waste liquid which shall not be discharged to the environment. An entity generating radioactive solid wastes shall, in accordance with the provisions of the competent administrative department of environmental protection under the State Council, deliver the radioactive solid wastes it generates to the entity disposing the radioactive solid wastes for disposition after having them treated, and shall assume the disposition expense.

In accordance with the *Regulations on the Safety Management of Radioactive Waste* (《放射性廢物安全管理條例》) promulgated by the State Council on December 20, 2011 and came into effect on March 1, 2012, China adopts the classified management of radioactive waste. According to the characteristics and the potential hazardous exposure of the human health and environment, radioactive wastes are divided into high-level radioactive waste, medium-level radioactive waste and low-level radioactive waste. Entities of utilization of nuclear technology shall conduct relevant



---

## REGULATORY OVERVIEW

---

treatment procedures of the liquid radioactive waste (which was generated but couldn't be discharged after purifications), and then transformed to solid radioactive waste. Entities of utilization of nuclear technology shall deliver disused radioactive sources and other solid radioactive wastes generated by them to any qualified entity for centralized storage, or to a solid radioactive waste disposing entity possessing the applicable licenses for disposal.

### REGULATIONS RELATING TO WILD ANIMAL PROTECTION

In January 2020, the National Forestry and Grassland Administration (國家林業和草原局), the Ministry of Agriculture and Rural Affairs (農業農村部) and SAMR promulgated *Announcement on the Prohibition of Wildlife Trading* (《關於禁止野生動物交易的公告》). In September 2020, the National Forestry and Grassland Administration promulgated *Notice on Standardizing the Scope of Classified Management of wild Animals that are Banned for Consumption* (《關於規範禁食野生動物分類管理範圍的通知》) to restrict the use of wild medicinal animal resource. Under such policies, although prohibited from cultivation for the purpose of providing food, certain wild animals are allowed for cultivation for medicinal purpose.

### REGULATIONS RELATING TO FOREIGN INVESTMENT

#### General Policies

The *Company Law of the People's Republic of China* (《中華人民共和國公司法》), which was promulgated by the SCNPC on December 29, 1993 and came into effect on July 1, 1994, amended on December 25, 1999 and came into effect on the same day, amended on August 28, 2004 and came into effect on the same day, amended on October 27, 2005 and came into effect on January 1, 2006, amended on December 28, 2013 and came into effect on March 1, 2014, amended on October 26, 2018 and came into effect on the same day, provides that companies established in China may take the form of limited liability company or joint stock company with limited liability. Each company has the status of a legal person and owns the assets itself. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

On March 15, 2019, the 2nd meeting of the 13th SCNPC approved the FIL, which became effective on January 1, 2020. According to the FIL, the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (the “**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to granting to foreign investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investments outside the negative list. The negative list will be released by or upon approval by the State Council. After the FIL came into effect, the FIL replaced trio of laws regulating foreign investment in the PRC, namely, the *PRC Equity Joint*

---

## REGULATORY OVERVIEW

---

*Venture Law* (《中華人民共和國中外合資經營企業法》), the *Wholly Foreign-Owned Enterprise Law* (《中華人民共和國外資企業法》) and the *PRC Cooperative Joint Venture Law* (《中華人民共和國中外合作經營企業法》), became the legal foundation for foreign Investment in the PRC.

Investment activities in the PRC by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (the “**Encouraging Catalog**”), and the Special Management Measures (Negative List) for the Access of Foreign Investment (the “**Negative List**”), which were promulgated and are amended from time to time by the Ministry of Commerce of the PRC (the “**MOFCOM**”) and NDRC. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in the PRC, classifying businesses into three categories with regard to foreign investment: “encouraged,” “restricted” and “prohibited.” Industries not listed in the Encouraging Catalog and the Negative List are generally deemed as falling into a fourth category “permitted.” The NDRC and MOFCOM promulgated the Foreign Investment Catalog, on December 27, 2020, and the *Special Management Measures (Negative List) for the Access of Foreign Investment (2020 Version)* (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**2020 Negative List**”), on June 23, 2020, to replace the previous encouraging catalog and negative list thereunder. According to the 2020 Negative List, the value-added telecommunications services (excluding e-commerce business, domestic multi-party communications, store-and-forward and call centers) fall into the “restricted” category.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly promulgated the *Measures on Reporting of Foreign Investment Information* (《外商投資信息報告辦法》), which took effect on January 1, 2020 and replaced the *Interim Measures for the Administration of Record-filing on the Incorporation and Changes in Foreign-invested Enterprises* (《外商投資企業設立及變更備案管理暫行辦法》). Foreign investors carrying out investment activities in the PRC directly or indirectly shall submit investment information to the commerce administrative authorities pursuant to the Measures on Reporting of Foreign Investment Information.

The M&A Rules, which was jointly promulgated by the MOFCOM and five other departments and commissions on August 8, 2006, came into effect on September 8, 2006 and subsequently amended by the MOFCOM on June 22, 2009, requires that foreign investors acquiring domestic companies by means of asset acquisition or equity acquisition shall comply with relevant foreign investment industry policies and shall be subject to approval by relevant commerce authorities.

### Foreign Investment in Medical Institution

The *Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions* (《中外合資、合作醫療機構管理暫行辦法》), which was jointly promulgated by the Ministry of Health (the “**MOH**”) and the Ministry of Foreign Trade and Economic Cooperation on May 15, 2000 and came into effect on July 1, 2000, and its Supplementary Provisions allow foreign investors to partner with Chinese medical entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture shall meet certain requirements, including the total investment sum shall not be less than RMB20 million and the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. Establishment of equity joint venture or cooperative medical institutions shall be subject to approval by relevant authorities.

---

## REGULATORY OVERVIEW

---

### Foreign Investment in Valued-Added Telecommunications Business

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%. In addition, the main foreign investor of a foreign-invested telecommunications enterprise engaging in value-added telecommunications business shall demonstrate a good track record and operation experience in operating value-added telecommunications business. Moreover, the establishment of foreign-invested telecommunications enterprises must obtain approvals from the MIIT and the MOFCOM, or their authorized local counterparts.

On July 13, 2006, the Ministry of Information Industry (the “**MII**”) issued the *Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business* (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), pursuant to which a PRC company that holds an ICP License is prohibited from leasing, transferring or selling the ICP License to foreign investors in any form, and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. In addition, under the MII Notice, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

According to the *Circular on Loosening the Restrictions on Shareholding by Foreign Investors in Online Data Processing and Transaction Processing Business (for-profit E-commerce)* (《關於放開在線數據處理與交易處理業務(經營類電子商務)外資股比限制的通告》) (the “**MIIT Circular 196**”) promulgated by the MIIT on June 19, 2015, foreign investors are allowed to hold up to 100% of all equity interest in the online data processing and transaction processing business (operational e-commerce) in China, while other requirements provided by the Foreign Investment Telecommunications Rules shall still apply. Although Ningbo Gushengtang Pharmacy, one of the subsidiaries of our Company by virtue of Contractual Arrangements, holds the EDI License to conduct its business, due to the governmental policies on qualification requirements of foreign investors in MIIT Circular 196 and also confirmed by relevant competent authority, we are still not able to hold the equity interest of this subsidiary in practice.

### REGULATIONS RELATING TO LABOR

The *Labor Law of PRC* (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995, and was amended on August 27, 2009 and December 29, 2018, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. Labor safety and health facilities must comply with relevant national standards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications.

---

## REGULATORY OVERVIEW

---

The *Labor Contract Law of PRC* (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012, and came into effect on July 1, 2013, and the *Regulation on the Implementation of the Employment Contract Law of PRC* (《中華人民共和國勞動合同法實施條例》) which was promulgated and came into effect on September 18, 2008 by the State Council, regulates the relations of employer and the employee, and contains specific provisions involving the terms of the labor contract.

According to the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》), the *Regulations on Work-Related Injury Insurance* (《工傷保險條例》), the *Regulations on Unemployment Insurance* (《失業保險條例》) and the *Trial Measures on Employee Maternity Insurance of Enterprises* (《企業職工生育保險試行辦法》), enterprises in China must provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and must pay or withhold relevant social insurance premiums for or on behalf of employees.

The *Social Insurance Law of PRC* (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010 and came into effect on July 1, 2011, and was amended on December 29, 2018, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The *Regulations on the Administration of Housing Provident Fund* (《住房公積金管理條例》), which was promulgated on April 3, 1999 and came into effective on the same date, and was amended on March 24, 2002 and March 24, 2019, stipulates that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer shall all belong to the individual employee.

### REGULATIONS RELATING TO ANTI-MONOPOLY IN CHINA

The PRC Anti-monopoly Law, which was promulgated by the SCNPC on August 30, 2007, and came into effective on August 1, 2008, prohibits monopolistic conduct such as entering into monopoly agreements, abuse of dominant market position and concentration of undertakings that have the effect of eliminating or restricting competition. The State Administration for Market Regulation of the PRC (the “SAMR”) was formed as a new governmental agency in March 2018 to strengthen the PRC anti-monopoly enforcement. The *Notice on Anti-monopoly Enforcement Authorization* (《關於反壟斷執法授權的通知》), which was promulgated by SAMR on December 28, 2018, and came into effective on the same date, grants authorities to its province-level branches to conduct anti-monopoly enforcement within their respective jurisdictions. The *Anti-monopoly Compliance Guideline for Operators* (《經營者反壟斷合規指南》), which was promulgated by anti-monopoly commission of the state council on September 11, 2020, and came into effective on the same date, requires, under the *PRC Antimonopoly Law*, operators to establish anti-monopoly compliance management systems to prevent anti-monopoly compliance risks. The *Anti-monopoly Commission of the State Council for the Platform Economy Sector* (《國務院反壟斷委員會關於平台經濟領域的反壟斷指南》), which was promulgated on February 7, 2021, and came into effective on the same date, regulates the abuse of a dominant position and other anti-competitive practices of online platforms.

### REGULATIONS RELATING TO TAXATION

#### Enterprise Income Tax

According to the EIT Law, which was promulgated by the National People's Congress on March 16, 2007, came into effect on January 1, 2008 and amended by the SCNPC on February 24, 2017 and December 29, 2018, and the *Implementation Regulations on the EIT Law* (《中華人民共和國企業所得稅法實施條例》), which was promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, and amended by the State Council on April 23, 2019 and came into effect on the same date, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in China. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not established institutions or places in the PRC, or if they have established institutions or places in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions or places set up by them, enterprise income tax is set at the rate of 10%.

#### Value-added Tax

The *Provisional Regulations of the PRC on Value-added Tax* (《增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and amended on November 10, 2008, February 6, 2016 and November 19, 2017, and the *Detailed Implementing Rules of the Provisional Regulations on Value-added Tax* (《增值稅暫行條例實施細則》), which was promulgated by Ministry of Finance (the “MOF”) on December 25, 1993 and came into effect on the same date, and was amended on December 15, 2008 and October 28, 2011, came into effect on November 1, 2011 set out that all taxpayers selling goods or providing processing, repairing or replacement services, sales of services, intangible assets and immovable assets and importing goods in China shall pay a value-added tax.

According to the *Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value added Tax Rates* (《財政部、國家稅務總局關於調整增值稅稅率的通知》) issued on April 4, 2018 and became effective on May 1, 2018, the deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the *Notice of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Policies for Deepening Value Added Tax Reform* (《關於深化增值稅改革有關政策的公告》) issued on March 20, 2019 and became effective on April 1, 2019, the value added tax rate was reduced to 13% and 9%, respectively.



---

## REGULATORY OVERVIEW

---

On November 16, 2011, the MOF and the State Administration of Taxation (the “SAT”) promulgated the *Trial Scheme for the Conversion of Business Tax to Value-added Tax* (《營業稅改徵增值稅試點方案》), pursuant to the government launched gradual taxation reforms from January 1, 2012, where a value-added tax is imposed in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

The *Notice on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax* (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》), which was promulgated by the MOF and the SAT on March 23, 2016 and came into effect on May 1, 2016, amended on July 11, 2017, December 25, 2017 and March 20, 2019 and became effective on April 1, 2019, all business tax payers in the consumer service industry shall pay value-added tax instead of business tax from May 1, 2016. If the taxpayer of the pilot project has already enjoyed tax incentives of business tax according to relevant policies and regulations before the application of the pilot collection of value-added tax in lieu of business tax, he/she may, in the remaining period of tax incentives, enjoy tax incentives of value-added tax in accordance with the relevant provisions.

According to the *Circular of the Ministry of Finance and the State Administration of Taxation on the Relevant Tax Policies in Respect of Medical and Hygiene Institutions* (《財政部、國家稅務總局關於醫療衛生機構有關稅收政策的通知》), which was promulgated by the MOF and the SAT on July 10, 2000 and became effective on the same date and further revised by the MOF on May 18, 2009 and became effective on January 1, 2009, medical services income obtained by the NMIs at the price set by the state shall be exempted from any taxes. In respect of those medical services income which is not obtained at the price set by the state, this exemption policy shall not apply. Taxes on the income obtained by the Profit Medical Institutions shall be imposed according to the relevant provisions.

### Withholding Tax and International Tax Treaties

According to the *Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Tax Treaty**”) entered into between Mainland China and the Hong Kong Special Administrative Region, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise.

The *Notice on the Several Issues of the Implementation of Tax Treaty* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT on February 20, 2009 and came into effect on the same date, stipulates that the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

According to the *Administrative Measures on Non-resident Taxpayers to Enjoy the Treatment under Tax Treaties* (《非居民納稅人享受稅收協定待遇管理辦法》) promulgated by the SAT on October 14, 2019 and came into effect on January 1, 2020, where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, simultaneously gather and retain the relevant materials for future inspection, and accept follow-up administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. According to the *Circular*



---

## REGULATORY OVERVIEW

---

on *Several Issues regarding the “Beneficial Owner” in Tax Treaties* (《關於稅收協定中“受益所有人”有關問題的公告》), which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status as the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties.

### REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in China is the *Foreign Exchange Administration Regulations of the PRC* (《中華人民共和國外匯管理條例》), which were promulgated by the State Council on January 29, 1996, came into effect on April 1, 1996, and amended on January 14, 1997 and August 5, 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to China or deposited abroad and that the State Administration of Foreign Exchange (the “SAFE”) shall specify the conditions for transfer to China or overseas and other requirements in accordance with the international receipts, payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange. Domestic institutions or individuals that make direct investments abroad, are engaged in the distribution, sale of valuable securities or derivative products overseas should register according to SAFE regulations. Such institutions or individuals subject to prior approval or record-filing with relevant authorities shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

The *Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》), which was promulgated by the People’s Bank of China on June 20, 1996 and came into effect on July 1, 1996, provides that foreign exchange receipts under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap center.

The SAFE Circular 75, which was promulgated by the SAFE on October 21, 2005, and came into effective on November 1, 2005. Under SAFE Circular 75, Chinese residents must register with the relevant local SAFE branch prior to their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with SAFE thereafter upon the occurrence of certain material capital changes. The registration and filing procedures under SAFE Circular 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

---

## REGULATORY OVERVIEW

---

The SAFE Circular 37, which has replaced SAFE Circular 75, was promulgated by the SAFE on July 4, 2014 and came into effect on the same date, states that (i) a PRC resident, including a PRC resident natural person or a PRC legal person, shall register with the local branch of the SAFE before it contributes the assets of or its equity interest into a special purpose vehicle for the purpose of investment and financing and (ii) when the special purpose vehicle undergoes change of basic information, such as change in PRC resident natural person shareholder, name or operating period, or occurrence of a material event, such as change in share capital of a PRC resident natural person, performance of merger or split, the PRC resident shall register such change with the local branch of the SAFE in a timely manner.

The *Notice of the SAFE on Further Improving and Adjusting Policies Relating to Foreign Exchange Administration in Direct Investment* (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》), which was promulgated by the SAFE on November 19, 2012, came into effect on December 17, 2012 and amended on May 4, 2015 and came into effect on the same day, amended on December 30, 2019 and came into effect on the same day, expands on the reform of the foreign exchange administration system, simplifies the administrative approval procedures, and improves foreign exchange administration in direct investment by repealing or adjusting certain approval items for foreign exchange administration in direct investment.

According to the *Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises* (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) promulgated by SAFE on March 30, 2015, amended on December 30, 2019 and came into effect on the same day, voluntary settlement of foreign exchange (the “**voluntary settlement**”) is implemented for foreign exchange capital funds of foreign-invested enterprises. Voluntary settlement means that the foreign exchange capital funds which have been confirmed by SAFE as cash contribution for equity interest (or have been registered as capital contribution in cash via a bank) in the capital account of the foreign-invested enterprise may carry out a settlement at the bank as and when required according to actual operation needs of the enterprise. The ratio of voluntary settlement of foreign exchange capital funds of a foreign-invested enterprise is set at 100% for the time being. The Renminbi funds arising from the settlement of foreign exchange shall be placed in a special account for administration. If the foreign-invested enterprise has further payment needs, it is still required to truthfully produce relevant authentic certification materials to the bank for review according to regulations. The Renminbi funds obtained from the capital funds and foreign exchange settlement of the foreign-invested enterprise are prohibited from the following uses: (i) shall not be used directly or indirectly for expenses incurred outside the scope of operation or prohibited by laws and regulations of the PRC; (ii) unless otherwise required by laws and regulations, shall not be used directly or indirectly in securities investment; (iii) shall not be used directly or indirectly for lending as entrusted loans denominated in Renminbi (except permitted by the scope of operation), for repayment of inter-company borrowings (including third-party advances) and for repayment of Renminbi-denominated bank loans which have been re-lent to third parties; and (iv) except for foreign-invested real estate enterprises, such Renminbi funds shall not be used to pay for the relevant expenses for the purchase of real estate properties which are not for its own use.

---

## REGULATORY OVERVIEW

---

The SAFE Circular 13, which became effective on June 1, 2015 and was amended on December 30, 2019, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, investors should register with banks for direct domestic investment and direct overseas investment.

The *Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account* (《關於改革和規範資本項目結匯管理政策的通知》) (the “**Circular 16**”) was promulgated by SAFE on June 9, 2016. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

On January 18, 2017, SAFE promulgated the *Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification* (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) banks should check board resolutions regarding profit distribution, the original version of tax filing records, and audited financial statements pursuant to the principle of genuine transactions; and (ii) domestic entities should hold income to account for previous years’ losses before remitting the profits. Moreover, pursuant to this circular, domestic entities should make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts, and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE promulgated the *Notice for Further Advancing the Facilitation of Cross-border Trade and Investment* (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which, among other things, allows all Foreign Investment Enterprises to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since this circular is newly promulgated, it is unclear how the SAFE and competent banks will carry it out in practice. According to the *Circular of SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business* (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) (the “**SAFE Circular 8**”) promulgated on April 10, 2020 and came into effect on June 1, 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises that satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### OVERVIEW

Our Company was incorporated in the Cayman Islands on May 8, 2014 as an exempted company with limited liability, following which we implemented a series of corporate restructurings and our Company became the holding company of our current business.

Our history can be traced back to 2010 when Guangdong Gushengtang was established by Mr. Tu, our principal founder, executive Director, chairman of the Board and chief executive officer. Since our inception in 2010, we have been focusing on the expansions of our offline medical service network. We continuously utilize our accumulated offline TCM healthcare resources to provide healthcare solutions. Through our medical institutions, we provide customers with comprehensive TCM healthcare solutions throughout the whole process of disease diagnosis and treatment and healthcare management to address their diversified medical and healthcare needs. Since the establishment of our first TCM medical institution in Beijing in 2011, we have come to own and operate 42 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo and Wuxi as of the Latest Practicable Date.

Since we launched our online appointment, follow-up consultation and diagnosis and prescription services on our official WeChat account in 2018, we have grown into a TCM healthcare provider in China and are capable of providing both offline and online healthcare solutions through our offline and online medical service network.

For further details of the background and work experiences of Mr. Tu, see the section headed “Directors and Senior Management” in this prospectus.

For details of our corporate restructurings, see “—Corporate Reorganization” in this section.

### KEY BUSINESS MILESTONES

The following table sets forth the key business milestones of our Group:

Year	Milestones
2010 ...	<ul style="list-style-type: none"><li>Guangdong Gushengtang, one of our principal operating subsidiaries, was established and primarily engaging in the provision of healthcare services and sale of healthcare products.</li></ul>
2011 ...	<ul style="list-style-type: none"><li>We established our first TCM medical institution in Beijing and expanded into the North China region.</li></ul>
2012 ...	<ul style="list-style-type: none"><li>We established our first TCM medical institution in Shenzhen and expanded into the South China region.</li></ul>
2014 ...	<ul style="list-style-type: none"><li>Our Company was incorporated in the Cayman Islands.</li><li>NEA invested in our Group.</li></ul>
2015 ...	<ul style="list-style-type: none"><li>Asia Ventures III invested in our Group.</li></ul>
2016 ...	<ul style="list-style-type: none"><li>We established our first TCM medical institution in Shanghai and expanded into East China region.</li><li>Starr International and Long Hill Capital invested in our Group.</li></ul>
2018 ...	<ul style="list-style-type: none"><li>We tapped into online business segment by launching our online appointment, consultation, diagnosis and prescription services on our official WeChat account, being our first step to move forward to establishing the offline and online medical service network.</li></ul>
2019 ...	<ul style="list-style-type: none"><li>Our medical institutions commenced the provision of online medical services to strengthen our offline and online medical service network.</li></ul>
2020 ...	<ul style="list-style-type: none"><li>We acquired Bailu (白露), an online healthcare platform specializing in TCM healthcare solutions, to further enhance our online business.</li></ul>

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### OUR PRINCIPAL OPERATING SUBSIDIARIES

As of the Latest Practicable Date, the following entities are the principal operating entities which made a material contribution to our results of operation during the Track Record Period:

Name of company	Date of incorporation and commencement of business	Place of incorporation	Principal business activities
Shenzhen Gushengtang . . . . .	November 22, 2006	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Wuxi Chongan Temple Hospital. . . . .	November 21, 2008	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Guangdong Gushengtang. . . . .	September 13, 2010	PRC	Investment management
Shenzhen Gushengtang Investment . . . . .	November 17, 2011	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Shanghai Wanjia . . . . .	September 7, 2012	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Guangzhou Tianhe . . . . .	March 25, 2014	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Guangzhou Haizhu . . . . .	July 23, 2015	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Guangzhou Lingnan. . . . .	September 15, 2015	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Shenzhen Xiangzhu . . . . .	April 19, 2016	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Nanjing Ningxi. . . . .	July 21, 2016	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Suzhou Taohuawu . . . . .	July 25, 2016	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Ningbo Zhongyishoutang . . . . .	August 4, 2016	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)
Guangzhou Gushengtang Information Technology . . . . .	August 18, 2017	PRC	Provision of healthcare service and operation of online healthcare platforms <sup>(1)</sup>
Suzhou Shilu . . . . .	November 21, 2018	PRC	Provision of healthcare service (including medical diagnosis and TCM treatments)



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of company	Date of incorporation and commencement of business	Place of incorporation	Principal business activities
Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司) (“Guangzhou Gushengtang Internet Hospital Management”) . . . . .	February 9, 2021	PRC	Provision of healthcare service and operation of online healthcare platforms <sup>(1)</sup>

*Note:*

(1) The online healthcare platforms (i.e., Bailu and Wanjia Platform) were operated by Guangzhou Gushengtang Information Technology and had been transferred to and operated by Guangzhou Gushengtang Internet Hospital Management since April 2021. Before the Company established Guangzhou Gushengtang Internet Hospital Management, the Group has already obtained the internet hospital license and has been operating the online healthcare platforms through Guangzhou Gushengtang Information Technology. The operating entity of the Group’s internet hospital was changed to Guangzhou Gushengtang Internet Hospital Management in April 2021 after it was established. The internet hospital license remains valid throughout. According to relevant PRC law and as advised by our PRC legal advisors, the license will remain valid after the transfer. Therefore, the Company believes and as advised by our PRC legal advisors, the Group has obtained the required internet hospital license to cover its online healthcare business during the relevant period of the Track Record Period.

## MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

### Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the name of “Gushengtang (Cayman) Ltd.” as an exempted company with limited liability on May 8, 2014 to serve as the holding company of our Group. Upon incorporation, the Company had an authorized share capital of US\$50,000 divided into 500,000,000 ordinary shares with a par value of US\$0.0001 each. On the same day, we issued one share of par value US\$0.0001 to our initial subscriber, which was subsequently transferred to Wumianshan Ltd. 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.

### Adoption of the 2015 Equity Incentive Plan

On April 27, 2015, our Company adopted the 2015 Equity Incentive Plan, which was subsequently amended and restated on January 27, 2016, April 1, 2016, January 24, 2017 and December 16, 2020, as an incentive plan to attract and retain personnel for positions of substantial responsibility, to provide additional incentives to selected employees, Directors and consultants and to promote the success of our Company’s long-term sustainable development. The maximum aggregate number of Shares that may issued under the 2015 Equity Incentive Plan amounts to 17,191,534 Shares. As of the Latest Practicable Date, 17,191,534 Shares were issued to Wumianshan Ltd., Gushengtang Ltd. and various offshore holding platforms (the “**2015 ESOP Platforms**”) pursuant to the 2015 Equity Incentive Plan. For details, see “—Corporate Reorganization—Offshore Reorganization—4. Further Allotment and Issuance of Shares pursuant to the 2015 Equity Incentive Plan” in this section.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### Pre-IPO Investments

The major shareholding changes of our Company since its incorporation related to the Pre-IPO Investments we underwent between June 25, 2014 and April 27, 2021, resulting in the aggregate issuance of (i) 12,000,000 of Series A Preferred Shares, (ii) 28,617,371 of Series B Preferred Shares, (iii) 22,305,107 of Series C Preferred Shares, (iv) 9,371,885 of Series D Preferred Shares, (v) 13,340,767 of Series E Preferred Shares and (vi) 21,691,794 ordinary Shares.

Further details of the Pre-IPO Investments and the subsequent shareholdings changes are set out in the paragraphs headed “—Pre-IPO Investments” in this section.

### MATERIAL AND OTHER ACQUISITIONS

During the Track Record Period and up to the Latest Practicable Date, we have not conducted any material acquisitions for the purpose of Rule 4.05A of the Listing Rules.

During the Track Record Period, we expanded our medical service network through strategic acquisitions of offline medical institutions and online healthcare platforms. Our Group acquired Bailu in October 2020 and Wanjia Platform in April 2021 for online healthcare platforms specializing in traditional Chinese medical healthcare solutions to further strengthen our offline and online medical service network.

In respect of Bailu, on October 1, 2020, our Group acquired 100% equity interests in Nanjing Baihui and Nanjing Huajian Chinese Medicine Co., Ltd. (南京華健中醫藥有限公司) (currently known as Nanjing Gushengtang Huajian TCM Co., Ltd. (南京固生堂華健中醫藥有限公司)) from Nanjing Gongzhan (an Independent Third Party) and Zheng Xiang (who has become 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) at a consideration of approximately RMB66 million.

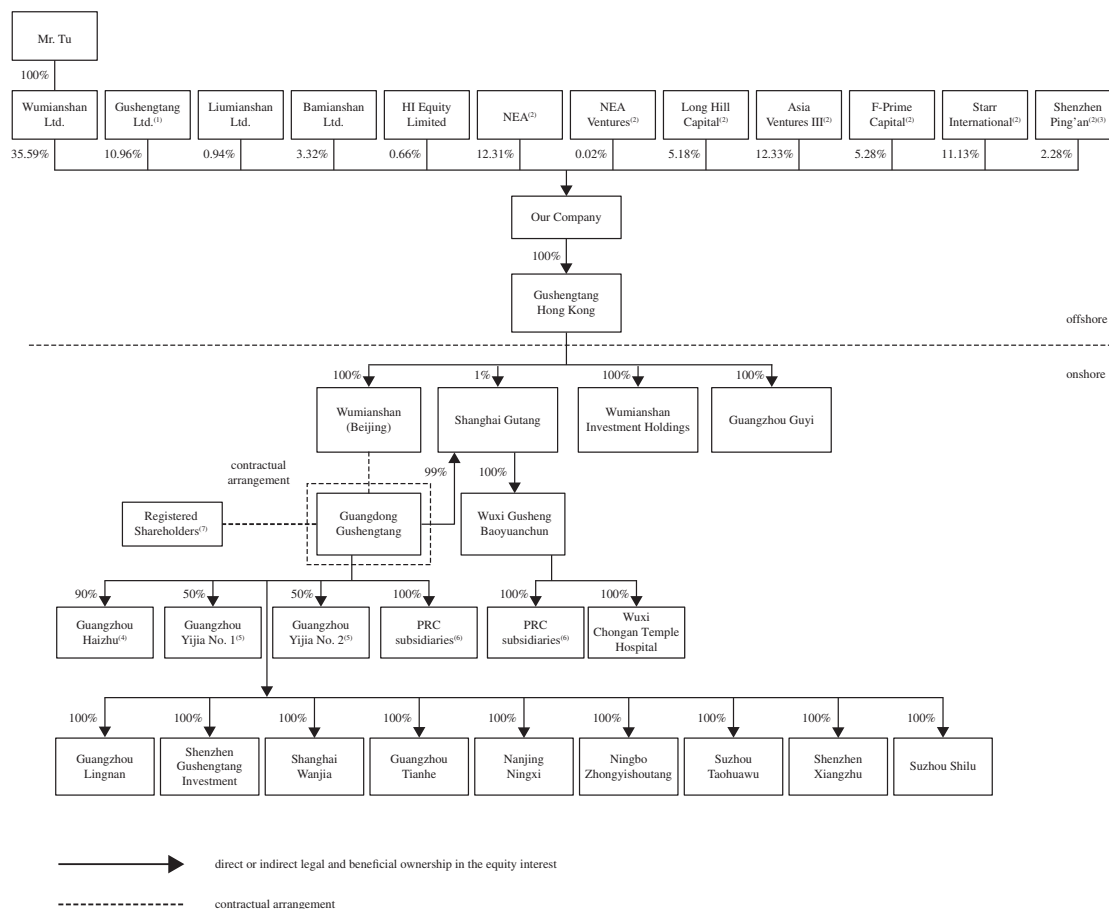
In respect of Wanjia Platform, on April 30, 2021, our Group acquired 100% equity interests in Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司) from various Independent Third Parties including Zhou Lanjun, Li Feifei, Zhang Guolong (who are not connected person of the Company) and Zhuhai Hengqin Wangbao Investment Co., Ltd. (珠海橫琴旺寶投資有限公司) at a consideration of approximately RMB34.5 million. The aforementioned considerations for acquiring Bailu and Wanjia Platform were determined after arm’s length negotiation with reference to, among others, revenue of Bailu and Wanjia Platform so as the price-to-sales ratio and the strategic benefit the acquisitions might potentially bring to our Group.

Further, from 2012 and up to June 30, 2021, our Group acquired 32 offline medical institutions at a total consideration of approximately RMB644.99 million. The aforementioned considerations for the acquisition of such medical institutions were determined after arm’s length negotiation with reference to, among others, the revenue or profit of the specific medical institution so as the price-to-earnings ratio or price-to-sales ratio.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## CORPORATE REORGANIZATION

In preparation for the Global Offering and in order to streamline our corporate structure, we underwent the following Reorganization. Set out below is the corporate structure of our Group immediately prior to the Reorganization:



### Notes:

- (1) Gushengtang Ltd. is owned by Zhang Wei, Lin Ruiyun, Shen Mailan, Wang Yi, Li Mingrui, Mr. Tu and Yan Jun as to 17.66%, 14.14%, 12.95%, 6.06%, 8.08%, 20.91% and 20.20%, respectively.
- (2) NEA, NEA Ventures, Long Hill Capital, Asia Ventures III, F-Prime Capital, Starr International and Shenzhen Ping'an are our Pre-IPO Investors prior to the Reorganization. For details of their investments, see "—Pre-IPO Investments" in this section.
- (3) A total of 3,211,244 Series C Preferred Shares held by Shenzhen Ping'an were forfeited by the Company and re-issued to Celestial City pursuant to the equity interest transfer framework agreement dated December 16, 2020. For details, see "—Pre-IPO Investments" in this section.
- (4) The remaining 10% equity interest in Guangzhou Haizhu was held by Yang Chengxiang, a Shareholder of the Company holding 0.02% of issued share capital of our Company through Shibamianshan Holdings Limited. Yang Chengxiang is currently a TCM physician of our Group.
- (5) The remaining 50% equity interests in Guangzhou Yijia No. 1 and Guangzhou Yijia No. 2 were both held by Yan Jun.
- (6) For details of the PRC subsidiaries, please see note 1 of the Accountants' Report set out in Appendix I to this prospectus.
- (7) The registered shareholder of Guangdong Gushengtang are Mr. Tu, Lin Ruiyun, Wang Yi, Yang Chenglu, Zhang Wei, Shen Mailan, Li Mingrui, Xu Qinhua, Yan Jun and Xiao Ting.

### Offshore Reorganization

#### **1. *Incorporation of our Company***

On May 8, 2014, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. The initial authorized share capital of our Company was US\$50,000 divided into 500,000,000 Shares of US\$0.0001 par value each.

Upon incorporation, one Share was allotted and issued at par value to our initial subscriber. On the even date, our initial subscriber transferred its one Share to Wumianshan Ltd. and our Company allotted and issued 5,939 Shares, 2,220 Shares, 679 Shares, 600 Shares, 321 Shares, 120 Shares and 120 Shares to Wumianshan Ltd., Gushengtang Ltd., Liumianshan Ltd., Bamianshan Ltd., Qimianshan Ltd., Greenstate First Limited and HI Equity Limited, respectively. Upon completion of such share transfer and allotments, our Company was owned by Wumianshan Ltd., Gushengtang Ltd., Liumianshan Ltd., Bamianshan Ltd., Qimianshan Ltd., Greenstate First Limited and HI Equity Limited as to approximately 59.40%, 22.20%, 6.79%, 6.00%, 3.21%, 1.20% and 1.20%, respectively.

#### **2. *Acquisition of Healthcare Capital***

On April 29, 2021, our Company acquired 100% shares in Healthcare Capital from Liem Siu Yin Vicky (an Independent Third Party) at nil consideration. Upon completion of such share transfer, Healthcare Capital became our wholly-owned subsidiary.

#### **3. *Allotment and Issuance of Shares***

On April 27, 2021, as part of the Reorganization, our Company allotted and issued in aggregate 21,691,794 Shares to certain onshore shareholders of Guangdong Gushengtang or their affiliates. See “—Onshore Reorganization—4. Transfer of Guangdong Gushengtang” below for details of the share allotment and issuance.

#### **4. *Further Allotment and Issuance of Shares pursuant to the 2015 Equity Incentive Plan***

On April 27, 2021, our Company allotted and issued an aggregate of 17,191,534 Shares, representing approximately 8.49% of our total issued share capital, pursuant to the 2015 Equity Incentive Plan.

### Onshore Reorganization

#### **1. *Share transfers of our onshore Subsidiaries***

To address the PRC foreign ownership restrictions under the Foreign Investment Catalog with respect to medical institution and online healthcare service in the PRC and to comply with the requirements of the Stock Exchange for corporate structure, we underwent the following corporate restructuring.

##### *Transfer of 23.33% equity interest in Guangzhou Haizhu*

On November 30, 2020, the 23.33% equity interest in Guangzhou Haizhu was eventually restructured to Wumianshan (Beijing), for a consideration of RMB933,200 which was determined with reference to the registered share capital of Guangzhou Haizhu and was paid in cash and settled on May 17, 2021.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### *Transfer of Non-clinic Companies*

From November to December 2020, we went through a series of equity transfers, pursuant to which the Non-clinic Companies, which are principally engaged in the sale of medical and healthcare products (non-restricted business), were eventually restructured as our PRC subsidiaries. The details are listed below.

Transferor	Non-clinic Company	Principal business activities of the Non-clinic Companies	Consideration	Date of the equity transfer
Guangdong Gushengtang .	Blue Ocean	Pharmaceutical wholesale and supply chain management	RMB12.5 million	November 26, 2020
Wuxi Gushengtang Baoyuanchun . . . . .	Wuxi Chongan Temple Pharmacy	Pharmaceutical retail	Nil consideration	December 31, 2020
Wuxi Gushengtang Baoyuanchun . . . . .	Wuxi Nanchan Temple Pharmacy	Pharmaceutical retail	RMB2.08 million	December 31, 2020
Wuxi Gushengtang Baoyuanchun . . . . .	Wuxi Shenrong	Pharmaceutical retail	RMB2.08 million	December 31, 2020
Guangdong Gushengtang .	Nanjing Baihui	Provision of technical service	Nil consideration	December 9, 2020
Guangdong Gushengtang .	Shanghai Commercial	Provision of technical service	Nil consideration	December 17, 2020
Guangdong Gushengtang .	Ningbo Shenrong	Pharmaceutical retail	RMB500,000	December 14, 2020
Various transferors <sup>(1)</sup> . . . .	Guangzhou Zeyitong	Pharmaceutical retail	Nil consideration	December 11, 2020
Guangdong Gushengtang .	Guangzhou Bailitiaoyi	Investment management	Nil consideration	November 24, 2020
Guangdong Gushengtang .	Guangzhou Dayi	Provision of technical service	RMB2 million	November 26, 2020

*Note:*

(1) Pursuant to the equity transfer agreement dated November 26, 2020, the transferors include Guangzhou Haizhu, Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Shuiyin Out-patient Department (廣州市固生堂嶺南中醫館有限公司水蔭門診部), Lingnan Dongshan, Guangzhou Liwan District Gushengtang TCM Out-patient Department Co., Ltd. (廣州荔灣區固生堂中醫門診部有限公司), Guangzhou Gushengtang Oncology Out-patient Department, Guangzhou Baiyuan District Gushengtang TCM Out-patient Department Co., Ltd. (廣州白雲區固生堂中醫門診部有限公司), Guangzhou Tianhe, Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Taojin Out-patient Department (廣州市固生堂嶺南中醫館有限公司淘金門診部), Guangzhou Haizhu District Gushengtang Baogang TCM Out-patient Department Co., Ltd. (廣州市海珠區固生堂寶崗中醫門診部有限公司), Guangzhou Lingnan and Guangzhou Tianhe District Gushengtang Wushan TCM Out-patient Department Co., Ltd. (廣州市天河區固生堂五山中醫門診部有限公司).



---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### *Transfer of Wuxi Gusheng Baoyuanchun*

On December 8, 2020, Guangdong Gushengtang and Shanghai Gutang entered into an equity transfer agreement, pursuant to which Shanghai Gutang agreed to transfer 100% equity interest of Wuxi Gusheng Baoyuanchun to Guangdong Gushengtang, for nil consideration.

### *Disposal of Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy*

On November 26, 2020, Yan Jun<sup>(1)</sup>, Zheng Xiang and Guangdong Gushengtang entered into an equity transfer agreement (which was amended on November 27, 2020), pursuant to which Guangdong Gushengtang agreed to transfer 99% and 1% equity interest in Guangzhou Gushengtang Information Technology to Yan Jun and Zheng Xiang, respectively, for nil consideration. The share transfer was completed on November 26, 2020.

On November 27, 2020, Yan Jun, Zheng Xiang and Guangdong Gushengtang entered into an equity transfer agreement, pursuant to which Guangdong Gushengtang agreed to transfer 99% and 1% equity interest in Guangzhou Gushengtang Oncology Out-patient Department to Yan Jun and Zheng Xiang for a total consideration of RMB1, which was determined with reference to the registered share capital of Guangzhou Gushengtang Oncology Out-patient and was paid in cash and settled on November 27, 2020. The share transfer was completed on January 19, 2021.

On December 15, 2020, Yan Jun, Zheng Xiang and Guangdong Gushengtang entered into an equity transfer agreement, pursuant to which Guangdong Gushengtang agreed to transfer 99% and 1% equity interest in Ningbo Gushengtang Pharmacy to Yan Jun and Zheng Xiang, for nil consideration. The share transfer was completed on December 21, 2020.

In order to comply with restrictions under the PRC laws and regulations in relation to investments in value-added telecommunication service business, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy, which are principally engaged in the provision of online TCM healthcare solutions and each holds an ICP License (as defined below) and/or EDI License (as defined below), were transferred to Yan Jun and Zheng Xiang in preparation for the Contractual Arrangements.

We entered into the Contractual Arrangements with Guangzhou Gushengtang Information Technology, Ningbo Gushengtang Pharmacy and Guangzhou Gushengtang Oncology Out-patient Department and its Registered Shareholders (Yan Jun and Zheng Xiang) on November 26, 2020, December 21, 2020 and January 19, 2021, respectively, which are the same dates as the completion dates for the aforementioned share transfer of Guangzhou Gushengtang Information Technology, Ningbo Gushengtang Pharmacy and Guangzhou Gushengtang Oncology Out-patient Department. Further details of the Contractual Arrangement, see “—Contractual Arrangement.”

---

#### *Note:*

(1) Yan Jun (嚴峻) joined the Group since June 2011 when we established our first TCM medical institution in Beijing and is one of the longest-serving employees of our Group. He is currently a vice president of the Company (being a member of our 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).

### 2. *Entry into the Contractual Arrangements to replace the old contractual arrangement*

On August 21, 2014, the old contractual arrangements were entered into, among others, Wumianshan (Beijing), Guangdong Gushengtang and its then shareholders for the purpose of complying with certain foreign investment restrictions under the PRC laws and regulations in relation to investments in medical institutions. The salient terms of the old contractual arrangements include the following:

- **Exclusive business cooperation:** In exchange for a service fee, Guangdong Gushengtang agreed to engage the Wumianshan (Beijing) as its exclusive provider of technical, consulting and other services.
- **Exclusive option:** The then shareholders of Guangdong Gushengtang irrevocably and unconditionally granted an exclusive option to Wumianshan (Beijing) which entitles Wumianshan (Beijing) to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of their equity interest in Guangdong Gushengtang itself or through its designated person(s).
- **Equity pledge:** The then shareholders of Guangdong Gushengtang agreed to pledge all their respective equity interests in Guangdong Gushengtang that they owned to Wumianshan (Beijing) as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.
- **Power of attorney:** The then shareholders of Guangdong Gushengtang irrevocably authorized Wumianshan (Beijing) to exercise all of their rights and powers as a shareholder Guangdong Gushengtang.
- **Spouse undertaking:** The spouses of the then shareholders of Guangdong Gushengtang, undertook to the effect he/she will not have any claim on the shareholder's interests in Guangdong Gushengtang.

Save and except for the differences on (i) the parties to the contractual arrangements and (ii) the fact that the old contractual arrangement constituted a single 100% equity interest contractual arrangement where the Contractual Arrangements between Wumianshan Investment Holdings and Guangdong Gushengtang constitutes a 30% equity interest contractual arrangement, the salient terms of the old contractual arrangement and the current Contractual Arrangements are substantially the same.

However, since the old contractual arrangement constituted a 100% equity interest contractual arrangement which does not satisfy the “narrowly tailored” principle in compliance with HKEx-GL77-14 and HKEx-LD43-3, the old contractual arrangement was terminated on April 6, 2021 and replaced by the Contractual Arrangement on the same date. As advised by our PRC Legal Advisors, the fact that the old contractual arrangement constituted a 100% equity interest contractual arrangement had not violated any applicable laws and regulations in the PRC on the basis that (i) under the old contractual arrangement, Guangdong Gushengtang and the relevant operating subsidiaries were 100% owned by domestic shareholders, which did not violate the foreign investment restrictions for medical institutions under the PRC laws; (ii) it is permissible for the domestic shareholders of Guangdong Gushengtang to pledge all shares they owned to Wumianshan (Beijing) under then applicable PRC laws; and (iii) each of the Wumianshan (Beijing) and Guangdong Gushengtang had the authorities and authorizations to execute and perform the old contractual arrangement according to the PRC laws and their respective articles of associations.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Further, we entered into the Contractual Arrangements with Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy and their Registered Shareholders on April 6, 2021, November 26, 2020, January 19, 2021 and December 21, 2020. See “—Contractual Arrangements” for further details.

### 3. *Capital contribution in Guangdong Gushengtang*

From December 2020 to April 2021, various onshore holding platforms (the “**Onshore Holding Platforms**”), Healthcare Capital and Yang Chenglu made a series of capital contributions to Guangdong Gushengtang. Details of the capital contributions are set forth below:

Name of the contributors	Amount (RMB)	Percentage to the equity interest of Guangdong Gushengtang following completion of the capital contributions by the Onshore Holding Platforms, Healthcare Capital and Yang Chenglu
Healthcare Capital . . . . .	1,609,330	4.40%
Beijing Shiyimianshan Holdings Limited . . . . .	156,974	0.43%
Beijing Shiermianshan Holdings Limited . . . . .	1,032,767	2.82%
Beijing Shisanmianshan Holdings Limited . . . . .	885,840	2.42%
Beijing Shisimianshan Holdings Limited . . . . .	215,313	0.59%
Beijing Shiwumianshan Holdings Limited . . . . .	108,647	0.30%
Beijing Shiliumianshan Holdings Limited . . . . .	13,267	0.04%
Beijing Shiqimianshan Holdings Limited . . . . .	26,039	0.07%
Beijing Shibamianshan Holdings Limited . . . . .	165,925	0.45%
Beijing Shijiumianshan Holdings Limited . . . . .	179,015	0.49%
Beijing Ershimianshan Holdings Limited . . . . .	14,505	0.04%
Beijing Ershiermianshan Holdings Limited . . . . .	31,380	0.09%
Beijing Ershisanmianshan Holdings Limited . . . . .	594,207	1.62%
Beijing Ershisimianshan Holdings Limited . . . . .	29,116	0.08%
Beijing Ershiwumianshan Holdings Limited . . . . .	13,196	0.04%
Beijing Ershiliumianshan Holdings Limited . . . . .	96,937	0.26%
Beijing Ershijiumianshan Holdings Limited . . . . .	57,030	0.16%
Beijing Qicaimeng Technology Co., Ltd. . . . .	77,549	0.21%
Beijing Duolaimeng Technology Co., Ltd. . . . .	88,305	0.24%
Beijing Yijiahui Technology Co., Ltd . . . . .	40,411	0.11%
Beijing Yijiaan Technology Co., Ltd. . . . .	146,451	0.40%
Beijing Yijiajian Technology Co., Ltd. . . . .	168,251	0.46%
Beijing Yijiale Technology Co., Limited . . . . .	93,127	0.25%
Yang Chenglu . . . . .	176,820	0.48%

*Note:*

(1) During the period from 2015 to 2021, certain External Investors (as defined below) subscribed for shares in Guangdong Gushengtang pursuant to a series of equity acquisition framework agreements (the “**Onshore Subscription Agreements**”). As part of the Reorganization, the External Investors entered into certain share subscription agreements to subscribe for the Shares in exchange for the External Investors to transfer their respective shares in Guangdong Gushengtang subscribed under the Onshore Subscription Agreements to Wumianshan Investment Holdings. See “—Offshore Reorganization—4. Transfer of Guangdong Gushengtang” for details.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

After the aforementioned capital contributions, the registered capital of Guangdong Gushengtang increased from RMB30,577,276 to RMB36,597,678.

### 4. *Transfer of Guangdong Gushengtang*

On April 6, 2021, as part of the Reorganization, we entered into a series of equity transfer agreements, pursuant to which various onshore shareholders of Guangdong Gushengtang agreed to transfer in aggregate 65.60% equity interest of Guangdong Gushengtang to Wumianshan Investment Holdings.

Immediately after the aforementioned transfer of equity interest, Guangdong Gushengtang is owned by Mr. Tu, Healthcare Capital and Wumianshan Investment Holdings as to 30%, 4.40% and 65.60%, respectively.

### 5. *Deregistration and disposal of subsidiaries with no actual business operations*

To optimize our management and other resources and to focus on our core business, we deregistered and disposed of our entire equity interest in certain subsidiaries with no actual business operation. The details of the deregistration are set forth below:

Name of deregistered companies	Date of deregistration
Ningbo Lanhai Health Industry Co., Ltd. (寧波瀾海健康產業有限公司) .....	December 17, 2020
Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang Health Club (深圳固生堂中醫健康科技有限公司固生堂養生館) .....	February 7, 2021
Guangzhou Gushengtang TCM Out-patient Department Co., Ltd. (廣州固生堂中醫門診部有限公司) .....	March 25, 2021
Suzhou Gusu Gushengtang Laodongwu TCM Out-patient Department Co., Ltd. (蘇州姑蘇區固生堂老東吳中醫診所有限公司) .....	March 29, 2021
Guangzhou Yijia No. 1 .....	April 9, 2021
Guangzhou Yijia No. 2 .....	April 9, 2021
Guangzhou Gusheng Yijia No. 3 Healthcare Investment Partnership (Limited Partnership) (廣州固生醫家三號健康投資合夥企業(有限合夥)) .....	April 9, 2021
Guangzhou Gusheng Yijia No. 4 Healthcare Investment Partnership (Limited Partnership) (廣州固生醫家四號健康投資合夥企業(有限合夥)) .....	April 9, 2021
Guangzhou Gushengtang .....	May 6, 2021
Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang Bao'an TCM Hospital (深圳固生堂中醫健康科技有限公司固生堂寶安中醫館) .....	June 8, 2021

We disposed of our entire interest in Fuzhou Gulou District Xingfu Longyao TCM Out-patient Department Co., Ltd. (福州市鼓樓區杏福龍腰中醫門診部有限公司) (“**Fuzhou Xingfu**”) and Ningbo Haishu Mayuan Pharmacy Co., Ltd. (寧波海曙馬園大藥房有限公司) (“**Ningbo Mayuan Pharmacy**”) to Huang Xiaoyan and Wang Wei on June 1, 2021 and June 2, 2021 at nil consideration, respectively, both Independent Third Party.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### VOTING DEEDS

On May 31, 2021, 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 (each, a “**Principal Shareholder**”) entered into a voting right entrustment deed with Mr. Tu, respectively (collectively, the “**Voting Deeds**”). Each of the Voting Deeds became effective from May 31, 2021 for a term of three years and automatically renew for another three years if the Principal Shareholder does not serve any written termination notice to Mr. Tu one month prior to the termination date.

Set out below are further details of the Principal Shareholders:

	<u>Identify of beneficial shareholder(s)</u>	<u>The relevant shareholders’ relationship with our Group (directorships in our Group or senior management role in our Group), Mr. Tu and/or their respective close associates</u>
Gushengtang Ltd. . . . .	Zhang Wei, Lin Ruiyun, Shen Mailan, Wang Yi, Li Mingrui, Mr. Tu and Yan Jun	Save and except for Li Mingrui (being the spouse to Mr. Tu) and Yan Jun (being a director of Guangdong Gushengtang), Zhang Wei, Lin Ruiyun, Shen Mailan and Wang Yi are initial investors of the Group and are Independent Third Parties who have never been a director or member of the senior management of our Company
Shiyimianshan Holdings Limited. . . . .	Deng Shigang	Chief financial officer of our Group
Shiermianshan Holdings Limited. . . . .	Yan Jun	Director of Guangdong Gushengtang
Shisanmianshan Holdings Limited. . . . .	30 employees of the Group <sup>(1)</sup>	Save and except for Tu Xingzhi (an uncle of Mr. Tu), Li Jie and Zhang Qiumin (members of the senior management of our Group), all other ultimate beneficial shareholders are Independent Third Parties
Shisimianshan Holdings Limited. . . . .	29 employees of the Group	Independent Third Parties
Shiwumianshan Holdings Limited. . . . .	Zheng Xiang	Vice president of our Group

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	Identify of beneficial shareholder(s)	The relevant shareholders' relationship with our Group (directorships in our Group or senior management role in our Group), Mr. Tu and/or their respective close associates
Yijiaikang Technology Holdings Limited . . . . .	Eight employees of the Group <sup>(2)</sup>	Save and except for Zhang Qiumin, who is a senior management of our Group, all other ultimate beneficial shareholders are Independent Third Parties
Yijiajian Technology Holdings Limited . . . . .	24 employees, four TCM physicians and one consultant of the Group <sup>(3)</sup>	Save and except for Li Jie, who is a senior management of our Group, all other ultimate beneficial shareholders are Independent Third Parties
Yijiale Technology Holdings Limited . . . . .	One External Investor and one TCM physician of the Group <sup>(4)</sup>	Independent Third Parties
Yijiaan Technology Holdings Limited . . . . .	27 employees and two TCM physicians of the Group	Independent Third Parties

*Notes:*

- (1) The ultimate beneficial shareholders of Shisanmianshan Holdings Limited include 30 employees of our Group (including two members of senior management of the Company (namely Li Jie and Zhang Qiumin)).
- (2) The ultimate beneficial shareholders of Yijiaikang Technology Holdings Limited include eight employees of our Group (including one member of senior management of the Company (namely Zhang Qiumin)).
- (3) The ultimate beneficial shareholders of Yijiajian Technology Holdings Limited include 24 employees, four TCM physicians and one consultant of our Group (including one member of senior management of the Company (namely Li Jie)).
- (4) The ultimate beneficial shareholders of Yijiale Technology Holdings Limited include one External Investor and one TCM physician of our Group (namely Yang Jinzu as the TCM physician and Zhou Lanjun as the External Investor).

Pursuant to the Voting Deeds, Gushengtang Ltd., being one of our founding shareholders of the Company, has confirmed and agreed that (i) Gushengtang Ltd. had since the date when it became a shareholder of the Company (namely, May 8, 2014) and would continue to exclusively, irrevocably and unconditionally grant Mr. Tu, as its lawful attorney, a voting proxy over all the Shares held by it; and (ii) Mr. Tu shall have the right to vote the Shares, in his sole discretion, on all matters submitted to a meeting of Shareholders or on written resolutions to be voted on by Shareholders, subject to compliance with the articles of association of the Company, the Listing Rules and other applicable laws.

Further, the Principal Shareholders (apart from Gushengtang Ltd.) have exclusively, irrevocably and unconditionally granted (i) Mr. Tu, as its lawful attorney, a voting proxy over all the Shares held by them; and (ii) Mr. Tu shall have the right to vote the Shares, in his sole discretion, on all matters submitted to a meeting of Shareholders or on written resolutions to be voted on by Shareholders, subject to compliance with the articles of association of the Company, the Listing Rules and other applicable laws.



---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Pursuant to the Voting Deeds, while the Principal Shareholders are entitled to the economic benefits as Shareholder, they entrusted their voting rights to Mr. Tu. The Principal Shareholders are investment holding companies controlled by certain initial investors of the Company back in 2014, the Group's employees, TCM physicians, consultants and External Investors, who entrusted their voting rights to Mr. Tu for the following reasons:

- (a) for certain initial investors of the Company back in 2014 (namely Gushengtang Ltd.), they entrusted their voting rights to Mr. Tu because they believe that the consistent leadership and management support with stronger control by Mr. Tu (being the founder of the Group who has been managing the Group's business and steering overall strategic planning since its establishment) will be beneficial to the overall strategic planning and decision-making process of the Group; and
- (b) for the Group's employees, TCM physicians, consultants and External Investors, they had commercially agreed to entrust their voting rights to Mr. Tu at the time when they subscribed for the Shares and the entering into of the Voting Deed reflects the commercial agreements among the relevant parties.

The Principal Shareholders have entered into lock-up undertakings for a period of six months after the Listing Date in favor of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters. For details, see "Underwriting – Undertaking to the Stock Exchange Pursuant to the Listing Rules – Undertaking by the Controlling Shareholders."

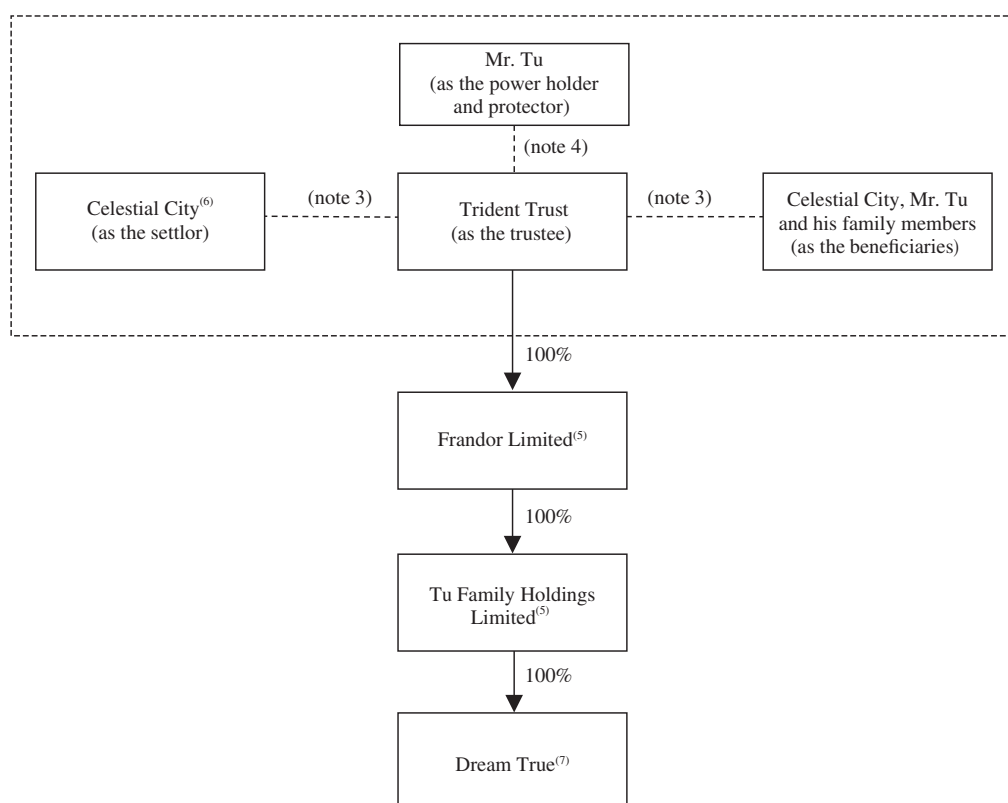
### ESTABLISHMENT OF FAMILY TRUST

For succession and estate planning purpose, the TZL Family Trust was established by Celestial City as the settlor, Mr. Tu as the protector and the Trident Trust as the trustee. On April 5, 2021, Wumianshan Ltd. transfer 18,733,795 Shares to Dream True at US\$1,873.38. On April 5, 2021, Celestial City transferred 1 share of Dream True at nil consideration to Tu Family Holdings Limited, which is wholly-owned by the Trident Trust through its wholly-owned subsidiary, Frandor Limited, representing 100% of the share capital of Dream True. The TZL Family Trust is a discretionary trust and the beneficiary of which are Celestial City, Mr. Tu and his family members.

Under the TZL Family Trust, certain discretions of the Trident Trust as the trustee are only exercisable by it with the prior or simultaneous written consent of the protector and/or the power holder, namely Mr. Tu. Under the trust deed, Mr. Tu as the protector, has the power to appoint or remove trustees. Based on the terms of the trust deed, for so long as Trident Trust holds or controls any Shares, all voting rights attaching to such Shares shall be exercised subject to the investment decision by Mr. Tu and/or such other person(s) as Mr. Tu may wish to appoint.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following diagram illustrates the structure of the TZL Family Trust:



Notes:

- (1) ----- denotes the trust arrangement
- (2) —————> denotes the direct legal ownership in the equity interest
- (3) Pursuant to the trust deed dated March 19, 2021 (the “**Trust Deed**”), Celestial City (as the settlor) entrusted the Trident Trust to hold the Shares on a discretionary trust for the benefit of the Celestial City, Mr. Tu and his family members (as beneficiaries).
- (4) Pursuant to the Trust Deed, all voting rights attaching to such Shares shall be exercised subject to the investment decision by Mr. Tu, as the power holder and protector, and/or such other person(s) as Mr. Tu may wish to appoint.
- (5) Each of Frandor Limited and Tu Family Holdings Limited are the intermediary holding vehicle (the “**Intermediary Holding Vehicles**”) set up by the Trident Trust for the administration of the TZL Family Trust and serving as the immediate shareholder of Dream True. The directors of the Intermediary Holding Vehicles are Independent Third Parties nominated by the Trident Trust.
- (6) Celestial City is wholly-owned by Wumianshan Ltd., which is in turn wholly-owned by Mr. Tu.
- (7) Mr. Tu is the sole director of Dream True and is therefore able to directly exercise and has the immediate control over the voting rights attaching to the Shares held by Dream True.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### PRE-IPO INVESTMENTS

#### 1. Overview

We have received 20 rounds of Pre-IPO Investments since our establishment. The principal terms of the Pre-IPO Investments are summarized below:

Round	Date of the agreement(s)	Date on which investment is fully settled <sup>(1)</sup>	Investors	Total number of shares issued/ transferred to the Investors	Total consideration paid by the investors	Approximate cost per share paid by the investors	Discount to the Offer Price <sup>(2)</sup>	Corresponding valuation of our Company (approximation) <sup>(21)</sup>
Series A - 1 . .	June 25, 2014, as amended on August 22, 2014	August 21, 2014	NEA and NEA Ventures <sup>(3)</sup>	12,000,000 Series A Preferred Shares issued by our Company	US\$4 million	US\$0.33 per Series A Preferred Share	90.65%	USD26 million
Series A - 2 . .	October 28, 2016	December 6, 2016	Long Hill Capital	2,992,500 Series A Preferred Shares transferred by NEA	Approximately US\$5.18 million	US\$1.73 per Series A Preferred Share	50.99%	USD278 million
Series B - 1 . .	April 27, 2015	April 30, 2015	Asia Ventures III <sup>(4)</sup> , F-Prime Capital <sup>(7)</sup> and NEA	21,818,180 Series B Preferred Shares issued by our Company <sup>(12)</sup>	Approximately US\$12 million	US\$0.55 per Series B Preferred Share	84.42%	USD55 million
Series B - 2 . .	August 13, 2015	August 13, 2015	Asia Ventures III <sup>(4)</sup> , F-Prime Capital <sup>(7)</sup> and NEA	10,909,091 Series B Preferred Shares issued by our Company <sup>(12)</sup>	Approximately US\$6 million	US\$0.55 per Series B Preferred Share	84.42%	USD55 million
Series B - 3 . .	September 29, 2015	September 29, 2015	Asia Ventures III <sup>(4)</sup> , F-Prime Capital <sup>(7)</sup> and NEA	3,636,361 Series B Preferred Shares issued by our Company <sup>(12)</sup>	Approximately US\$2 million	US\$0.55 per Series B Preferred Share	84.42%	USD55 million
Series B - 4 . .	October 28, 2016	December 6, 2016	Long Hill Capital	1,780,313 Series B Preferred Shares transferred by NEA	Approximately US\$3.08 million	US\$1.73 per Series B Preferred Shares	50.99%	USD278 million
Series B - 5 . .	March 4, 2020	September 1, 2020	Long Hill Capital	132,367 Series B Preferred Shares issued by our Company <sup>(13)</sup>	US\$92,938	US\$0.70 per Series B Preferred Share	80.17%	USD70 million <sup>(26)</sup>
Series C - 1 . .	April 30, 2015, August 13, 2015 and September 29, 2015	April 13, 2016	Asia Ventures III <sup>(4)</sup> , F-Prime Capital <sup>(7)</sup> and NEA	3,400,140 Series C Preferred Shares issued by our Company <sup>(8)</sup>	Approximately US\$5 million	US\$1.47 per Series C Preferred Share	58.36%	USD229 million <sup>(8)</sup>

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Round	Date of the agreement(s)	Date on which investment is fully settled <sup>(1)</sup>	Investors	Total number of shares issued/ transferred to the Investors	Total consideration paid by the investors	Approximate cost per share paid by the investors	Discount to the Offer Price <sup>(2)</sup>	Corresponding valuation of our Company (approximation) <sup>(21)</sup>
Series C - 2 . .	January 13, 2016 and January 22, 2016	January 25, 2016	NEA and Starr International	4,816,866 Series C Preferred Shares issued by our Company <sup>(9)</sup>	US\$7.5 million	US\$1.56 per Series C Preferred Share	55.81%	USD229 million
Series C - 3 . .	April 1, 2016	April 15, 2016	NEA, Starr International, Asia Ventures III <sup>(4)</sup> and F-Prime Capital <sup>(7)</sup>	10,115,418 Series C Preferred Shares issued by our Company	Approximately US\$17.5 million	US\$1.73 per Series C Preferred Share	50.99%	USD229 million
Series C - 4 . .	October 28, 2016	December 6, 2016	Long Hill Capital	794,547 Series C Preferred Shares transferred by NEA	Approximately US\$1.37 million	US\$1.73 per Series C Preferred Shares	50.99%	USD278 million
Series C - 5 . .	N/A	N/A	Asia Ventures III <sup>(4)</sup> , F-Prime Capital <sup>(7)</sup> , NEA, Starr International and Long Hill Capital	761,439 Series C Preferred Shares issued by our Company <sup>(11)</sup>	N/A	N/A	N/A	USD184 million and USD217 million <sup>(11)</sup>
Series C - 6 . .	January 30, 2021	March 29, 2021	Celestial City	3,211,244 Series C Preferred Shares issued by our Company <sup>(10)</sup>	RMB45.9 million	RMB14.29 per Series C Preferred Share	36.43%	RMB2,543 million <sup>(10)</sup>
Series D - 1 . .	March 22, 2021	January 28, 2020	Chongqing Jinpu	9,371,885 Series D Preferred Shares issued by our Company <sup>(6)</sup>	RMB150 million <sup>(5)</sup>	RMB16.01 per Series D Preferred Share	28.78%	RMB2,652 million <sup>(27)</sup>
Series D - 2 . .	January 24, 2017	January 25, 2017	Ershisanmianshan Holdings Limited <sup>(18)</sup>	809,582 ordinary Shares issued by our Company <sup>(17)</sup>	RMB10 million	RMB12.35 per ordinary Share	45.06%	RMB2,047 million <sup>(28)</sup>
Series E - 1 . .	March 29, 2021	March 31, 2021	Long Hill Capital Plus, Long Hill Capital GST, ERVC Healthcare <sup>(4)</sup> , F-Prime Capital <sup>(7)</sup> , Starr International, NEA, Wang Jian Guo Holdings and GP SOE	13,340,767 Series E Preferred Shares issued by our Company	Approximately US\$37.7 million	US\$2.83 per Series E Preferred Share	19.83%	USD503 million

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Round	Date of the agreement(s)	Date on which investment is fully settled <sup>(1)</sup>	Investors	Total number of shares issued/ transferred to the Investors	Total consideration paid by the investors	Approximate cost per share paid by the investors	Discount to the Offer Price <sup>(2)</sup>	Corresponding valuation of our Company (approximation) <sup>(21)</sup>
Series E - 2 . .	April 27, 2021	April 29, 2021	Series E Subscription Platforms (as defined below)	9,130,456 ordinary Shares issued by our Company <sup>(19)</sup>	Approximately RMB 147.19 million	RMB16.12 per Share	28.29%	RMB2,762 million and RMB3,249 million <sup>(22)</sup>
Others - 1 . . .	April 27, 2021	April 28, 2021	General Platforms (as defined below)	12,726,455 ordinary Shares transferred by Wumianshan Ltd. <sup>(14)</sup>	Approximately RMB109.35 million	RMB8.59 per Share	61.79%	RMB43 million to RMB2,940 million <sup>(23)</sup>
Others - 2 . . .	April 27, 2021	April 22, 2021	2017 Shares Subscriptions Platforms (as defined below)	1,927,808 ordinary Shares issued by our Company <sup>(15)</sup>	Approximately RMB21.97 million	RMB11.40 per Share	49.29%	RMB1,865 million <sup>(24)</sup>
Others - 3 . . .	April 27, 2021	April 17, 2021	External Investors Platforms (as defined below)	9,823,948 ordinary Shares issued by our Company <sup>(16)</sup>	Approximately RMB127.95 million	RMB13.02 per Share	42.08%	RMB1,321 million to RMB4,003 million <sup>(25)</sup>

**Notes:**

- (1) This represents the date on which the last members of the relevant round of investors irrevocably settled and paid the funds for the relevant investments into our Group.
- (2) The discount to the Offer Price is calculated based on the assumption that the Offer Price is HK\$27.40 per share, being the midpoint of the indicative Offer Price range of HK\$25.80 and HK\$29.00. Further, the discount to the Offer Price per Share paid by the relevant investors was determined based on the corresponding valuation of our Company at the time of entering into and completing the relevant Pre-IPO Investments. For further details on the basis for discounts to Offer Price, see “Basis of determining the consideration paid” in this section.
- (3) Both NEA and NEA Ventures are affiliated with New Enterprise Associates.
- (4) Both Asia Ventures III and ERVC Healthcare are ultimately controlled by Eight Roads Holdings Limited.
- (5) Representing the total principal amount of the Chongqing Jinpu Convertible Loans, exclusive of any interest.
- (6) On March 22, 2021, Chongqing Jinpu exercised its conversion rights in respect of the entire principal amount of RMB150 million in accordance with the terms of the Chongqing Jinpu Convertible Loans and was issued 9,371,885 Series D Preferred Shares of a par value of US\$0.0001 each on March 22, 2021. For details, see paragraph headed “—The Convertible Loans” in this section.
- (7) F-Prime Capital was formerly known as Beacon Bioventures Fund IV Limited Partnership.
- (8) A total of 3,400,140 of Series C Preferred Shares were issued and allotted pursuant to (a) preferred shares purchase warrants issued by the Company to Asia Ventures III dated April 30, 2015, August 13, 2015 and September 29, 2015, respectively, (b) the preferred shares purchase warrants issued by the Company to F-Prime Capital dated April 30, 2015, August 13, 2015 and September 29, 2015, respectively, and (c) preferred shares purchase warrants issued by the Company to NEA dated April 30, 2015, August 13, 2015 and September 29, 2015, respectively. The preferred shares purchase warrants were issued to Asia Ventures III, F-Prime Capital and NEA when they invested in our Company through Series B-1 to Series B-3 to further acquire Series C Preferred Shares at a certain discount to the valuation of Series C Preferred Shares at the relevant time of the issuance of the Series C Preferred Shares.
- (9) A total of 4,816,866 Series C Preferred Shares were issued and allotted pursuant to (a) the convertible promissory note issued by the Company to NEA dated January 13, 2016 and (b) the convertible promissory note issued by the Company to Starr International dated January 22, 2016.
- (10) A total of 3,211,244 Series C Preferred Shares were issued pursuant to the convertible loan and equity purchase agreement entered into, among others, the Company and Shenzhen Ping'an dated January 4, 2016. However, the 3,211,244 Series C Preferred Shares were forfeited by the Company and re-issued to Celestial City pursuant to the equity interest transfer framework agreement dated December 16, 2020 under the unanimous consent of the Shareholders at the relevant time on the same valuation when Shenzhen Ping'an invested in our Company in consideration of Mr. Tu's contribution to the Company.
- (11) A total of 761,439 Series C Preferred Shares were issued and allotted by the Company to Series C Preferred Share holders due to adjustment in actual pre-money valuation pursuant to the Series C Preferred Shares purchase, warrant exercise and note conversion dated April 1, 2016. The corresponding valuation of our Company for series C-1 and series C-3 were adjusted from USD195 million and USD229 million to USD184 million and USD217 million, respectively. The adjustment was made because pursuant to the relevant agreements, the valuation of the Company will be adjusted if there is a difference between the audited revenue of the Company in 2016 and the unaudited revenue of the Company in 2016.
- (12) A total of 5,908,971 and 1,969,657 Series B Preferred Shares were (i) surrendered by Asia Ventures III and F-Prime Capital on April 13, 2016; and (ii) repurchased by the Company on April 13, 2016.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (13) A total of 132,367 Series B Preferred Shares were issued pursuant to the exercise of warrants by Long Hill Capital, which was acquired from China Equities HK Limited pursuant to the warrant transfer agreement entered into, among others, Long Hill Capital (in the capacity as the transferee) and China Equities HK Limited (in the capacity as the transferor) dated June 15, 2017. Historically, the warrants were issued to China Equities HK Limited (a designated offshore entity of SPD SILICON VALLEY BANK) in December 2015 as part of the loan arrangement between our Company and SPD SILICON VALLEY BANK.
- (14) 12,726,455 ordinary Shares (the “**Entrusted Shares**”) were transferred from Wumianshan Ltd. to various BVI holding platforms (the “**General Platforms**”) pursuant to a series of share subscription agreements from 2014 to 2020 entered into, among others, Mr. Tu, employees, TCM physicians, consultants of the Company and external investors (who were the vendors of our onshore acquisition targets being acquired from in 2017 and 2018) (the “**External Investors**”) (collectively, the “**Subscribers**”) pursuant to which the Subscribers agreed that Mr. Tu shall hold the Entrusted Shares on trust for the benefit of Subscribers until the completion of the relevant corporate restructuring of the Group in preparing for the Listing (the “**Entrustment Arrangement**”). For the avoidance of doubt, the Entrustment Arrangement does not include the 2017 Share Subscription (as defined below). The details are as follow:

General Platforms	Number of Shares transferred	Total consideration paid by the Subscribers (RMB)
Gushengtang Ltd. . . . .	125,769	425,000
Liumianshan Ltd. . . . .	224,731	3,007,215
Shiermianshan Holdings Limited . . . . .	574,354	2,377,500
Shisanmianshan Holdings Limited. . . . .	2,233,418	8,192,500
Shisimianshan Holdings Limited . . . . .	166,193	1,527,500
Ershisimianshan Holdings Limited . . . . .	1,766,756	18,500,000
Duolaimeng Technology Holdings Limited . . . . .	254,069	3,600,000
Shiliumianshan Holdings Limited. . . . .	150,753	1,200,000
Shiqimianshan Holdings Limited . . . . .	419,965	6,600,639
Shibamianshan Holdings Limited. . . . .	1,418,028	12,409,345
Shijiumianshan Holdings Limited. . . . .	2,884,585	14,485,309
Ershimianshan Holdings Limited . . . . .	635,213	8,399,599
Ershiyimianshan Holdings Limited . . . . .	616,677	10,108,200
Ershiermianshan Holdings Limited . . . . .	465,795	8,000,000
Ershisanmianshan Holdings Limited . . . . .	86,662	1,585,915
Ershiwumianshan Holdings Limited. . . . .	613,812	6,625,900
Yijijian Technology Holdings Limited. . . . .	13,452	200,000
Yijiale Technology Holdings Limited . . . . .	30,358	500,000
Yijiaan Technology Holdings Limited . . . . .	45,865	750,000
	<b>12,726,455</b>	<b>108,494,622</b>

Among the Subscribers, there were 34 employees (including 1 member of senior management of the Company), 140 TCM doctors, 13 consultants and 2 External Investors.

- (15) 1,927,808 ordinary Shares were issued and allotted by the Company to various BVI holding platforms (the “**2017 Shares Subscriptions Platforms**”) of certain employees and consultants of the Company (the “**2017 Share Subscribers**”) pursuant to a series of share subscription agreements, entered into between the Company and the 2017 Share Subscribers dated April 27, 2021 (the “**2017 Shares Subscriptions**”). The details are as follow:

2017 Shares Subscriptions Platforms	Number of Shares issued and allotted	Total consideration paid by the 2017 Share Subscribers (RMB)
Wumianshan Ltd. . . . .	442,837	4,751,641
Shiermianshan Holdings Limited . . . . .	9,320	100,000
Shisanmianshan Holdings Limited . . . . .	251,631	2,700,000
Duolaimeng Technology Holdings Limited. . . . .	74,557	831,128
Shiqimianshan Holdings Limited. . . . .	67,019	800,000
Shibamianshan Holdings Limited. . . . .	687,872	8,100,000
Shijiumianshan Holdings Limited. . . . .	160,845	1,920,001
Ershimianshan Holdings Limited. . . . .	41,887	500,000
Ershiermianshan Holdings Limited . . . . .	117,283	1,400,000
Ershiwumianshan Holdings Limited. . . . .	74,557	870,826
	<b>1,927,808</b>	<b>21,973,596</b>

Among the 2017 Share Subscribers, there were 6 employees (including 1 Director and 1 member of senior management of the Company), 20 TCM physicians and 2 consultants.



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (16) 9,823,948 ordinary Shares were issued and allotted by our Company to various BVI holding platforms (the “**External Investors Platforms**”) of certain External Investors at nominal consideration (no less than the par value of the Shares) as part of the corporate restructuring of the Company in exchange for certain equity interest in Guangdong Gushengtang held by the relevant External Investors. See “—Onshore Reorganization—4. Transfer of Guangdong Gushengtang” and “—Offshore Reorganization—3. Allotment and Issuance of Shares” in this section for details. The details are as follow:

External Investors Platforms	Number of Shares issued and allotted	Total consideration paid by the External Investors (RMB)
Ershijiumianshan Holdings Limited . . . . .	2,456,862	23,910,983
Shiwumianshan Holdings Limited . . . . .	1,501,088	30,000,000
Shiliumianshan Holdings Limited . . . . .	2,562,914	22,000,000
Ershisanmianshan Holdings Limited . . . . .	2,385,876	35,044,068
Ershiwumianshan Holdings Limited . . . . .	191,682	2,491,866
Yijiale Technology Holdings Limited . . . . .	500,363	10,000,000
Yijiahui Technology Holdings Limited . . . . .	225,163	4,500,000
	<b>9,823,948</b>	<b>127,946,917</b>

- (17) On February 1, 2021, Hua Jinming (an Independent Third Party) exercised its conversion rights in respect of the Hua Jinming Convertible Loans and 809,582 Shares of a par value of US\$0.0001 each were issued to Ershisanmianshan Holdings Limited. For details, see paragraph headed “—The Convertible Loans” in this section.

- (18) Ershisanmianshan Holdings Limited is one of the External Investors Platforms.

- (19) 9,130,456 Shares were issued and allotted by the Company to various BVI holding platforms (the “**Series E Subscription Platforms**”) pursuant to a series of share subscription agreements dated April 27, 2021. The details are as follows:

Series E Subscription Platforms	Number of Shares issued and allotted	Total consideration paid (RMB)
Shiyimianshan Holdings Limited . . . . .	321,958	5,000,000
Ershijiumianshan Holdings Limited . . . . .	386,349	6,000,000
Shiermianshan Holdings Limited . . . . .	623,696	9,686,000
Shisanmianshan Holdings Limited . . . . .	1,277,306	19,836,500
Shisimianshan Holdings Limited . . . . .	442,235	6,867,928
Shiwumianshan Holdings Limited . . . . .	740,502	11,500,000
Ershimianshan Holdings Limited . . . . .	64,392	1,000,000
Duolaimeng Technology Holdings Limited . . . . .	402,547	6,251,559
Yijiekang Technology Holdings Limited . . . . .	1,497,297	23,253,000
Yijiajian Technology Holdings Limited . . . . .	798,455	12,400,000
Yijiaan Technology Holdings Limited . . . . .	605,276	9,400,000
Qicaimeng Technology Holdings Limited . . . . .	437,876	8,000,000
Ershiliumianshan Holdings Limited . . . . .	547,345	10,000,000
Start Right Ventures Limited . . . . .	985,222	18,000,000
	<b>9,130,456</b>	<b>147,194,987</b>

- (20) Save and except for Celestial City and Wumianshan Ltd. (one of the 2017 Shares Subscriptions Platforms), our Controlling Shareholders, which have undertaken not to dispose of or otherwise encumber any of its interest in our Company as required under Rule 10.07 of the Listing Rules and pursuant to the Underwriting Agreements, the Pre-IPO Investors are not subject to any contractual lock-up arrangement pursuant to the terms of the respective Pre-IPO Investments. However, the Principal Shareholders (as defined above) and the Pre-IPO Investors (except Celestial City, Wumianshan Ltd., Ershisimianshan Holdings Limited and Ershijiumianshan Holdings Limited) have entered into additional lock-up undertakings in favour of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters. For details, see “Underwriting—Undertaking to the Stock Exchange Pursuant to the Listing Rules—Undertaking by the Controlling Shareholders” in this prospectus.

- (21) Save as disclosed in footnotes (22) to (28), the corresponding valuation of the Company at each round of Pre-IPO Investment is generally calculated with reference to the price-to-sales (P/S) ratio of each round of Pre-IPO Investment at the relevant time of the signing of the underlying transaction documents and multiply it by the revenue of the then previous financial year of the Group.

- (22) The corresponding valuation of the Company for round Series E-2 Pre-IPO Investment is approximately RMB2,762 million and RMB3,249 million because discounts were offered to employees and consultants of the Company to serve as an additional incentive to selected individuals to invest in the Company and to promote the Group’s long-term sustainable development by better aligning their interests with the interests of the Company.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

- (23) The corresponding valuation of the Company for round Others-1 Pre-IPO Investment is approximately from RMB43 million to RMB2,940 million because the valuation was based on the underlying share subscription agreements (and the Entrustment Arrangement) which were signed from 2014 to 2020 but the transfer of the Entrusted Shares to the General Platform took effect on April 28, 2021. Further, additional discounts were offered to an employee for her long service and contribution to our Company in 2014.
- (24) The corresponding valuation of the Company for round Others-2 Pre-IPO Investment amounts to RMB1,865 million because the valuation was based on the underlying share subscription which was approved by the Company in 2017 but the relevant subscription were signed and completed on April 27, 2021. Certain discounts were offered to employees and consultants of the Company to serve as an additional incentive to selected individuals to invest in the Company and to promote the Group's long-term sustainable development by better aligning their interests with the interests of the Company.
- (25) The corresponding valuation of the Company for round Others-3 Pre-IPO Investment is approximately from RMB1,321 million to RMB4,003 million because the valuation was based on the onshore equity acquisition framework agreements at Guangdong Gushengtang which were signed by the External Investors from 2015 to 2021, which set the valuation of the Company for each External Investor. The onshore equity acquisition framework agreements at Guangdong Gushengtang were entered as part of our onshore asset acquisition (see note 14 above). Subsequently, as part of the "Reorganization," the External Investors entered into certain share subscription agreements to subscribe for the Shares in exchange for the External Investors to transfer their respective shares in Guangdong Gushengtang to Wumianshan Investment Holdings, which took effect on April 17, 2021.
- (26) The corresponding valuation of the Company for round Series B-5 Pre-IPO Investment is approximately USD70 million because the valuation was based on the warrants subscription agreement dated December 2015 (see note 13 above for details) while the exercise of warrant was made by Long Hill Capital on March 4, 2020.
- (27) The corresponding valuation of the Company for round Series D-1 Pre-IPO Investment is approximately RMB2,652 million because the valuation was based on the convertible loan agreement which was entered into, among others, Chongqing Jinpu and our Company in May 2017.
- (28) The corresponding valuation of the Company for round Series D-2 Pre-IPO Investment is approximately RMB2,047 million because the valuation was based on the convertible loan agreement which was entered into, among others, Hua Jingming and our Company in January 2017.

### ***Use of Proceeds from the Pre-IPO Investments***

We utilized most of the proceeds from the Pre-IPO Investments for the development and operation of our principal business of our Group, including but not limited to the expansion of our offline medical institutions, the development of our offline and online medical service network (such as the acquisition of Bailu and the Wanjia Platform), and other general working capital purposes. As of the Latest Practicable Date, we had utilized approximately RMB1,005.84 million, or approximately 96.5% of the total proceeds from the Pre-IPO Investments.

### ***Strategic benefits of the Pre-IPO Investors brought to our Company***

At the time of the Pre-IPO Investments, our Directors were of the view that our Company could benefit from the additional capital that would be provided by the Pre-IPO Investors' investments in our Company, as well as the Pre-IPO Investors' knowledge and experience.

Our Pre-IPO Investors include private equity funds and other professional investment companies, some of which are highly experienced in investing in the healthcare industry. At the relevant time of the investment, our Directors believed that our Company could benefit from the investors' industry insights and guidance in formulation of our business and expansion strategies.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Further, our Pre-IPO Investors also include employees, TCM physicians and consultants of the Group, and the External Investors (as defined above). At the relevant time of the investment, our Directors were of the view that the Pre-IPO investors' investment in our Company was an endorsement of our strength and prospects, and that the Company would benefit from the additional capital from their investment and it could also help to provide additional incentive to selected individuals to promote the Group's long-term sustainable development by better aligning their interests with our interest. For details of our Pre-IPO Investors, see "—Information about the Pre-IPO Investors" in this section below.

Our Directors were also of the view that our Company could benefit from the Pre-IPO Investors' commitment to our Company as their investment demonstrates their confidence and endorsement of the performance, management and prospects of our Group.

### ***Basis of determining the consideration paid***

The consideration for each of the Pre-IPO Investments was determined based on arm's length negotiations between our Company and the Pre-IPO Investors after taking into consideration the timing of the subscription (i.e., the market condition at the time the respective Pre-IPO Investors invested in our Company), the liquidity of the shares of the Company as a private company, the status of our business operation and growth (i.e., business scale of our Group), the Company's plan to incentivize relevant individuals, strategic value-add which the relevant institutional Pre-IPO Investors might potentially bring to the Company and the reasonableness of the corresponding valuation of our Company when the Pre-IPO Investments were made.

## **2. Special rights of the Pre-IPO Investors**

Pursuant to the sixth amended and restated shareholders' agreement dated March 29, 2021 (the "Shareholders' Agreement"), the Pre-IPO Investors have been granted certain special rights including among others, director nomination and appointment rights, prior consent for certain corporate actions or changes in the articles, and right of first and second result refusal. While the divestment rights (except for the divestment rights that are exercisable if the Listing does not take place) have been terminated prior to the first submission of the Listing application, all other special rights shall automatically terminate upon the Listing.

Each of Lin Rui (being the representative from Asia Ventures III, ERVC Healthcare and F-Prime Capital) and Dorothy Dong (being the representative from Starr International) resigned from their position as a Director of the Company on May 25, 2021 as the relevant institutional investors they represented wish to remain as the Shareholder instead of having any board representation in our Company upon Listing and has been designated as a non-voting board observer to attend and speak at all meetings of the Board of the Company. Each of Lin Rui and Dorothy Dong entered into a consent and undertaking on May 25, 2021 to hold in confidence the information provided to them through their capacity as a non-voting observer for so long as they remain as observers. Each of Lin Rui and Dorothy Dong tendered her resignation as a non-voting board observer on November 16, 2021 with immediate effect and does not hold any positions on the Board or the senior management team of the Group.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

### 3. The Convertible Loans

The Company entered into a series of convertible loans agreements, details of which are set out below:

Investors	Date of the agreement	Principal amount
Hua Jinming . . . . .	January 24, 2017	RMB10 million
Chongqing Jinpu . . . . .	May 22, 2017	RMB150 million
Guoshou Chengda (Shanghai) Health Service Industry Private Equity Center (LLP). . . . .	May 22, 2017	RMB65 million
China State-owned Capital Venture Capital Fund Co., Ltd., Guangzhou	June 5, 2017	RMB100 million
Xinling, Ma Shaojing, Zhou Feng and Du Wei. . . . .	August 8, 2017	
Shenzhen Zhaoyin No. 1 and Shenzhen Zhaoyin Co-Win . . . . .	August 9, 2017	

On March 22, 2021, Chongqing Jinpu exercised its conversion rights in respect of the entire principal amount of RMB150 million in accordance with the terms of the Chongqing Jinpu Convertible Loans and was issued 9,371,885 Series D Preferred Shares of a par value of US\$0.0001 each on March 22, 2021 at a conversion price of RMB16.01 per Series D Preferred Share.

On February 1, 2021, Hua Jinming (an Independent Third Party) exercised its conversion rights in respect of the Hua Jinming Convertible Loans and 809,582 Shares of a par value of US\$0.0001 each were issued to Ershisanmianshan Holdings Limited.

Save and except for the Chongqing Jinpu Convertible Loans and the Hua Jinming Convertible Loans, all convertible notes loans were redeemed on or before April 1, 2021.

#### 4. Capitalization of the Company

The following table sets out our shareholding structure as of the date of this prospectus and upon the completion of the Global Offering, assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan.

Shareholders	Ordinary Shares	Series A Preferred Shares <sup>(1)</sup>	Series B Preferred Shares <sup>(1)</sup>	Series C Preferred Shares <sup>(1)</sup>	Series D Preferred Shares <sup>(1)</sup>	Series E Preferred Shares <sup>(1)</sup>	Subtotal	Shareholding percentage as of the date of this prospectus <sup>(2)</sup>	Shareholding percentage upon completion of the Global Offering <sup>(3)</sup>
Dream True <sup>(5)</sup> .....	18,733,795	—	—	—	—	—	18,733,795	9.25%	8.13%
Gushengtang Ltd. ....	15,921,267	—	—	—	—	—	15,921,267	7.86%	6.91%
Bamianshan Ltd. ....	4,680,468	—	—	—	—	—	4,680,468	2.31%	2.03%
Liumianshan Ltd. ....	1,347,140	—	—	—	—	—	1,347,140	0.67%	0.58%
HI Equity Limited .....	936,094	—	—	—	—	—	936,094	0.46%	0.41%
NEA. ....	579,646	8,977,500	5,340,938	2,450,086	—	530,378	17,878,548	8.83%	7.76%
Starr International. ....	3,308,328	—	—	12,370,073	—	2,525,608	18,204,009	8.99%	7.90%
Long Hill Capital .....	1,574,451	2,992,500	1,912,680	816,695	—	—	7,296,326	3.60%	3.17%
Action Thrive <sup>(4)</sup> .....	26,832,533	—	—	—	—	—	26,832,533	13.25%	11.65%
NEA Ventures .....	—	30,000	—	—	—	—	30,000	0.01%	0.01%
Asia Ventures III .....	—	—	14,954,627	2,419,906	—	—	17,374,533	8.58%	7.54%
F-Prime Capital .....	—	—	6,409,126	1,037,103	—	484,917	7,931,146	3.92%	3.44%
Celestial City <sup>(4)</sup> .....	—	—	—	3,211,244	—	—	3,211,244	1.59%	1.39%
Chongqing Jinpu. ....	—	—	—	—	9,371,885	—	9,371,885	4.63%	4.07%
Long Hill Capital GST ..	—	—	—	—	—	2,480,147	2,480,147	1.22%	1.08%
Long Hill Capital Plus. . .	—	—	—	—	—	3,455,032	3,455,032	1.71%	1.50%
ERV Healthcare .....	—	—	—	—	—	1,131,472	1,131,472	0.56%	0.49%
Wang Jian Guo Holdings. .	—	—	—	—	—	707,170	707,170	0.35%	0.31%
GP SOE .....	—	—	—	—	—	2,026,043	2,026,043	1.00%	0.88%
2015 ESOP Platforms <sup>(6)</sup> ..	9,142,921	—	—	—	—	—	9,142,921	4.51%	3.97%
Series E Subscription Platforms .....	9,130,456	—	—	—	—	—	9,130,456	4.51%	3.96%
General Platforms <sup>(7)</sup> .....	12,577,728	—	—	—	—	—	12,577,728	6.21%	5.46%
2017 Share Subscription <sup>(8)</sup> Platforms .....	1,484,971	—	—	—	—	—	1,484,971	0.73%	0.64%

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholders	Ordinary Shares	Series A Preferred Shares <sup>(1)</sup>	Series B Preferred Shares <sup>(1)</sup>	Series C Preferred Shares <sup>(1)</sup>	Series D Preferred Shares <sup>(1)</sup>	Series E Preferred Shares <sup>(1)</sup>	Subtotal	Shareholding percentage as of the date of this prospectus <sup>(2)</sup>	Shareholding percentage upon completion of the Global Offering <sup>(3)</sup>
External Investors Platform.....	9,823,948	—	—	—	—	—	9,823,948	4.85%	4.26%
Ershisanmianshan Holdings Limited .....	809,582	—	—	—	—	—	809,582	0.40%	0.35%
Other public shareholders.....	27,878,000	—	—	—	—	—	27,878,000	—	12.10%
<b>Total</b> .....	144,761,328	12,000,000	28,617,371	22,305,107	9,371,885	13,340,767	230,396,458	100%	100%

### Notes

- (1) Each Series A Preferred Share, Series B Preferred Share, Series C Preferred Share, Series D Preferred Share and Series E Preferred Share shall be converted into one ordinary Share, which will immediately be re-classified and re-designated as one Share with effect from the Listing Date.
- (2) Based on the assumption that all of the all of the Preferred Shares are converted into ordinary Shares on the basis set out in note (1) above.
- (3) Assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan.
- (4) Both Celestial City and Action Thrive are wholly-owned by Wumianshan Ltd., which in turn is wholly-owned by Mr. Tu.
- (5) Dream True is wholly-owned by Tu Family Holdings, which is in turn wholly-owned by the Trident Trust through its wholly-owned subsidiary, Frandor Limited.
- (6) 7,698,613 Shares and 350,000 Shares were issued and allotted to Mr. Tu and Gushengtang Ltd., respectively.
- (7) 125,769 Shares and 22,958 Shares were issued and allotted to Gushengtang Ltd. and Liumianshan Ltd., respectively.
- (8) 442,837 Shares were issued and allotted to Mr. Tu.



### 5. Public Float

Celestial City, one of the Pre-IPO Investors, is a wholly-owned company of Mr. Tu and is one of our Controlling Shareholders. Therefore, the Shares held by Celestial City will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after the Global Offering.

Each of the Principal Shareholders (as defined above) entered into a Voting Deed (as defined above) with Mr. Tu respectively on May 31, 2021, pursuant to which each of the Principal Shareholders had confirmed and agreed that they had (where appropriate) and would continue to grant Mr. Tu, as its lawful attorney, a voting proxy over all the Shares held by them from time to time. Therefore, the Shares held by the Principal Shareholders will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after the Global Offering.

Further, upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), the Shares held by certain of our Shareholders who are, or are indirectly controlled by, our core connected persons, will not be counted towards the public float. Such Shareholders include Long Hill Capital, Long Hill Capital GST and Long Hill Capital Plus, which are ultimately controlled by Jiang Xiaodong (蔣曉冬), one of the non-executive Directors.

Other than the Shares held by Celestial City, the Principal Shareholders, Long Hill Capital, Long Hill Capital GST and Long Hill Capital Plus, Shares held by other Pre-IPO Investors will all be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules upon the Listing.

As a result, upon completion of the Global Offering, an aggregate of 133,514,426 Shares or approximately 57.95% of the issued share capital of our Company (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan) held by our Pre-IPO Investors and Shareholders will be counted towards the public float. Hence, over 25% of our Company's total issued Shares will be held by the public upon completion of the Global Offering as required under Rule 8.08(1)(a) of the Listing Rules.

### 6. Information about the Pre-IPO Investors

Set out below is a description of our Pre-IPO Investors, being private equity funds and other professional investment companies that have made meaningful investments in our Company.

#### *NEA and NEA Ventures*

Each of NEA and NEA Ventures is an investment limited partnership connecting with New Enterprise Associates Inc., which is a venture capital firm with more than 40 years of history, principally engaged in investment in advancing technology, science and medical sectors. The general partner of NEA Ventures is Karen P. Welsh. For more details of the ownership structure of NEA, see the section headed "Substantial Shareholders" in this prospectus.

The investment portfolio of New Enterprise Associate Inc. in healthcare industry includes, among others, Bright Health Group (stock code: BHG (NASDAQ)).

#### *Long Hill Capital, Long Hill Capital Plus and Long Hill Capital GST*

Long Hill Capital, Long Hill Capital Plus and Long Hill Capital GST are all exempted limited partnerships established under the laws of the Cayman Islands and managed by Long Hill Capital Management. Long Hill Capital Management is a PRC focused venture capital firm investing in technology enabled healthcare and consumer companies. For more details of the ownership structure of Long Hill Capital, Long Hill Capital Plus and Long Hill Capital GST, see the section headed "Substantial Shareholders" in this prospectus.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Long Hill Capital Management has invested in a number of publicly traded companies in the healthcare industry, including, among others, Hygeia Healthcare Holdings Co., Limited (stock code: 6078 (SEHK)).

### *Asia Ventures III and ERVC Healthcare*

Asia Ventures III is an exempted limited partnership registered under the laws of Bermuda. The general partner of Asia Ventures III is Asia Partners III L.P., and the general partner of Asia Partners III L.P. is Eight Roads GP.

ERVC Healthcare is an exempted limited partnership registered under the laws of Bermuda. The general partner of ERVC Healthcare is ERVC Healthcare Advisors IV LP, and the general partner of ERVC Healthcare Advisors IV LP is Eight Roads GP.

Each of Asia Ventures III and ERVC Healthcare is part of Eight Roads, a global proprietary investment firm backed by Fidelity. Eight Roads mainly focuses on private investments in the healthcare and technology sectors in the PRC and globally. Eight Roads has invested in a number of healthcare-related companies, including, among others, Wuxi AppTec Co., Ltd. (無錫藥明康德新藥開發股份有限公司) (stock code: 2359 (SEHK)), Shanghai Hile Bio-Technology Co., Ltd. (上海海利生物技術股份有限公司) (stock code: 603718 (SHSE)), Innovent Biologics, Inc. (信達生物製藥) (stock code: 1801 (SEHK)), Hua Medicine (華領醫藥) (stock code: 2552 (SEHK)), Ocumension Therapeutics (歐康維視生物) (stock code: 1477 (SEHK)) and Denali Therapeutics (stock code: DNLI (NASDAQ)). For more details of the ownership structure of Asia Ventures III and ERVC Healthcare, see the section headed “Substantial Shareholders” in this prospectus.

### *F-Prime Capital*

F-Prime Capital is a limited partnership established under the laws of Delaware (the U.S.). It is a global venture capital investment fund and it and its affiliated funds invest in the healthcare and technology sectors in the U.S., Europe and Asia with portfolio companies including, among others, Blueprint Medicines (stock code: BPMC (NASDAQ)), Denali Therapeutics (stock code: DNLI (NASDAQ)), Shanghai Hile Bio-Technology Co., Ltd. (上海海利生物技術股份有限公司) (stock code: 603718 (SHSE)), Ironwood Pharmaceuticals (stock code: IRWD (NASDAQ)), Innovent Biologics, Inc. (信達生物製藥) (stock code: 1801 (SEHK)), Beam Therapeutics (stock code: BEAM (NASDAQ)) and Sana Biotechnology (stock code: SANA (NASDAQ)). The general partner of F-Prime Capital is F-Prime Capital Partners Healthcare Advisors Fund IV LP, which is solely managed by Impresa Management LLC as the managing member of its general partner and its investment manager. For more details of F-Prime Capital’s ownership structure, see the section headed “Substantial Shareholders” in this prospectus.

### *Starr International*

Starr International, which was incorporated on November 20, 2015 under the laws of Hong Kong and served as an investment holding company, is a direct and wholly owned subsidiary of Starr International Company, Inc. (“SICO”), a Swiss corporation, which is in turn owned by Starr International Foundation (“SIF”), a Swiss charitable foundation. SIF holds 100% of the Class A non-voting shares of SICO while SICO’s registered shares are owned by a group of individuals, none of whom owns more than 8.33%.

Starr International has invested in a number of publicly traded companies in the healthcare industry, including, among others, Shandong Buchang Pharmaceuticals Co., Ltd. (stock code: 603858 (SHSE)) and Jiangsu Aidea Pharmaceuticals Co., Ltd. (stock code: 688488 (SHSE)).

### *Celestial City*

Celestial City is an investment company incorporated in BVI for the purpose of investing in our Group. It is wholly owned by Wumianshan Ltd., which is ultimately owned by Mr. Tu, the executive Director and one of our Controlling Shareholders.

### *Chongqing Jinpu*

Chongqing Jinpu was incorporated on March 22, 2016 as a venture capital investing focusing on healthcare industry. The general partner of Chongqing Jinpu is Shanghai Jinpu Healthcare Service Equity Investment Management Co., Ltd. (上海金浦健服股權投資管理有限公司) (“**Shanghai Jinpu**”), which focuses on investing in healthcare industry. Shanghai Jinpu is 30% owned by Jinpu Industrial Investment Fund Management Co., Ltd. (金浦產業投資基金管理有限公司), which is in turn 49.5% owned by Shanghai International Group Asset Management Co., Ltd. (上海國際集團資產管理有限公司), a wholly-owned subsidiary of Shanghai International Group Co., Ltd. (上海國際集團有限公司) (“**Shanghai International Group**”). Shanghai International Group is wholly-owned by the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government (上海市國有資產監督管理委員會).

Chongqing Jinpu has invested in a number of companies in the healthcare industry, including Shandong Sinobioway Biomedicine Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002581 (SZSE)).

### *GP SOE*

GP SOE is an investment company incorporated in Cayman Islands for the purpose of investing in our Group. It is ultimately owned by Fan Yin (an Independent Third Party), who is the president of Shanghai Jinpu (as defined above).

### *Wang Jian Guo Holdings*

Wang Jian Guo Holdings is an investment company incorporated in BVI and is ultimately owned by Wang Jianguo (an Independent Third Party). Wang Jian Guo Holdings invested in other publicly traded companies, including China Feihe Limited (stock code: 6186 (SEHK)).

### *Series E Subscription Platforms*

The series E subscription platforms (the “**Series E Subscription Platforms**”) are BVI holding platforms controlled by certain employees and consultant of the Company, with a primary purpose of investing in the Company. There are 14 Series E Subscription Platforms and the ultimate beneficial owners of these Series E Subscription Platforms include 91 employees (including four members of senior management of the Company), 12 TCM physicians and consultants. Certain of the Series E Subscription Platforms are Principal Shareholders (as defined above) and will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after completion of the Global Offering. For details, see “—Public Float” in this section.

### *General Platforms*

The General Platforms are BVI holding platforms controlled by certain employees, TCM physicians, consultants of the Company and External Investors (as defined above), with a primary purpose of investing in the Company. There are 19 General Platforms (including Gushengtang Ltd. and Liumianshan Ltd.) and the ultimate beneficial owners of these General Platforms include 34 employees (including one member of senior management of the Company), 153 TCM physicians and consultants and two External Investors. Certain of the General Platforms are Principal Shareholders (as defined above) and will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after completion of the Global Offering. For details, see “—Public Float” in this section.

### *2017 Shares Subscription Platforms*

The 2017 Share Subscription Platforms are BVI holding platforms controlled by certain employees, TCM physicians and consultants of the Company, with a primary purpose of investing in the Company. There are 10 2017 Share Subscription Platforms (including Wumianshan Ltd.) and the ultimate beneficial owners of these 2017 Share Subscription Platforms include six employees (including one Director and one member of senior management of the Company), 22 TCM physicians and consultants. Certain of the 2017 Shares Subscription Platforms are Principal Shareholders (as defined above) and will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after completion of the Global Offering. For details, see “—Public Float” in this section.

### *External Investors Platforms*

The External Investors Platforms are BVI holding platforms controlled by the External Investors (as defined above), with a primary purpose of investing in the Company. The External Investors were previously counterparties to the onshore acquisition targets being acquired by the Company from 2015 to 2021. There are seven External Investors Platforms and the ultimate beneficial owners of these External Investors Platforms include 16 External Investors. Certain of the External Investors Platforms are Principal Shareholders (as defined above) and will not be counted towards the public float for the purpose of Rule 8.08 of the Listing Rules after completion of the Global Offering. For details, see “—Public Float” in this section.

### *Ershisanmianshan Holdings Limited*

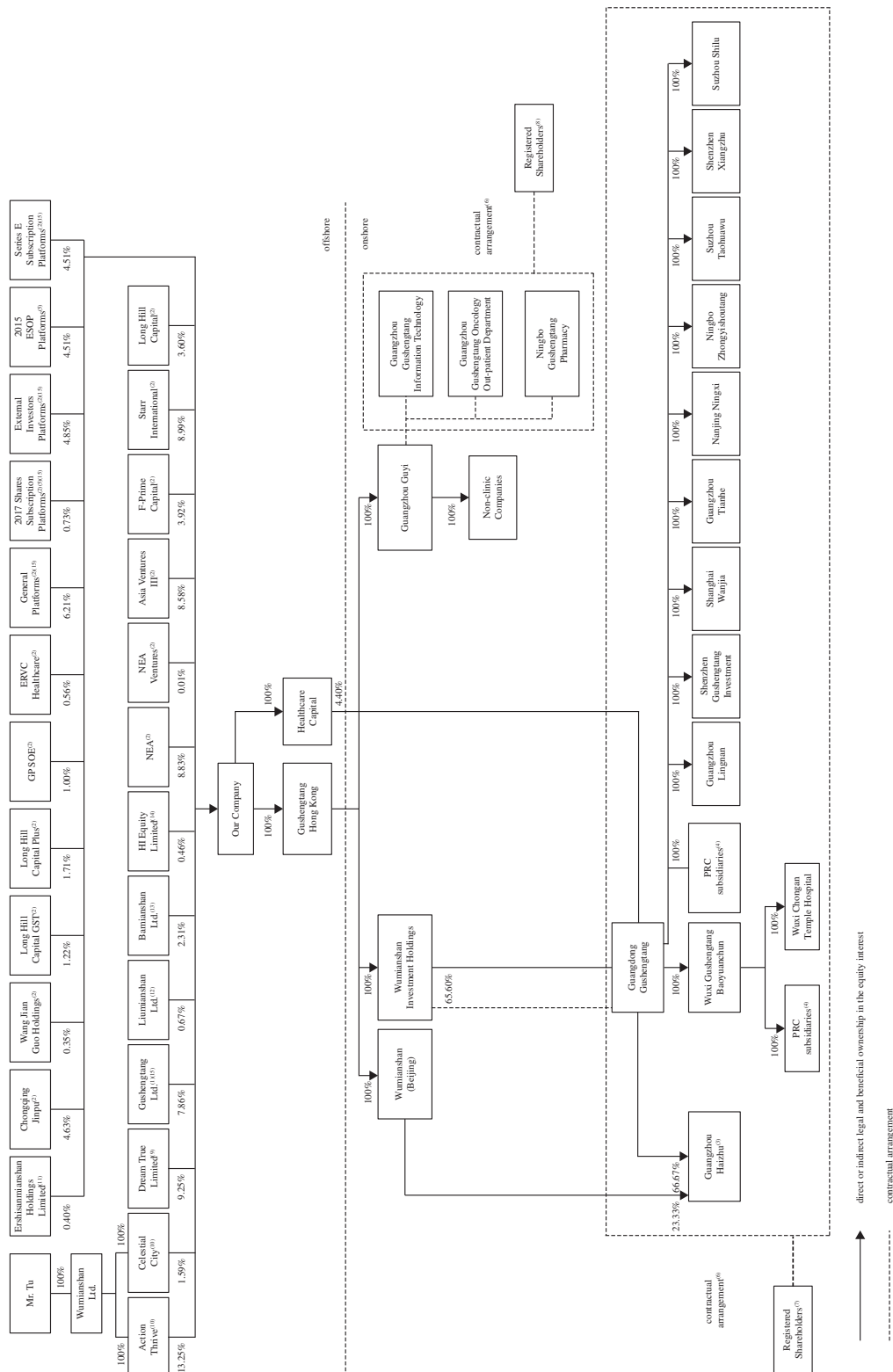
Ershisanmianshan Holdings Limited is an investment company incorporated in BVI for the purpose investing in our Group. It is wholly owned by various pre-IPO investors (including but not limited to Hua Jinming (an Independent Third Party)).

## COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

Based on the documents provided by our Company relating to the Pre-IPO Investments, the Joint Sponsors confirm that the Pre-IPO Investments are in compliance with Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and updated in March 2017, Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and updated in July 2013 and March 2017, and Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and updated in March 2017.

## OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following diagram illustrates the corporate and shareholding structure of our Group immediately prior to the completion of the Global Offering (assuming no Shares are issued under the Pre-IPO Share Option Plan).



## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Notes

- (1) Gushengtang Ltd. is owned by Zhang Wei, Lin Ruiyun, Shen Mailan, Wang Yi, Li Mingrui, Mr. Tu and Yan Jun as to 17.66%, 14.14%, 12.95%, 6.06%, 8.08%, 20.91% and 20.20%, respectively. Save and except for Li Mingrui (being the spouse to Mr. Tu) and Yan Jun (being the director of Guangdong Gushengtang), Zhang Wei, Lin Ruiyun, Shen Mailan and Wang Yi are Independent Third Parties and the initial investors of our Company back in 2014 who have never been a director or member of the senior management of our Company.
- (2) NEA, NEA Ventures, Long Hill Capital, Asia Ventures III, F-Prime Capital, Starr International, Chongqing Jinpu, Wang Jian Guo Holdings, Long Hill Capital GST, Long Hill Capital Plus, GP SOE, ERVC Healthcare, Celestial City, Series E Subscription Platforms, General Platforms, 2017 Shares Subscription Platforms and External Investors Platforms are our Pre-IPO Investors prior to the Reorganization. For details of their investments, see “—Pre-IPO Investments.”
- (3) The remaining 10% equity interest in Guangzhou Haizhu was held by Yang Chengxiang, a Shareholder of the Company holding 0.017% of issued share capital of the Company through Shibamianshan Holdings Limited.
- (4) For details of the PRC subsidiaries, please see note 1 of the Accountants’ Report set out in Appendix I to this prospectus.
- (5) On April 27, 2021, our Company allotted and issued an aggregate of 17,191,534 Shares, representing approximately 8.49% of our total issued share capital, pursuant to the 2015 Equity Incentive Plan. For details, please see “—Offshore Reorganization—4. Further Allotment and Issuance of Shares pursuant to the 2015 Equity Incentive Plan.”
- (6) We entered into the Contractual Arrangements with Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy. Please see the section headed “Contractual Arrangements” for details.
- (7) The Registered Shareholder of Guangdong Gushengtang is Mr. Tu, who is holding 30% of the equity interest in Guangdong Gushengtang.
- (8) The Registered Shareholders of Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy are Yan Jun and Zheng Xiang, who are holding 99% and 1% of the equity interest in each of Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy. Both Yan Jun and Zheng Xiang are currently vice presidents to the Company who are responsible for general engineering management (in particular the clinic interior decoration and renovation of the Group’s TCM clinics) and information technology of our Group, respectively.
- (9) Dream True is wholly owned by Tu Family Holdings Limited, which is further wholly-owned by the Trident Trust through its wholly-owned subsidiary Frandor Limited.
- (10) Shares held by Action Thrive and Celestial City were transferred from Wumianshan Ltd and issued by the Company, respectively.
- (11) It represents the percentage of Shares held by Hua Jinming through Ershisanmianshan Holdings Limited.
- (12) Liumianshan Ltd. is ultimately controlled by Yang Chenglu. He is an Independent Third Party and one of the initial investors of our Company back in 2014 who has never been a director or senior management of our Company.
- (13) Bamianshan Ltd is ultimately controlled by Xu Qinhua. He is an Independent Third Party and one of the initial investors of our Company back in 2014 who has never been a director or senior management of our Company.
- (14) HI Equity Limited is ultimately controlled by Han Pei, who is the spouse to Huang Jingsheng (one of our non-executive Directors).
- (15) The Principal Shareholders hold 34,872,955 Shares, representing approximately 17.22% of the share capital of the Company immediately prior to the completion of the Global Offering. For details on the beneficial owners of each of the Principal Shareholders, see “—Voting Deeds” in this section. Details of the Shares subject to the Voting Deeds are as follows:

Principal Shareholders	No. of Shares subject to the Voting Deed	Shareholding percentage as of the date of this prospectus
Gushengtang Ltd. . . . .	15,921,267	7.86%
Shiyimianshan Holdings Limited . . . . .	821,958	0.41%
Shiermianshan Holdings Limited . . . . .	3,322,436	1.64%
Shisanmianshan Holdings Limited . . . . .	7,235,274	3.57%
Shisimianshan Holdings Limited . . . . .	1,381,884	0.68%
Shiwumianshan Holdings Limited . . . . .	2,304,590	1.14%
Yijiakang Technology Holdings Limited . . . . .	1,532,297	0.76%
Yijiajian Technology Holdings Limited . . . . .	950,932	0.47%
Yijiale Technology Holdings Limited . . . . .	530,721	0.26%
Yijiaan Technology Holdings Limited. . . . .	871,596	0.43%
	<b>34,872,955</b>	<b>17.22%</b>



[illegible]

(15) The Shares held by each of these Shareholders will not be counted towards the public float.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (16) The Principal Shareholders hold 34,872,955 Shares, representing approximately 15.14% of the share capital of the Company upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), which will not be counted towards public float. For details on the beneficial owners of each of the Principal Shareholders, see “—Voting Deeds” in this section. Details of the Shares subject to the Voting Deeds are as follows:

Principal Shareholders	No. of Shares subject to the Voting Deeds	Shareholding percentage upon completion of the Global Offering
Gushenggang Ltd. . . . .	15,921,267	6.91%
Shiyimianshan Holdings Limited. . . . .	821,958	0.36%
Shiermianshan Holdings Limited. . . . .	3,322,436	1.44%
Shisanmianshan Holdings Limited. . . . .	7,235,274	3.14%
Shisimianshan Holdings Limited. . . . .	1,381,884	0.60%
Shiwumianshan Holdings Limited. . . . .	2,304,590	1.00%
Yijiekang Technology Holdings Limited. . . . .	1,532,297	0.67%
Yijiajian Technology Holdings Limited. . . . .	950,932	0.41%
Yijiale Technology Holdings Limited. . . . .	530,721	0.23%
Yijiaian Technology Holdings Limited. . . . .	871,596	0.38%
	<b>34,872,955</b>	<b>15.14%</b>

- (17) Huang Jingsheng, one of the non-executive Directors of the Company, is one of the trustee of The Jingsheng Huang 2006 Irrevocable Family Trust (one of the 2015 ESOP Platforms), which holds 300,000 Shares. Therefore, the 300,000 Shares, representing approximately 0.13% of the share capital of the Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), will not be counted towards public float.

### PRC REGULATORY REQUIREMENTS

As advised by our PRC Legal Advisors, all required regulatory approvals in relation to the equity transfers in the PRC and the onshore reorganization as described above have been obtained and the procedures involved have been carried out in accordance with the PRC laws and regulations. Our PRC Legal Advisors further confirmed that the equity transfers, disposals and capital contributions in the PRC as described above have been properly and legally completed.

### M&A Rules

According to the M&A Rules jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisors are of the opinion that since Healthcare Capital is an Independent Third Party to Guangdong Gushengtang, whose capital contributions to Guangdong Gushengtang does not apply to Article 10 of the M&A Rules and no approval from MOFCOM is required. Further, given that Guangdong Gushengtang was an existing foreign-invested enterprise prior to the transfer of the certain equity interest of Guangdong Gushengtang to Wumianshan Investment Holdings, such transfer does not apply to the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented and whether the MOFCOM and other related government authorities would promulgate future PRC laws, regulations or rules contrary to the M&A Rules.

### SAFE Registration in the PRC

The SAFE Circular 75 was promulgated by the SAFE on October 21, 2005, and came into effect on November 1, 2005. Under SAFE Circular 75, Chinese residents must register with the relevant local SAFE branch prior to their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with SAFE thereafter upon the occurrence of certain material capital changes. The registration and filing procedures under SAFE Circular 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

---

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

---

Pursuant to the SAFE Circular 37, which has replaced SAFE Circular 75, promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be subject to penalty and sanction and restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, if we cannot comply with the evolving requirements or interpretations of the various SAFE registration requirements described above, we could face liability under PRC law for evasion of foreign exchange controls.

SAFE Circular 37 was issued to replace the SAFE Circular 75. Pursuant to the SAFE Circular 13, promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks under SAFE Circular 37.

As advised by our PRC Legal Advisors, each of our Onshore Individual Owners who is required to complete the registration under SAFE Circular 75, SAFE Circular 37 and SAFE Circular 13 has duly completed the foreign exchange registrations on March 29, 2021 in relation to their offshore investments as PRC residents.

---

## CONTRACTUAL ARRANGEMENTS

---

### BACKGROUND

Our Consolidated Affiliated Entities are currently the Onshore Holdcos and their respective subsidiaries, which were all established under the PRC laws. As described below, investment in certain areas of the industries in which we currently operate and may operate are subject to restrictions under current PRC laws and regulations. After consultation with our PRC Legal Advisors, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through 100% equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the Reorganization, in replacement of the previous contractual arrangements (which were entered into on August 21, 2014), the Contractual Arrangements currently in effect were entered into on November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021, whereby the WFOEs have acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. The Consolidated Affiliated Entities contributed approximately 99.5% and 99.5% of our revenue and net profit or loss (where appropriate) for the three year ended December 31, 2018, 2019, 2020 and the six months ended 30 June 2021, respectively, where revenue and net profit or loss (where appropriate) contributed by the Non-clinic Companies represented less than 0.5% and 0.5% for the three years ended December 31, 2018, 2019, 2020 and the six months ended 2021, respectively. For details of Non-clinic Companies, see the section headed “History, Reorganization and Corporate Structure.”

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities; (ii) by entering into the Exclusive Operation Services Agreements (as defined below) with the WFOEs, which is our subsidiary incorporated in the PRC, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose. The Contractual Arrangement, through which we are able to exercise control over and derive the economic benefits from our Consolidated Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential for conflict with relevant PRC laws and regulations.

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), we will partially unwind the Contractual Arrangements and hold (directly or indirectly) equity interest in our 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 our Company would be allowed to directly hold the 100% equity interests in the Consolidated Affiliated Entities, we will fully unwind the Contractual Arrangements and directly hold the 100% equity interests in our Consolidated Affiliated Entities.

---

## CONTRACTUAL ARRANGEMENTS

---

### PRC REGULATORY BACKGROUND

#### Overview

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (2019 Version) (the “**Encouraging Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged,” “restricted,” “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged,” “restricted” and “prohibited” categories). As advised by our PRC Legal Advisors, a summary of our business/operation that is subject to foreign investment restriction in accordance with the Negative List, the Encouraging Catalog and other applicable PRC laws and on certain interviews with governmental authorities is set out below (the “**Relevant Businesses**”):

Categories	Our business/operation
<b>“Restricted”</b>	
Medical institution . . . . .	<p>Guangdong Gushengtang is the holding company of subsidiaries all engaged in the provision of TCM healthcare service, including entities operating business under the cooperation with third-party online platforms. For details of the cooperation with third-party online platforms, see “Business—Our Services and Products.” According to The Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions and its supplemental provisions, medical institutions (including those conducting businesses through third-party online platforms) fall within the “restricted” investment category and therefore may not be held 100% by foreign investment and foreign investments are restricted to the form of sino-foreign equity joint venture or cooperative joint venture, of which the equity percentage of the Chinese partner in the joint venture shall not be less than 30%.</p> <p>Furthermore, the respective PRC Legal Advisors of our Company and of the Joint Sponsors conducted verbal consultations with officers of the Health Commission of Guangdong Province (廣東省衛生健康委員會) and the Department of Commerce of Guangdong Province (廣東省商務廳) on April 12 and March 6, 2021, respectively, the competent authorities of the foreign invested enterprise in our Group holding the domestic medical institutions. The officers verbally confirmed that foreign investors are not allowed to hold, either directly or indirectly, more than 70% equity interest in a medical institution. Our PRC Legal Advisors are of the view that the Health Commission of Guangdong Province and the Department of Commerce of Guangdong Province are the competent authorities and the officers interviewed are competent to give such confirmation in respect of foreign investments, and such confirmations are not expected to be challenged by authorities not directly in charge. Therefore, the Company and our PRC Legal Advisors believe that the Contractual Arrangements in connection with such “restricted” TCM healthcare services business (including such business conducted through third-party online platforms) are narrowly tailored where we currently hold 70% equity interest in Guangdong Gushengtang (65.60% through Wumianshan Investment Holdings and 4.40% through Healthcare Capital). Mr. Tu holds the remaining 30% equity interest in Guangdong Gushengtang.</p>



---

## CONTRACTUAL ARRANGEMENTS

---

Categories	Our business/operation
<b>“Restricted”</b> Value-added telecommunication services business .....	<p>Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy are principally engaged in the provision of online TCM healthcare solutions, which falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations of the PRC. According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting value-added telecom business (excluding e-commerce, domestic multiparty communication services, store-and-forward services and call center services). 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 <b>“Qualification Requirements”</b>).</p> <p>Each of Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy holds a value-added telecommunications business operating license for provision of Internet information services (the <b>“ICP License”</b>) and/or license for online data processing and transaction processing services (the <b>“EDI License”</b>) issued by Guangdong Communications Administration and Zhejiang Communications Administration, respectively. Both Guangzhou Gushengtang Information Technology and Guangzhou Gushengtang Oncology Out-patient Department are engaged and are expected to continue to be engaged in online TCM healthcare service, which needs the ICP Licenses to operate; Ningbo Gushengtang Pharmacy is primarily engaged in online TCM drugs merchants, for which the EDI License is required.</p> <p>The PRC Legal Advisors of our Company and the Joint Sponsors conducted verbal consultations with a senior officer of the Guangdong Communications Administration and Zhejiang Communications Administration on April 13 and August 11, 2021, respectively. Both senior officers confirmed that foreign investors are allowed to hold up to 100% equity interest in companies conducting e-commerce, domestic multiparty communication services, store-and-forward services and call center services, but are not allowed to hold more than 50% equity interests in companies conducting other types of value-added telecommunication services.</p>

---

## CONTRACTUAL ARRANGEMENTS

---

---

### Categories

---

---

### Our business/operation

---

In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must meet 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. We have taken the following measures to meet the Qualification Requirements including that: (i) we have applied for the registration of a trademark in Hong Kong on March 18, 2021 and the opposition period ended on September 24, 2021; (ii) we have registered the domain name, GSTZY.HK, in Hong Kong and we are planning to register several other domain names in Hong Kong that will facilitate our overseas expansion and will help potential overseas users to better understand our services and businesses; and (iii) we have conducted the feasibility research on our overseas telecommunications business operations. As advised by our PRC Legal Advisors, there is no set criteria for the Qualification Requirements and that as those steps taken by us above may be feasible and generally deemed to fulfill the Qualification Requirements (regardless of which specific underlying services are provided, e.g. healthcare service). Further, the above steps taken by us are reasonable and appropriate in relation to the Qualification Requirements as our Company will be able to gain experience in providing value-added telecommunications services in overseas markets. In practice, the relevant authorities will assess whether a foreign investor can satisfy the Qualification Requirements and the relevant authorities are of the view that Gushengtang Hong Kong cannot satisfy the Qualification Requirements.

As for Ningbo Gushengtang Pharmacy which requires the EDI License to operate, and Guangzhou Gushengtang Information Technology and Guangzhou Gushengtang Oncology Out-patient Department which require the ICP Licenses to operate, it is confirmed by the Zhejiang Communication Administration and Guangdong Communication Administration that (i) Gushengtang Hong Kong, as a holding company with no actual telecommunication business, will not be granted approval to hold the value-added telecommunication license to conduct online data processing and transaction processing services and Internet information services; (ii) the aforementioned steps taken by Gushengtang Hong Kong could be helpful to fulfill the Qualification Requirements, however the relevant authority has the discretion to decide whether our Group satisfies the Qualification Requirement according to its substantive examination; and (iii) we will not be granted approval to obtain EDI licenses or ICP Licenses through any sino-foreign equity joint venture or wholly-owned foreign investment entity even if we meet the Qualification Requirements. Therefore, the Company and our PRC Legal Advisors believe the Contractual Arrangements in connection with such “restricted” value-added telecommunication services business are narrowly tailored. Our PRC Legal Advisors are of the view that the Guangdong Communications Administration and Zhejiang Communications Administration are the competent authorities and the officers interviewed are competent to give such confirmation in respect of foreign investments, and such confirmations are not expected to be challenged by authorities not directly in charge.

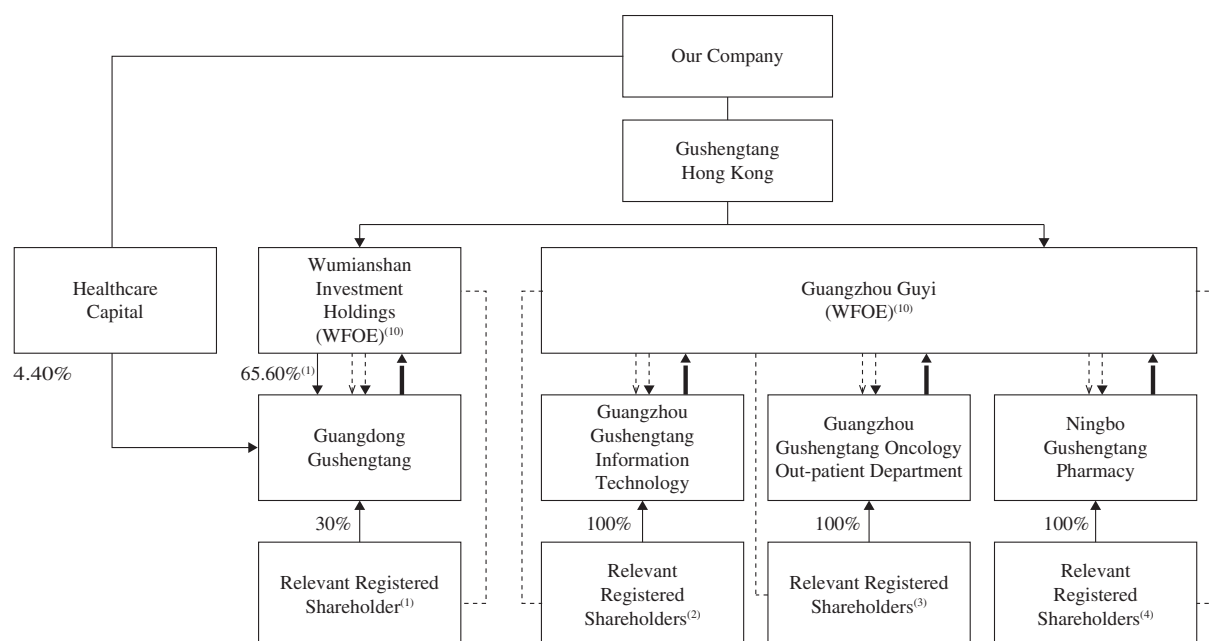
## CONTRACTUAL ARRANGEMENTS

Save for the Relevant Businesses, the Contractual Arrangements do not include non-restricted business (i.e., business that are not subject to the foreign ownership restrictions pursuant to the Negative List) and all business activities conducted by the Consolidated Affiliated Entities fall into either the “restricted medical institution” or “restricted value-added telecommunication services” business.

For further details of the limitations on foreign ownership in PRC companies conducting the aforementioned business under PRC laws and regulations, see “Regulatory Overview—Regulations Relating to Foreign Investment.”

### OUR CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our 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.

---

## CONTRACTUAL ARRANGEMENTS

---

### 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. The WFOEs have proprietary rights to all the intellectual properties developed or created by itself from the performance of these services. During the term of the Exclusive Operation Service Agreements, the WFOEs may use the intellectual property rights owned by the Onshore Holdcos and the Registered Shareholders free of charge and without any conditions. The Onshore Holdcos and the Registered Shareholders may also use the intellectual property work created by the WFOEs from the services performed by the WFOEs in accordance with the Exclusive Operation Service Agreements.

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.

In addition, without the prior written consent of the WFOEs, during the term of the Exclusive Operation Services Agreements, the Registered Shareholders and the Onshore Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish similar corporation relationships with any third party. The WFOEs have the right to appoint any third party to provide any or all of the services, or to fulfill any of its obligations under the Exclusive Operation Services Agreements.

Based on the Contractual Arrangements, our Company’s shareholders, through our WFOEs, have control over the subsidiaries of the Onshore Holdcos. Pursuant to the definition of “Medical Institution Business” in the Exclusive Operation Services Agreements, the business of the subsidiaries of the Onshore Holdcos has been included in the controlling scope of our WFOEs. According to the Exclusive Operation Services Agreements, the subsidiaries of the Onshore Holdcos are obligated to disclose the information, including but not limited to operations, customers, finance and employees, to WFOEs, while WFOEs are at the same time duly entitled to hold and control the relevant

---

## CONTRACTUAL ARRANGEMENTS

---

certificates and official seals that are important to the daily operations of such subsidiaries of the Onshore Holdcos. In addition, pursuant to the Exclusive Operation Services Agreements, without the prior written approval from the WFOEs, the Onshore Holdcos shall not, and shall procure the Consolidated Affiliated Entities not to, enter into any transactions (save for transactions entered in the ordinary course of business) that may materially affect its assets, obligations, rights or operation, including but not limited to:

- (i) disposing of, transferring or acquiring the important assets of the Consolidated Affiliated Entities in any form (except for those of value less than RMB0.5 million in the ordinary course of business of the Consolidated Affiliated Entities), or changing the existing share structure of the Consolidated Affiliated Entities;
- (ii) entering into transactions that may materially affect the assets, obligations, business operation, share structure of the Consolidated Affiliated Entities (save for transactions entered in the ordinary course of business); and
- (iii) entering into any other agreements or arrangements that conflict with the Exclusive Operation Services Agreements or may affect the WFOEs' rights and interests under the Exclusive Operation Services Agreements.

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 Option 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**”)<sup>(1)</sup> and their respective shareholders (the “**Opco Shareholders**”) also entered into the exclusive option agreements (collectively, the “**Exclusive Option Agreements**”).

---

*Note:*

- (1) For details of the Operating Subsidiaries, please see (8)-(13), (15), (17)-(21), (23)-(26), (29)-(30), (32)-(34), (37)-(39), (41)-(42), (44), (47)-(49), (52)-(53), (55)-(57), (59), (62), (68), (81)-(84) in note 1 of the Accountants' Report set out in Appendix I to this prospectus. Further, Operating Subsidiaries also include Beijing Gushengtang Health Management Co., Ltd. (北京固生堂健康管理有限公司), Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. (廣州市越秀區固生門診部有限公司), Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司), Shanghai Zhengshen Biotech Development Co., Ltd. (上海正神生物科技發展有限公司), Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司), Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. (廣州白雲區固生堂綜合門診部有限公司), Foshan Shunde District Gushengtang TCM Outpatient Department Co., Ltd. (佛山市順德區固生堂中醫門診部有限公司), and Beijing Zhonghai TCM Hospital Co., Ltd. (北京中海中醫醫院有限公司) (currently known as Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司)).

---

## CONTRACTUAL ARRANGEMENTS

---

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. Without the prior written consent of the WFOEs, the Registered Shareholders, the Onshore Holdcos, the Opco Shareholders and the Operating Subsidiaries shall not:

- (i) transfer or otherwise dispose of any option under the Exclusive Option Agreements, or create any encumbrances thereon; and the Onshore Holdcos and the Operating Subsidiaries shall not assist in transferring or otherwise disposing of any option under the Exclusive Option Agreements, or creating any encumbrances thereon;
- (ii) increase or decrease the registered share capital of the Onshore Holdcos and the Operating Subsidiaries, change the registered share capital structure of the Onshore Holdcos and the Operating Subsidiaries, approve any mergers between the Onshore Holdcos and the Operating Subsidiaries and any other entity or acquisitions of or investments in any other entity conducted by the Onshore Holdcos and the Operating Subsidiaries;
- (iii) dispose of or procure the management of the Onshore Holdcos and the Operating Subsidiaries to dispose of any material assets of the Onshore Holdcos and the Operating Subsidiaries (except for those of value less than RMB0.5 million in the ordinary course of business of the Consolidated Affiliated Entities);
- (iv) terminate or procure the management of the Onshore Holdcos and the Operating Subsidiaries to terminate any material contracts executed by the Onshore Holdcos and the Operating Subsidiaries, which shall include any contract with an amount more than RMB0.5 million, or sign any contract contradictory to any of the existing material contracts;
- (v) appoint or remove any directors, supervisors or other management personnel of the Onshore Holdcos and the Operating Subsidiaries who shall be appointed or removed by the WFOEs;
- (vi) procure or allow the Onshore Holdcos and the Operating Subsidiaries to declare or distribute any distributable profits or dividends;
- (vii) amend the articles of association of the Onshore Holdcos and the Operating Subsidiaries;



---

## CONTRACTUAL ARRANGEMENTS

---

- (viii) procure or allow the Onshore Holdcos and the Operating Subsidiaries to lend or borrow loans, provide guarantees or make other forms of guarantees, or undertake any substantive obligations outside normal business activities;
- (ix) procure or allow the Onshore Holdcos and the Operating Subsidiaries to engage in any transactions or act that may materially affect the Onshore Holdcos' or the Operating Subsidiaries' assets, rights, obligations or operations; and
- (x) directly or indirectly (by itself or through the entrustment of any other natural person or legal entity) carry out, own or acquire any business that competes or is likely to compete with the business of the WFOEs.

Based on the above, we believe that the measures stipulated in the Exclusive Operation Services Agreements and the Exclusive Option Agreements are sufficient to protect the interests of our Shareholders.

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.

---

## CONTRACTUAL ARRANGEMENTS

---

### (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). In the event of any breach of obligations by the Onshore Holdcos, the Registered Shareholders, the Operating Subsidiaries or the Opco Shareholders, the WFOEs, upon issuing a written notice to the pledgors, will be entitled to all remedies available under PPC laws and the Contractual Arrangements, including but not limited to disposing of the equity interests pledged in its favor.

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. The Company undertakes that it will try its reasonable efforts to complete all equity pledge registrations within six months after the Listing and will disclose in the subsequent annual report or interim report on the completion of the registrations. In case that the Company is unable to complete all the registrations within the estimated period above, the Company will disclose in the subsequent annual report or interim report the latest status of the relevant registrations and the reasons why the registrations are not completed within the estimated period above. As advised by our PRC Legal Advisors, pursuant to the Civil Code of the PRC, the executed Equity Pledge Agreements are legal, valid and binding on the parties thereto. There is no material legal impediment for us to complete the registration of the relevant pledge under the duly executed Equity Pledge Agreements which were entered into between Wumianshan Investment Holdings, each of the Operating Subsidiaries and the Opco Shareholders pursuant to the Civil Code of the PRC.

---

## CONTRACTUAL ARRANGEMENTS

---

### (4) **Entrustment Agreements and Power 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:

- 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;
- to file documents with the relevant companies registry;
- 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
- to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the Onshore Holdcos.

Pursuant to the Power of Attorney, the authorization has only been granted to the WFOEs or the natural persons designated by the WFOEs (the directors of our Company and the liquidator or other successors acting on behalf of such directors), excluding any person who is not independent or may lead to a potential conflict of interest.

The Registered Shareholders further undertake that, the Registered Shareholders' authorization will not cause any actual or potential conflict of interest between the Registered Shareholders and the WFOEs and/or the trustee. If there was a potential conflict of interest between the Registered Shareholders, the Onshore Holdcos and the WFOEs or the WFOEs' foreign parent company or its subsidiaries, the Registered Shareholders have undertaken to give priority to protect the interests of the WFOEs or WFOEs' foreign parent company or its subsidiaries. The Registered Shareholders shall not sign any document or make any promise to the public that will lead to a potential conflict of interest with the documents executed by the Onshore Holdcos or the WFOEs and its designees or is in the process of execution. The Registered Shareholders shall not act or refrain from acting in a manner that will lead to a potential conflict of interest between the Registered Shareholders and the WFOEs and the WFOEs' shareholders. If such a conflict of interest arises (and the WFOEs shall have the right to determine unilaterally whether such a conflict of interest arises), the Registered Shareholders shall take steps to eliminate the relevant conflict of interest as promptly as possible with the consent of the WFOEs or a designated person by the WFOEs. If the Registered Shareholders refuse to take measures to eliminate any relevant conflict of interest, the WFOEs have the right to exercise or designate other parties to exercise the right to purchase under the relevant exclusive right to the Exclusive Option Agreements in accordance with the relevant laws and regulations.

---

## CONTRACTUAL ARRANGEMENTS

---

As the WFOEs are an indirect wholly-owned subsidiary of our Company, the terms of the Entrustment Agreements and the Powers of Attorney give our 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 Undertaking**

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.

### ***Common terms of the Contractual Arrangements***

#### *Dispute resolution*

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Guangzhou Arbitration Commission for arbitration, in accordance with the then effective arbitration rules.

The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of the Onshore Holdcos or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up the Onshore Holdcos; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the PRC and the places where the principal assets of the WFOEs or the Onshore Holdcos are located for interim remedies or injunctive relief.

However, our PRC Legal Advisors have advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of the Onshore Holdcos pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

---

## CONTRACTUAL ARRANGEMENTS

---

As a result of the above, in the event that Onshore Holdcos or the Registered Shareholders breach any terms of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert fully effective control over the Onshore Holdcos and to conduct our business could be materially and adversely affected. See the section headed “Risk Factors—Risks Relating to the Contractual Arrangements” for further details.

### *Succession*

The provisions set out in the Contractual Arrangements are binding on the successors of the Registered Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, the WFOEs can enforce their rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Registered Shareholders shall inherit any and all rights and obligations of the Registered Shareholders under the Contractual Arrangements as a result of the Registered Shareholders’ death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect their exercise of equity interest in the Onshore Holdcos, as if the inheritor was a signing party to the Contractual Arrangements.

Pursuant to the Exclusive Option Agreements, the Exclusive Operation Services Agreements and the Equity Pledge Agreements, the Registered Shareholders have undertaken, in the event that the Registered Shareholders are a situation that may affect the exercise and holding of their right to the Onshore Holdcos, their successors will be deemed to be a party to the Agreements and will succeed to and assume all of the Registered Shareholders’ rights and obligations under the agreements and the agreements shall be binding on the legal successors of each party.

Pursuant to the Exclusive Operation Services Agreements, the WFOEs, the Registered Shareholders and the Onshore Holdcos have acknowledged and agreed that if there is any change in the shares of Onshore Holdcos held by the Registered Shareholders due to any reason including death, loss of civil capacity, bankruptcy, divorce, change of shareholders, etc. of a natural person shareholder, then (i) the rights, obligations and liabilities under the Exclusive Operation Services Agreements and other control agreements signed by the WFOEs, the Registered Shareholders and the Onshore Holdcos hereunder shall continue to be legally binding on their successors; (ii) any relevant debt arrangements, restructuring framework agreements and other legal documents in any form entered into by the Registered Shareholders (including their ultimate shareholders and affiliates) and Onshore Holdcos involving the disposal of interests (including but not limited to shares, debentures, assets, etc.) with the Registered Shareholders and Onshore Holdcos shall be subject to the contents of the Exclusive Operation Services Agreements and other control agreements, unless prior written consent is obtained from the WFOEs.

In addition, based on the Spouse Undertakings, the spouse to each of the Registered Shareholders has undertaken, 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. Pursuant to Article 2 and Article 3 of Spouse Undertakings, each of the spouse of each of the Registered Shareholders has undertaken, 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. Pursuant to

---

## CONTRACTUAL ARRANGEMENTS

---

Article 6 of the Spouse Undertakings, each of the spouse of each of the Registered Shareholders has undertaken, if he/she acquires the WFOEs' or the Onshore Holdcos' shares, he/she will unconditionally agree to be bound by the control agreements.

### *Conflicts of interest*

The Registered Shareholders and the Onshore Holdcos undertake that, as long as the Contractual Arrangements remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with the WFOEs or WFOEs' direct or indirect shareholders. If there is any conflict of interest, the WFOEs shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. The Registered Shareholders and the Onshore Holdcos will unconditionally follow the instructions of the WFOEs to take any action to eliminate such conflict of interest.

### *Arrangements to address potential conflicts of interest*

Each of the Registered Shareholders has given their irrevocable undertakings in the Entrustment Agreements which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For details, see "Entrustment Agreements and the Powers of Attorney" in this section.

### *Loss sharing*

Under the relevant PRC laws and regulations, none of our Company and the WFOEs is legally required to share the losses of, or provide financial support to the Onshore Holdcos. Further, the Onshore Holdcos are limited liability companies and shall be solely liable for its own debts and losses with assets and properties owned by them. In addition, given that our Group conducts a substantial portion of its business operations in the PRC through the Onshore Holdcos, which hold the requisite PRC operational licenses and approvals, and that its financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if the Onshore Holdcos suffer losses.

### *Liquidation*

Pursuant to the Equity Pledge Agreements, in the event of a mandatory liquidation required by the PRC laws, the shareholders of the Onshore Holdcos shall, upon the request of the WFOEs, give the proceeds they received from liquidation as a gift to the WFOEs or its designee(s) to the extent permitted by PRC laws.

Accordingly, in the event of a winding-up of the Onshore Holdcos, the WFOEs shall be entitled to the liquidation proceeds of the Onshore Holdcos based on the Contractual Arrangements for the benefit of our Company's creditors and shareholders.

### *Insurance*

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.



---

## CONTRACTUAL ARRANGEMENTS

---

### *Company's confirmation*

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through the Consolidated Affiliated Entities under the Contractual Arrangements.

### **LEGALITY OF THE CONTRACTUAL ARRANGEMENTS**

The Contractual Arrangements are limited to the Relevant Businesses, including medical institution business and value-added telecommunication services business, which are foreign investment restricted business/operation under the Negative List. Please refer to the Background and PRC Regulatory Background of this section for details of the Relevant Businesses. Based on the above, our PRC Legal Advisors, following completion of reasonable due diligence steps, are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (i) each of the WFOEs, the Operating Subsidiaries and the Onshore Holdcos is an independent legal entity which is duly established, and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) each of the WFOEs, the Operating Subsidiaries and the Onshore Holdcos has authority and authorizations to execute and perform the Contractual Arrangements;
- (iii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto and none of the them would be deemed void under Articles 144, 146, 153 and 154 of the Civil Code of the PRC;
- (iv) none of the agreements under the Contractual Arrangements violates any provisions of respective articles of association of the WFOE, the Consolidated Affiliated Entities;
- (v) according to the confirmations given by the officers of Health Commission of Guangdong Province, the Department of Commerce of Guangdong Province, Guangdong Communications Administration and Zhejiang Communications Administration, the Contractual Arrangements will not be subject to challenges from or penalties imposed by them;
- (vi) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that (a) the pledges under the Equity Pledge Agreements are required to be registered with the relevant local SAMR; (b) the exercise of the option by WFOEs of their rights under Exclusive Option Agreements to all or part of the equity interests in our Onshore Holdcos and the Operating Subsidiaries is subject to the approvals of, consent of, filing with and/or registration with the PRC governmental authorities; and
- (vii) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of the Onshore Holdcos and the Operating Subsidiaries, injunctive relief and/or winding up of the Onshore Holdcos and the Operating Subsidiaries, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Onshore Holdcos and the Operating Subsidiaries in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

---

## CONTRACTUAL ARRANGEMENTS

---

However, we have been advised by our PRC Legal Advisors that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Advisors.

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed “Connected Transactions” of this document.

### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### Background of the Foreign Investment Law

On December 23, 2018, the 7<sup>th</sup> meeting of the 13<sup>th</sup> Standing Committee of the National People’s Congress reviewed the Draft Foreign Investment Law, which was promulgated by the National People’s Congress on its official website on December 26, 2018 for public consultation until February 24, 2019, and further submitted the second draft of the 2018 draft foreign investment law to the National People’s Congress (the “NPC”) for deliberation on January 29, 2019. On March 15, 2019, the NPC adopted the FIL at the closing meeting of the second session of the 13th NPC. The FIL took effect on January 1, 2020 and replaced the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-Owned Enterprise Law, became the legal foundation for foreign investment in the PRC. On December 26, 2019, the State Council promulgated Regulation on the Implementation of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on January 1, 2020.

#### Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOEs through which we operate our business in the PRC. As advised by our PRC Legal Advisors, since contractual arrangements are not specified as foreign investment under the FIL and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “Contractual Arrangements—Legality of the Contractual Arrangements.”

Notwithstanding the above, the FIL stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods.” There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will

---

## CONTRACTUAL ARRANGEMENTS

---

be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors—Risks Relating to the Contractual Arrangements.”

### COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- (d) our 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 our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Exclusive Business Operation Agreements, it was agreed that, in consideration of the services provided by the WFOEs, the Onshore Holdcos will pay service fees to the WFOEs. Accordingly, through the Exclusive Business Operation Agreements, the WFOEs has the ability, at its sole discretion, to extract the annual distributable profits of Onshore Holdcos, consisting of approximately 30% of the distributable net profit of Guangdong Gushengtang and 100% of the distributable net profits 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 applicable PRC laws and regulations.

In addition, under the Exclusive Option Agreements, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the equity holders of the Onshore Holdcos as the WFOEs’ prior written consent is required before making any distribution. In the event that the Registered Shareholder receives any profit distribution or dividend from the Onshore Holdcos, the Registered Shareholders must immediately pay or transfer all such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to the WFOEs.

Upon the Listing, we own 70% equity interest in Guangdong Gushengtang and as a result of the aforementioned Contractual Arrangements, our Company has obtained control of the remaining equity interest of the Onshore Holdcos through the WFOEs. As such, our Company can receive substantially all of the economic interest returns generated by our Onshore Holdcos.

**OVERVIEW**

We are a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, we provide customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs. We ranked eighth among all private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020, with a market share of 0.6% in terms of revenue in this highly fragmented market, according to Frost & Sullivan. As of December 31, 2020, we have achieved the following accomplishments, according to Frost & Sullivan:

- (i) 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, 2020;
  - the largest number of offline medical institutions as of December 31, 2020; and
  - the largest number of cities covered by offline medical institution network as of December 31, 2020.
- (ii) 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.

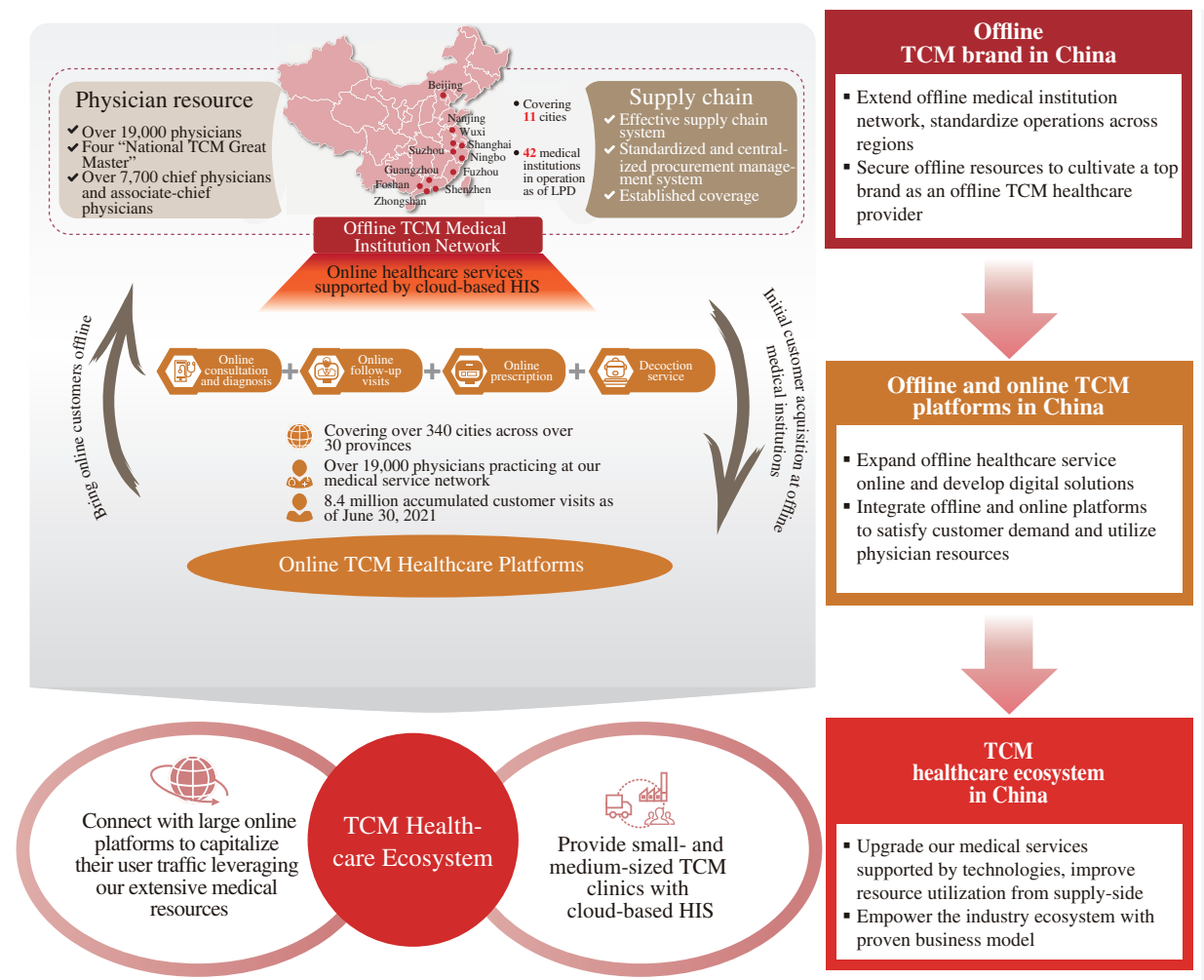
Focusing on primary care, we have established a TCM platform with the integration of online healthcare platforms and offline medical institutions, combining TCM and western medicine, to provide comprehensive healthcare solutions throughout the whole process of disease diagnosis and treatment and healthcare management for customers. Our TCM platform has the following key characteristics:

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

***Offline operations integrated with online operations.*** 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. We started to expand offline healthcare service to online healthcare platforms and further integrated our offline medical institutions with online healthcare platforms in 2018, earlier than other TCM healthcare providers in China, according to Frost & Sullivan. We believe we are one of the first TCM healthcare providers to utilize our online healthcare platforms and effectively connect our offline medical service network with online platforms, and are thus well positioned to benefit from favorable

government policies encouraging the development of online healthcare services. On the one hand, the development of our online healthcare services enables us to utilize medical resources and expand our customer coverage more effectively. On the other hand, we are able to strategically choose cities for offline expansion based on the activeness of online physicians and customers.

**Standardized and digitalized operations.** We have developed a standardized and scalable operating model for our offline business with a proven track record. Meanwhile, we developed and applied a cloud-based HIS in 2017 for our overall supply chain management from upstream procurement to downstream delivery while enhancing our capability to upscale business and maintaining quality control. Other medical institutions providing conventional TCM healthcare services are generally not well supported by cloud-based system and thus lack digital operation. Moreover, we also utilize our IT systems to improve customer experience and satisfaction, enabling our customers to check the availability of, and make appointments with, our physicians through their preferred channel and to communicate with us timely.





**Our Business Development**

We have gone through three stages for business development.

Since our inception in 2010, we have been dedicated to securing offline TCM healthcare resources and build reputable offline TCM brand. Our medical institutions provide customers with comprehensive TCM healthcare solutions, including consultation and diagnosis service, prescription service, decoction service and physiotherapy, to address their diversified medical and healthcare needs. See “—Our Services and Products—Healthcare Solutions” for more details. Driven by the philosophy of “offering services through chain management, economy of scale and branding” and benefiting from our multi-tier expansion strategies and scalable business model, we have expanded our offline medical service network and accomplished the following key metrics: (i) national coverage: we have established an offline medical institution network comprising 42 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo and Wuxi, where medical service consumption is relatively high and top tier TCM physicians are also concentrated; (ii) experienced physician resources: experienced physician resources are key to our success. In order to support sustainable growth and ensure customer satisfaction, we focus on recruitment and retention of high-caliber medical professionals. Out of the total of 56 “National TCM Great Masters” (國醫大師) in China as of June 30, 2021, 4 were practicing at our medical service network. As of the same date, over 2,800 physicians were practicing at our offline medical institutions, the majority of whom were chief physicians and associate-chief physicians; and (iii) integrated supply chain system: we have also built a vertically integrated supply chain with a centralized procurement management system, covering from upstream procurement to downstream delivery. In addition, we developed and applied our proprietary information technology system to manage our supply chain.

We are one of the first TCM healthcare service providers to expand offline healthcare service to online platforms and effectively connect our offline medical service network with online platforms. In terms of customer outreach, we have launched online healthcare platforms such as our official WeChat account and mini program which offer online appointment, follow-up consultation and diagnosis and prescription services. With our sizeable physician network, extensive operational experience and proprietary information technology infrastructure, we are able to provide our services to a broader group of customers across regions through our online healthcare platforms. Further, leveraging our proprietary platforms, we are able to keep customers’ electronic medical records in our cloud-based HIS and establish comprehensive customer profiles (“客戶畫像”) to facilitate follow-up services and long-term healthcare management for customers. See “—Our Services and Products—Healthcare Solutions.” In addition, we also proactively explore collaboration opportunities with leading internet players in China.

The connection between our offline and online business enables our business to expand with the following key advantages: (i) broad coverage: as of the Latest Practicable Date, we are able to provide services to customers in 343 cities across 31 provinces through our offline and online medical service network; (ii) extensive physician network: as an essential step to integrate our offline and online business, we successfully brought substantially all of our offline physicians online. As of June 30, 2021, over 19,000 physicians were practicing at our medical service network, covering a broad range of specialties, to fulfill different demands of our customers; and (iii) diverse and loyal customer base: we are able to provide our customers with effective follow-up services and long-term healthcare management services through our medical service network. We have established a diverse and loyal customer base. As of June 30, 2021, the number of our accumulated customers was close to 1.9 million and our accumulated customer visits reached over 8.4 million as of the same date.



We believe our past development and experience have laid solid foundation for us to build a leading TCM healthcare ecosystem in China in the future.

### Our Business Features

Through our business development and business model optimization over the past 10 years, we have established the following key features which distinguish us from other competitors:

**Continuous Achievements.** According to Frost & Sullivan, we are the one and only TCM healthcare provider in the TCM healthcare industry that has achieved the following metrics simultaneously:

- ***Established medical service coverage.*** We have established a nationwide presence, comprising our offline medical institutions and online service coverage. As of the Latest Practicable Date, we operated a network of 42 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo and Wuxi. As of the same date, we provided healthcare solutions in 343 cities across 31 provinces through our online healthcare service platforms.
- ***Offline operations integrated with online operations.*** We have expanded offline healthcare service to online platforms and integrated our offline medical institutions with online healthcare platforms providing TCM diagnosis and treatment solutions combining western medicine to offer flexibility and convenience to both physicians and customers. Our healthcare service platform has attracted extensive physician resources and numerous customers.
- ***Self-developed cloud-based HIS.*** We developed and applied the cloud-based HIS, which successfully integrates our offline network and online healthcare platforms, achieving effective management and expansion.
- ***Collaboration with multiple Class III Grade A hospitals and TCM universities.*** We are the one and only private TCM healthcare provider that collaborates with multiple Class III Grade A hospitals and TCM universities. We have established collaborative relationships with The First Affiliated Hospital of Guangzhou University of Chinese Medicine (廣州中醫藥大學第一附屬醫院) and Long Hua Hospital of Shanghai University of Traditional Chinese Medicine (上海中醫藥大學附屬龍華醫院) respectively to jointly develop online healthcare platforms in response to the rising demand of hierarchical medical system (分級診療).

**Extensive Physician Resources and Strong Supply Chain.** Our extensive and experienced physician resources and the effective supply chain system offer scarcity value.

- ***Valuable physician resources.*** As of June 30, 2021, a total of over 19,000 physicians were practicing at our medical service network, among whom, 7,794 were chief physicians and associate-chief physicians. We had 4 out of 56 National TCM Great Masters in China as of June 30, 2021 and ranked first in terms of the number of National TCM Great Masters as of June 30, 2021 among all private TCM healthcare providers with both offline and online medical service network in China. We have also established cooperative relationships with local Class III Grade A hospitals and TCM universities to attract talents.

- ***Integrated supply chain.*** We have also built a vertically integrated supply chain leveraging our centralized procurement management system to ensure sustainable and stable supply, supporting our business expansion.
- ***Well-recognized branding.*** Our branding is well recognized by key stakeholders in the TCM industry.
  - ***TCM universities and TCM hospitals:*** We have successfully established collaborative relationships with multiple TCM universities and TCM hospitals. See “—Our Services and Products—Healthcare Solutions—Comprehensive Healthcare Solutions.”
  - ***TCM physicians:*** Leveraging our brand awareness among physicians, we had a total of 7,794 chief physicians and associate-chief physicians, 5,390 attending physicians and 6,019 resident physicians practicing at our medical service network as of June 30, 2021.
  - ***Customers:*** We achieved relatively high member return rate (會員回頭率) for the years ended December 31, 2019 and 2020 and the six months ended June 30, 2021 at 88.2%, 89.1% and 87.4%, respectively. In 2019 and 2020 and the six months ended June 30, 2021, among customers who received our healthcare services through our official WeChat account and submitted their satisfaction rating for our services, 87.2%, 97.1% and 92.1% of them gave us the highest rating in our five-star rating system, respectively.
  - ***Large-scale financial and insurance institutions:*** We provide healthcare product packages to large-scale enterprises, mainly financial and insurance institutions, for their employees’ benefits and end-customers’ value-added benefits.
  - ***Leading third-party online platforms:*** We have also established collaborative relationships with leading internet players in China which help to expand our customer coverage.

**Scalability.** We benefit from fast growing TCM market and our scalable business model. The market size of China’s private TCM healthcare providers that also expanded their healthcare services to online platforms increased significantly from RMB5 billion in 2015 to RMB69 billion in 2019, and is expected to reach RMB1,803 billion in 2030, with a CAGR of 29.4% from 2019 to 2030, according to Frost & Sullivan.

Benefiting from our abovementioned features, we believe we are well positioned to capture the growth of TCM market.

## **OUR STRENGTHS**

We believe the following competitive strengths could enable us to achieve rapid and sustainable growth and maintain our industry position among private TCM healthcare providers.

### **One of the largest private TCM healthcare providers in China, integrating offline and online businesses which boosts sustainable growth potential**

We ranked eighth among all the private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020, according to Frost & Sullivan.

- ***Accomplishments achieved among private TCM healthcare providers in China that have expanded their healthcare services to online platforms***

Among all TCM healthcare providers in China with both offline and online medical service network, we ranked first in terms of the following metrics: (i) the number of TCM physicians as of December 31, 2020; (ii) the number of cities covered by offline medical institution network as of December 31, 2020; and (iii) the number of offline medical institutions as of December 31, 2020. Among all private TCM healthcare providers in China with both offline and online medical service network, we ranked first in terms of revenue generated from providing healthcare solutions in 2020, according to Frost & Sullivan.

- ***In-depth integration of offline and online business***

Leveraging the development of information technology, we have been continuously integrating our offline and online business by strengthening the interaction and resource sharing, to achieve better operating efficiency. Through our development and integration efforts over the past years, we also developed and applied an information technology system to support our business operations and facilitate our customers.

- ***Experience accumulated in online healthcare services***

Leveraging favorable government policy tailwind for online healthcare and TCM healthcare services, we are one of the first TCM healthcare providers to utilize online healthcare platforms and have accumulated extensive experience in online healthcare services in addition to our broad offline medical institution network.

- ***Proven acquisition and integration capabilities***

Offline business: As of the Latest Practicable Date, among our 42 offline medical institutions in operation, 32 were acquired by us. After the acquisition, we typically send our experienced management team to take over the daily operation. In addition, we replace the original information technology system and supply chain management system with our cloud-based HIS and implement our standardized operation procedures. Together with our well-established reputation and brand recognition, our newly-acquired medical institutions demonstrated strong bargaining power during the procurement process and improved profitability.

Online business: Our strong online integration capabilities have been proven by our successful integration of Bailu. From the supply-side, the integration of Bailu significantly enriched our physician resources. In addition, we are able to utilize our online healthcare platforms to allocate our concentrated medical resources across various tiers of cities and/or local districts nationwide. From the demand-side, the integration of Bailu largely expanded our customer base. Capitalizing on the customer traffic of Bailu, our physicians are able to reach customers more conveniently and efficiently.

### **Extensive TCM medical resources with established brand recognition and high entry barriers**

**2B (To business).** With established industry-wide brand recognition and long-term trust between the public hospitals and us, we have established strategic cooperative relationships with local Class III Grade A hospitals and TCM universities to attract experienced TCM physician resources. For example, we have successfully established strategic collaborative alliances with 4 out of the top 10 TCM hospitals in China, which were recognized by Yixin Tianxia (醫信天下), a renowned third-party healthcare big data analysis platform. For details, see “—Our Services and Products—Healthcare Solutions—Comprehensive Healthcare Solutions.” Furthermore, we have attracted multiple large-scale financial and insurance institutions as our corporate customers. We provide healthcare product packages to these large-scale financial and insurance institutions, for their employees’ benefits and end-customers’ value-added benefits. We also proactively explore collaboration opportunities with third-party online platforms and attract their customers to receive our quality TCM healthcare solutions.

**2D (To doctor).** We have accumulated experienced physician resources with broad coverage and demonstrated competitive strengths in many aspects. As of June 30, 2021, our physician team was led by 4 National TCM Great Masters and supported by over 19,000 physicians nationwide.

- We have 4 National TCM Great Masters, including, Xuan Guowei (禰國維), an expert specializing in TCM diagnosis and treatment of dermatological diseases; Zhou Daihan (周岱翰), an expert specializing in TCM diagnosis and treatment of oncology diseases; Xu Runsan (許潤三), an expert specializing in TCM diagnosis and treatment of gynecological diseases; and an expert specializing in TCM diagnosis and treatment of oncology diseases. All of the 4 National TCM Great Masters are our network physicians.
- As of June 30, 2021, over 19,000 physicians were practicing at our medical service network, including 7,794 chief physicians and associate-chief physicians, 5,390 attending physicians and 6,019 resident physicians. These physicians cover a broad range of specialties, including Chinese internal medicine, gynecology, dermatology, hepatology, otolaryngology and gastroenterology departments.

### **Sticky customer base with high loyalty**

Since our inception, we have established an integrated healthcare management platform, adopting differentiated customer acquisition and retention strategies, and offering various healthcare solutions through the whole process of disease diagnosis and treatment and healthcare management. We have adopted a customer referral program in our offline medical institutions since June 2019. For the six months ended June 30, 2021, approximately 24.2% of the newly acquired customers were introduced to us through our customer referral program. Leveraging our quality medical resources, we

capitalize on the customer traffic from leading third-party online platforms owned and operated by leading internet players in China and provide them with TCM healthcare solutions and products. We have attracted multiple large-scale financial and insurance institutions as our corporate customers.

The number of our accumulated customers was close to 1.9 million as of June 30, 2021. We ranked first among all private TCM healthcare providers in China in terms of accumulated customer visits, which were over 7.2 million as of December 31, 2020, according to Frost & Sullivan. Our customer loyalty and customer retention rate have been constantly improved during the Track Record Period. Our quarterly customer return rate reached 68.2% for the six months ended June 30, 2021. See “—Our Customers—Customer Acquisition and Retention.”

To better serve our customers, we launched our membership program in March 2019. For the six months ended June 30, 2021, we had close to 75 thousands members who ever made purchase in our medical service network. The return rate of our members was over 30% higher than that of our non-member customers. The average revenue attributable to each member for the six months ended June 30, 2021 was 2.1 times as much as that attributable to each of our non-member customers.

### **Effective supply chain management system empowered by in-house HIS**

We have established a vertically integrated supply chain to secure the quality of such healthcare products. The current supply chain in TCM industry is generally a lengthy process with relatively low efficiency. Meanwhile, the different standards set forth in the Chinese Pharmacopoeia (《中國藥典》) and other relevant authoritative literature of Chinese medicine cause challenges of selecting and inspecting TCM herb and decocting pieces. To address those challenges, better manage customers’ needs, and adapt to physicians’ prescribing habits, and empowered by our cloud-based HIS, our supply chain management system integrates a broad supplier network and covers diversified SKU, which enables us to effectively manage the supply chain and achieve standardization and centralization.

- ***Upstream.*** When procuring TCM herb, we select commonly-used medicinal based on stringent criteria to manage the quality and standardize our TCM healthcare products. We have also entered into strategic cooperation with leading TCM pharmaceutical companies to secure high-quality product supply according to our needs.
- ***Quality control.*** We have established comprehensive quality control measures supervised by our external professional consultants who assist us to conduct blind sample inspection during our supplier selection process and conduct random quality inspection on supplies delivered to our customers.
- ***Downstream.*** We centralize our procurement demands at headquarter and negotiate the terms with selective suppliers to ensure unified and quality supplies at attractive cost. Meanwhile, we control and manage the product delivery at group level to optimize operating efficiency and minimize customer complaint caused by potential logistics issues.

**Standardized and digitalized operations**

We implemented a digital operation system and centralized the management of our supply chain for better quality control. Leveraging our data analysis capability, we are implementing prescription recommendation system to improve our operating efficiency. We also utilize a customer recommendation and feedback collection system to improve customer experience in a timely manner. Furthermore, our online tracking system enables our customers to track the delivery status of healthcare products and check their healthcare management records timely. Benefiting from such IT systems, we are able to enhance operating efficiency and achieve data-driven decision-making.

We also have a well-established SOP for our operations. This enables us to replicate our operational success in different regions. As of the Latest Practicable Date, over 300 TCM clinics had adopted our Bai Hui Yun Yi TCM system. We also share our philosophy and managerial experience with these TCM clinics. We are in a good position to increase the service capability and promote standardization for the whole TCM industry.

**Visionary founder and experienced management team with proven track record**

With the continuous strong support from our shareholders, we have built a senior management team with extensive operational experience, solid medical expertise and strong execution capability, led by our founder, Mr. Tu. Mr. Tu is well recognized in TCM industry and serves as an executive director of the China Association of Chinese Medicine (中華中醫藥學會), where he also serves as the deputy chairman member of Operating, Study and Research Branch, Development and Reform Research Branch, and Health Professional Committee. In addition, being a leader to promote and inherit TCM, Mr. Tu 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 Care 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.

With the joint efforts of our founder and management team, we have built a private TCM healthcare platform in China with various accomplishments.

**BUSINESS STRATEGIES**

To achieve our mission, we plan to adopt the following strategies:

**Further broaden medical resource coverage, deepen the integration of offline and online healthcare platforms and increase market penetration**

We are dedicated to continuously improve our market penetration and enhance our market share, to achieve better economy of scale through the development of our TCM platform. We expect to take actions in the following aspects.



First, we target to develop family doctor services and chronic disease management services supported by our membership program. Benefiting from the favorable government policies, we endeavor to provide customer-centric family doctor services to meet different customers' needs and cover the whole process of disease diagnosis and treatment and healthcare management, which helps us further strengthen our long-term relationship with customers and relevant physicians.

Second, we intend to enhance and further expand our offline business through both organic growth and acquisitions. Focusing on tier one and tier two cities with concentrated medical resources, we intend to enhance our presence in cities we have entered into, improve our market penetration and strengthen our market position in such cities. We intend to establish new medical institutions in Guangdong, Jiangsu, Shanghai and Zhejiang from 2022 to 2025. We expect the expenses for establishing new medical institutions from 2022 to 2023 will be financed by the proceeds from the Global Offering. We also plan to seek and acquire medical institutions in a number of locations across China, including Shanghai, Zhejiang, Jiangsu, Fujian, Beijing and Guangdong from 2022 to 2025. We expect half of the expenses for acquiring medical institutions from 2022 to 2023 will be financed by the proceeds from the Global Offering, while the remaining is expected to be financed by our operating cash flow and bank borrowings. In addition, we plan to implement a steady expansion strategy by entering into new cities each year from 2022 to 2025. For example, we plan to enter into Wenzhou and/or Xiamen in 2022, which is expected to be financed by our operating cash flow and bank borrowings. We typically evaluate potential acquisition targets based on a number of criteria, including (i) the location of the target; (ii) local physician resources and local customers' preferences for TCM healthcare solutions; (iii) the target's qualification as a Designated Medical Institution; (iv) the target's historical regulatory and business compliance; (v) the target's synergies with us in supply chain, physician resource and management system; and (vi) estimated investment amount required for working capital.

Third, we intend to strengthen our online healthcare business and enhance connection and interaction between our offline and online business. We will focus on the upgrade and integration of our online platforms. In addition, we would assess the opportunities to acquire an online healthcare platform by 2024 to further enhance our online presence and expand our reach to online customer traffic, which is expected to be financed by our operating cash flow and bank borrowings. We will select the online platform with requisite certificates, permits and approvals required for online healthcare operation. We will also evaluate its potential synergies with our existing online platforms in supply chain, physician resource and management system. Based on the acquisition we carried out in the past and the current market condition. As of the Latest Practicable Date, we had not identified any definite acquisition targets. We will also make continuous efforts to leverage our online platforms and make high-quality medical services accessible for customers in lower tier cities.

We expect to use approximately HK\$462.6 million of the net proceeds of the Global Offering to expand and integrate our offline and online operations, while the remaining expenses for such plan is expected to be financed by our operating cash flow and bank borrowings. See "Future Plans and Use of Proceeds."

### **Continue to improve our information technology systems, standardize our healthcare solutions and products and strengthen our supply chain**

Going forward, we expect to further empower our integrated offline and online services throughout the whole process of disease diagnosis and treatment and healthcare management with our information technology systems. We would continue to improve our cloud-based HIS. In addition, we expect to digitalize our diagnosis process. We expect to utilize advanced technologies to improve our

services to cover comprehensive healthcare solutions for our customers throughout the whole process of disease diagnosis and treatment and healthcare management. For example, we are implementing a prescription recommendation system for common diseases to provide tailored prescription and improve treatment results.

We expect to further standardize our healthcare solutions, including examination, diagnosis, treatment and recuperation and other healthcare management services, by offering TCM solution packages, which refer to standardized packaged services for different diseases or health needs. We expect to optimise our healthcare services and enhance operational efficiency by offering such TCM solution packages. In addition, we are in the process of standardizing certain commonly-used proprietary TCM formulas with fixed combinations and proven efficacy. As of the Latest Practicable Date, we are preparing for the application of registration number of TCM in-hospital preparations (傳統中藥製劑備案號) for nine TCM formulas selected by us. As such in-hospital preparation candidates, after obtaining the registration number, would become eligible for mass production and use within the holder of the registration number, we expect to improve prescription efficiency and better monetize our high-quality healthcare resources.

Further, we aim to strengthen our supply chain capabilities including the establishment and upgrade of decocting centers and the set up of our own GMP facility in mid to long term. In addition, we plan to further strengthen our collaboration with pharmaceutical suppliers, manage the supply and selection of major TCM herbs, enhance the quality control, and establish industry standards. With the above, we aim to further enhance the loyalty of our customers.

We expect to use approximately HK\$64.0 million of the net proceeds of the Global Offering to strengthen our supply chain capability, while the remaining expenses for such plan is expected to be financed by our operating cash flow and bank borrowings. See “Future Plans and Use of Proceeds.”

### **Continue to enhance our brand awareness and industry influence**

We believe that recognition of our brand will enhance customer loyalty and achieve word-of-mouth publicity. To provide a more convenient healthcare experience to our customers, we are in the process of developing our proprietary mobile application, “Gushengtang App (固生堂App).” In addition, we intend to continue to optimize our membership program by providing our members with personalized healthcare solutions, including exclusive value-added services, to achieve higher customer loyalty. We believe we would benefit from the word-of-mouth publicity arising from the recognition of our services and brand by our members.

We expect to continue to invest in our content generation team and make our latest updates accessible to our customers in a timely manner and host industry seminars periodically to enhance our brand awareness and industry influence.

Furthermore, we intend to further enhance our collaboration with leading online platforms to increase the customer conversion rate.

We expect to use approximately HK\$32.8 million of the net proceeds of the Global Offering for marketing and branding activities, while the remaining expenses for such plan is expected to be financed by our operating cash flow and bank borrowings. See “Future Plans and Use of Proceeds.”

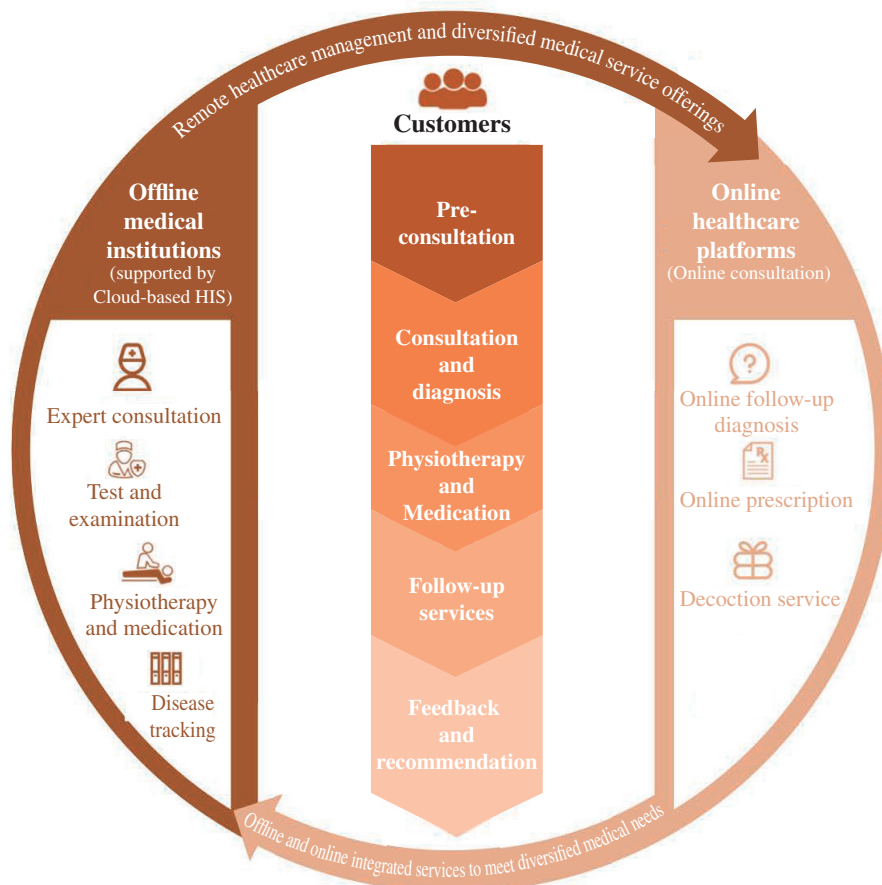
**Continue to develop more TCM healthcare products and solutions to achieve better TCM specialty care**

We plan to continue to develop more TCM healthcare products under our own brand and diversify product offerings. In addition, we are in the process of developing in-hospital preparations (院內製劑) with the assistance of CROs and establishing an in-house preparation center. Such in-house preparation center will produce in-hospital preparations to be sold to customers from both our online healthcare platforms and medical institutions.

We also intend to devote more resources in the research and development of TCM solutions in addressing chronic diseases. In addition, with the support of our information technology system, we have been devoting substantial efforts to expand our information technology research and development team and collaborating with leading national TCM universities to develop medical devices, such as smart wristbands (智能手環) and four-examination instruments (四診儀).

We expect to use approximately HK\$64.0 million of the net proceeds of the Global Offering to enhance our research and development capabilities, while the remaining expenses for such plan is expected to be financed by our operating cash flow and bank borrowings. See “Future Plans and Use of Proceeds.”

**OUR BUSINESS MODEL**



## BUSINESS

Since our inception in 2010, we have adhered to our core value of better serving our customers with “conscientious physicians, reliable pharmaceuticals (良心醫, 放心藥).” With years of development of our offline medical service network, we have continuously explored new application of our healthcare solutions and standardized our operations.

During the Track Record Period, we generated our revenue primarily from (i) providing healthcare solutions; and (ii) sale of healthcare products. The following table sets forth a breakdown of our revenue by business segment for the years/periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	% of total revenue		% of total revenue		% of total revenue		% of total revenue		% of total revenue	
	Revenue	(RMB'000)	Revenue	(RMB'000)	Revenue	(RMB'000)	Revenue	(RMB'000)	Revenue	(RMB'000)
		(%)		(%)		(%)		(%)		(%)
	(unaudited)									
Healthcare solutions <sup>(1)</sup>	668,135	92.0	865,862	96.6	891,797	96.4	326,960	97.3	588,872	98.4
Sale of healthcare products . . . . .	58,110	8.0	30,294	3.4	33,569	3.6	8,964	2.7	9,317	1.6
<b>Total . . . . .</b>	<b>726,245</b>	<b>100.0</b>	<b>896,156</b>	<b>100.0</b>	<b>925,366</b>	<b>100.0</b>	<b>335,924</b>	<b>100.0</b>	<b>598,189</b>	<b>100.0</b>

Note:

(1) Including insignificant amount of revenue generated from providing third-party management services to small- and medium-sized TCM clinics, all of which were Independent Third Parties. See “—Our Services and Products—Healthcare Solutions—Third-party Management Services” for more details.

### Healthcare Solutions

Underpinned by our integrated offline and online platform, broad business coverage and extensive medical resources, we are able to provide our customers with comprehensive healthcare solutions throughout the whole process of disease diagnosis and treatment and healthcare management to address their diversified needs. The healthcare solutions we provide include, among others, consultation and diagnosis service, prescription service, decoction service and physiotherapy. The revenue from healthcare products sold to customers as part of our healthcare solutions (e.g. under our prescription services) is accounted for in the healthcare solutions instead of sale of healthcare products. To a much lesser extent, during the Track Record Period, we also generated a small portion of revenue from providing third-party management services to small- and medium-sized TCM clinics. See “—Our Services and Products—Healthcare Solutions” for more details.

### Sale of Healthcare Products

During the Track Record Period, we also generated revenue from sale of healthcare products which are typically used by customers to improve well-being, primarily including:

- valuable medicinal (貴細藥材), such as donkey-hide gelatin (阿膠), cordyceps sinensis (冬蟲夏草), bird’s nest (燕窩), dendrobium nobile (石斛) and American ginseng (西洋參); and
- nourishment, such as compound donkey-hide gelatin syrup (複方阿膠漿), donkey-hide gelatin cake (阿膠糕), honey (蜂蜜), healthy tea (養生茶), ready-to-eat fish maws (即食花膠) and ready-to-eat bird’s nest (即食燕窩).

We strive to implement diversified monetization strategies and provide multiple healthcare services and products. See “—Our Services and Products—Sale of Healthcare Products” for more details.

## **OUR SERVICES AND PRODUCTS**

### **Healthcare Solutions**

We ranked eighth among all the private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020 and ranked first among all private TCM healthcare providers in China with both offline and online medical service network in terms of the total revenue generated from providing healthcare solutions in 2020, according to Frost & Sullivan. Over the years, we have been focusing on providing customers with comprehensive TCM healthcare solutions that cover their whole process of disease diagnosis and treatment and healthcare management.

### ***Comprehensive Healthcare Solutions***

Through our medical service network, we provide customers with comprehensive healthcare solutions. We offer customers pre-consultation preparation, consultation and diagnosis, physiotherapy and medication, as well as follow-up services, enabling customers to access a variety of healthcare solutions. We continue to improve healthcare solutions based on customer feedback, which in turn helps us drive return visits. Capitalizing our large member base, high member stickiness and healthcare management capabilities, we endeavor to offer customer-centric family doctor service. In particular, in recent years, we have increasingly focused on providing healthcare management solutions to members to address their needs and enhance their loyalty. For example, we have launched specific disease management packages, such as chronic diseases management packages, for members to better control their health conditions and monitor their disease development on an on-going basis.

At each stage of our comprehensive healthcare solutions, we aim to offer customers various options to cater to their diversified needs and preferences. The following chart illustrates the steps of throughout the course of healthcare solutions.



### ***Customer Outreach and Acquisition***

We are able to reach and acquire customers in a cost-efficient manner. Leveraging our offline and online medical service network and functional IT systems, we offer diversified options to our customers with ease of access.

We adopt multichannel customer outreach and acquisition strategies, expecting to achieve robust expansion of our customer base. We employ various customer outreach and acquisition methods, including marketing and customer education activities to enhance brand awareness and recognition, and word-of-mouth promotion from existing customers. See “—Our Customers—Customer Acquisition and Retention” for more details. In recent years, we have made better use of both offline and online traffic entry points, with the aim to enhance our exposure to

customers in a cost-efficient manner. Specifically, we provide healthcare product packages to large-scale enterprises, mainly financial and insurance institutions, for their employees' benefits and end-customers' value-added benefits, such as medical checkup and physical examination, TCM consultation and diagnosis, and TCM physiotherapy. We expect to attract more high-net-worth customers, enhance our brand awareness and create trustworthy brand image. We also collaborate with a variety of third-party online platforms to generate customer traffic. In addition, in light of the vast customer traffic on popular social media platforms, we set up and operate individual accounts on behalf of selected physicians on such social media platforms, to attract customers of such platforms and convert them into our customers. Moreover, we set up and operate customers' chat groups for certain physicians, through which our customer service staff can address customers' enquiries in a timely manner, improve their experiences and enhance our customer stickiness. In 2018, 2019 and 2020 and the six months ended June 30, 2021, we acquired 333,418, 377,199, 361,754 and 227,500 new customers, respectively. As of June 30, 2021, among customers who had visited our offline medical institutions or pharmacies to receive healthcare services or purchase healthcare products, over 15% are below or at the age of 18, approximately 45% are between the age of 19 and 45 and nearly 40% are above the age of 45. As of the same date, among customers who had visited our offline medical institutions or pharmacies to receive healthcare services or purchase healthcare products, approximately 60% were females and approximately 40% were males.

#### *Pre-consultation Preparation*

Pre-consultation stage primarily involves a series of preparatory activities, including creating medical records, selecting physicians, making appointments, conducting health evaluation, triage and waiting for consultation and diagnosis. We offer customers streamlined pre-consultation experience with convenience, reducing their waiting time. Sufficient pre-consultation preparation allows physicians to efficiently and accurately understand their customers' conditions, enabling physicians to conduct subsequent consultation and diagnosis effectively.

With the support of our information technology system, all of our official hotline, medical institutions, proprietary online healthcare platforms and third-party online platforms that we collaborate with have access to our appointment quota pool. As such, customers can check the availability of, and make appointments with, our physicians through any channel they preferred. To help customers locate appropriate physicians quickly, we set up an electronic physician database and applied different filter criteria, including honorary title, specialty, location and applause rate.

Customers who choose face-to-face consultation and diagnosis are typically required to complete registration in our relevant medical institutions first, and then queue up based on their respective registration numbers. Our medical professionals conduct in-hospital guidance with the assistance of cloud-based HIS. Our cloud-based HIS is able to analyze average service time of each physician and estimates customers' waiting time and provide considerate customer experience.

At this stage, we create an electronic medical record for each customer, which will be updated on real-time basis to include all subsequent medical data of such customer. We have established an integrated electronic medical record system that can be accessed across our medical service network, enabling authorized physicians to acquire comprehensive electronic medical records of their customers. In addition, we launched a health evaluation function on our proprietary online healthcare platforms, recommending customers to submit their basic information (such as gender, age, anamnesis



and living habits) and fill out comprehensive questionnaires. Through this, we are able to generate personalized health evaluation reports for our customers. We believe such reports help both customers and physicians better understand the customers' health conditions for subsequent consultation, diagnosis and treatment.

### *Consultation and Diagnosis*

Consultation and diagnosis are the pivotal stages of our comprehensive healthcare solutions. Our extensive physician resources and outstanding service capabilities differentiate us from our competitors.

- *Diversified Consultation and Diagnosis Options*

Our offline and online business coverage enables us to provide various options to customers, allowing them to consult with our physicians face to face or remotely according to their individual needs and preferences.

Customers who choose face-to-face consultation generally visit our relevant medical institutions in person and will be guided to consultation rooms for preliminary consultation and diagnosis. Once examination reports are ready, customers could bring reports to physicians for further services. Our face-to-face consultation is also available online via video conferences, through which we offer online customers a smooth and interactive experience.

Customers who prefer online follow-up consultation may select among our multiple proprietary online healthcare platforms. Our proprietary platforms offer customers both online and telephone consultation options. Customers who pay for online consultation may consult with their designated physicians through text or photos for unlimited times during a 48-hour period, while customers who pay for telephone consultation may consult through telephones for a period of 10 minutes. Physicians may voluntarily provide medical assistance for free on our proprietary platforms on a weekly basis, where a limited number of customers may enjoy a free healthcare consultation and get trial experience during a 48-hour period.

We also collaborate with leading third-party online platforms to provide online appointment services to attract customer traffic. We strategically select leading third-party online platforms to collaborate with. These platforms typically receive registration fees for our consultation services from their customers first, and then settle with us on a monthly basis after deducting their commission. For each customer's payment of service fee, commission charged by such platforms is either a fixed amount or calculated as a percentage of the customer's payment they received. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we paid commission of RMB2.9 million, RMB3.4 million, RMB4.5 million and RMB2.7 million, respectively, to such third-party online platforms.

- *Strong Consultation and Diagnosis Capabilities*

With the implementation of multi-site practice policy, public medical institutions could share their extensive and experienced physician resources. They typically encourage their physicians to collaborate with other qualified medical institutions with strong reputation for their mutual benefit. Focusing on TCM healthcare solutions, we have received industry-wide recognition. Therefore, we

are an attractive partner for public medical institutions. In response to the government policy of establishing and developing medical consortia in the PRC, and for the purpose of training young physicians as well, we also actively collaborate with public medical institutions.

As of the Latest Practicable Date, we had established collaborative partnerships with nine renowned public medical institutions, including China Academy of Chinese Medical Sciences Guang'anmen Hospital (中國中醫科學院廣安門醫院), Guangdong Province TCM Hospital (廣東省中醫院), The First Affiliated Hospital of Guangzhou University of Chinese Medicine (廣州中醫藥大學第一附屬醫院), Yueyang Hospital of Integrated Traditional Chinese and Western Medicine of Shanghai University of Traditional Chinese Medicine (上海中醫藥大學附屬岳陽中西醫結合醫院) and Long Hua Hospital of Shanghai University of Traditional Chinese Medicine (上海中醫藥大學附屬龍華醫院), to jointly develop high-caliber clinical specialties, such as oncology, dermatology and gastroenterology. During the collaboration, public medical institutions typically contribute high-quality medical resources. They offer training and advanced study opportunities to our selected physicians, help us on recruitment, assign quality physicians to practice or provide technical guidance at our medical institutions on a part-time basis, and offer green channel of customer referral to us. In return, we pay technical support fees to public medical institutions and remuneration to network physicians assigned by public medical institutions.

Benefiting from our collaboration with renowned public medical institutions, customers can access renowned physicians more easily, physicians can reach a larger customer base without extra efforts or utilizing their spare time, public medical institutions can enhance brand awareness, and we can accumulate high-quality healthcare resources and enhance service capabilities.

As of the Latest Practicable Date, we had also entered into agreements with four renowned universities for strategic collaborations. During the collaboration, the TCM universities provide managerial and technical support to our medical institutions or provide training sessions on latest TCM industry development and knowhow to our employees. In return, we generally pay such TCM universities collaboration fees per annum. For example, Shanghai University of Traditional Chinese Medicine (上海中醫藥大學) and Guangzhou University of Chinese Medicine (廣州中醫藥大學) grant title sponsorship and provide managerial as well as technical support to certain medical institutions established by us.

- *Advanced Consultation and Diagnosis Technologies*

Healthcare industry, especially the internet healthcare sector, is characterized by frequent improvements and evolving technologies. Focusing on the development of our offline and online medical service network, we endeavor to adapt to technological changes and break through the barrier between traditional Chinese and western medicine with the assistance of advanced equipment and technologies from western medicine. In particular, we have introduced advanced examination equipment, such as electronic nasopharyngoscope (電子鼻咽鏡), acoustic immittance (聲導抗) and pure tone audiometry (純音聽閾) for otolaryngology department and Mindray Nüwa-series B-mode ultrasound system (邁瑞女媧系列B超系統) for medical imaging department, to facilitate efficient and accurate diagnosis. We have also engaged an independent clinical laboratory to complement our internal examination capabilities. Equipped with various advanced equipment, such as Roche

automatic electrochemistry luminescence immunity analyzer (羅氏全自動電化學發光免疫分析儀), FC-400 automatic biochemical analyzer (FC-400全自動生化分析儀) and biochemistry cultivation cabinet (生化培養箱), the independent clinical laboratory is able to conduct multi-disciplinary examination and analysis.

### *Physiotherapy and Medication*

Based on consultation and diagnosis conclusions, physicians may provide customers with medical recommendations, including prescriptions and/or orders for physiotherapy. With accurate diagnosis and targeted treatment, we aim to address customers' demand effectively.

- *Physiotherapy*

Although physiotherapies can only be implemented at our medical institutions due to their nature, our online physicians may also prescribe or recommend appropriate physiotherapies for customers. Our medical institutions offer customers all types of TCM physiotherapies, such as massage (推拿), acupuncture (針刺), moxibustion (灸), cupping (拔罐) and scraping (刮痧), to treat various common diseases. We have also adopted western medicine therapeutic equipment which incorporates TCM concept. For example, our medical institutions are equipped with midnight-midday ebb flow-based low frequency therapeutic apparatuses (子午流注低頻治療儀), which conduct low frequency electrotherapy for customers with stroke, hypertension or bone impediment (骨痹) at the appropriate timing after taking into account such customers' qi and blood condition of meridian vessels (經脈) as well as sensitivity of acupuncture points (腧穴) in accordance with climate changes and day-night alternations.

- *Medication*

Medication is a common TCM treatment option, where our physicians primarily prescribe decocting pieces, TCM patent medicines and other medicative healthcare products for customers according to their own conditions. We have established a vertically integrated supply chain to secure the quality of such healthcare products, thereby ensuring the overall effectiveness of our comprehensive healthcare solutions. See “—Suppliers and Procurement—Quality Control” for more details about quality control measures we adopted.

“Cloud-based pharmacy” module embedded in our HIS facilitates a reliable and convenient medication experience for customers. In particular, paperless workflow helps maintain operating efficiency. Customers who obtain prescriptions from our medical institutions may, at their discretion, pick up prescribed healthcare products in person, request us to courier such healthcare products to their designated delivery addresses, and/or choose our decoction service. By providing decoction service, we send prescriptions through cloud-based pharmacy to our decoction centers, which will arrange decoction and deliver finished preparations to the relevant customers. As of June 30, 2021, we have one decoction center in each of Shanghai, Shenzhen and Guangzhou. As of the same date, we have 89 employees working at our decoction centers. We intend to establish additional prescription-filling and decoction centers nationwide in the near future.

### *Follow-up Services*

All consultation, diagnosis, physiotherapy and medication data of each customer is carefully maintained in his or her electronic medical record, which will be kept in our cloud-based HIS to ensure its continuity and completeness.

In addition, TCM features preventative care (治未病), seeking to promote customers' well-being through progressive and holistic conditioning. To this end, we intend to launch smart wristbands through collaboration with a leading national TCM university in the near future, which can be used to monitor and record pulse conditions (脈象) and other biometrics of customers on a real-time basis. Relying on the analysis of the personal health data we collected, we are able to provide customers with personalized recommendations on their dietary and living habits.

### *Feedback and Recommendation*

We believe that feedbacks of customers enable us to improve our service and product offerings and further enhance our brand awareness. Therefore, we have implemented a rating system across our medical institution network as well as on our official WeChat account to collect customers' feedback and ascertain customers' expectations. See “—Our Customers—Customer Services and Customer Feedback—Customer Feedback System” for more details. We encourage existing customers to recommend our healthcare solutions to their acquaintances, and offer them cash rewards of RMB10 for each successful referral. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we incurred such cash incentives of nil, RMB0.7 million, RMB2.2 million and RMB1.2 million, respectively, which were recognized under our selling and distribution expenses.

### *Follow-up Visit*

Duration of our comprehensive healthcare solutions varies depending on specific conditions of customers. Certain customers, especially customers with chronic diseases, may need to revisit our medical service network on a regular basis to monitor their conditions and obtain follow-up medical recommendations from our physicians. We offer both offline and online options to customers for their follow-up visits and prescription renewals, which provide our customers with convenient services in particular those non-local customers. In addition to customers visiting our offline medical institutions, leveraging our online healthcare platforms, our physicians who practice on our online healthcare platforms also provide follow-up consultation services to customers, who have visited other local medical institutions, after their initial consultation for the same kind of disease. As a result, we are able to expand our service coverage and provide medical services to customers in 343 cities in the PRC through our online healthcare platforms as of the Latest Practicable Date. Taking into account the favourable government policies encouraging online consultation and increasing penetration of TCM healthcare providers to develop online healthcare services, we believe that there is sufficient demand for online follow-up consultation services in the market. Upon completion of each treatment session, our cloud-based HIS automatically sends follow-up surveys to the relevant customers to assess our treatment efficacy and collect customers' feedbacks on treatment experiences, thereby allowing our physicians to optimize subsequent therapeutic regimen accordingly. Our physicians and/or their helpers may also proactively follow up with customers through other channels, such as telephones.

***Cornerstones of Healthcare Solutions******Information Technology Infrastructure***

We have established an information technology infrastructure centering around our proprietary cloud-based HIS. See “—Information Technology Systems” for more details about our information technology systems. Consisting of appointment management, physician workstation, cloud-based pharmacy, payment system, customer management and other functional modules, our information technology infrastructure streamlines and standardizes the entire process of customer visit and builds interconnections throughout the offline and online healthcare management, laying a solid technological foundation for our comprehensive healthcare solutions.

***Offline and Online Medical Service Network***

As a customer-oriented healthcare provider, we prioritize customers’ demand and experience, endeavoring to deliver high-quality healthcare services and optimal customer experience to a broad customer base. With years of efforts in pursuit of these commitments, we have established an extensive medical service network integrating both offline and online service channels, which are complementary to each other.

The below table sets forth the scope, specific types, pricing and payment method in relation to our major healthcare services provided through medical institutions and online platforms:

	Service offerings	Pricing and revenue model	Payment method	Regulatory limitation
<b>Medical institutions</b> . . . . .	Initial and follow-up consultation and diagnosis, prescription service, decoction service, physiotherapy and sales of healthcare products	Medical fees primarily include consultation fees, medicine fee, processing fee and physiotherapy fee. For Designated Medical Institutions, medical fees are charged in accordance with the pricing guidelines, price ceilings and/or cost-plus ceilings set by the relevant local healthcare administrative authorities for services and products covered by the national reimbursement programs. For other medical institutions, prices are set by us primarily with reference to public medical institutions' pricing of similar healthcare solutions and products in the same region. For the prices of healthcare products that we are entitled to set the prices at our own discretion, we typically set prices based on our procurement costs and the market prices of the same or comparable products.	By national reimbursement programs, commercial insurance, or directly by cash, bank cards, or online payments via third-party payment platforms	Diagnosis and treatment activities should be carried out in accordance with the approved service scope registered in the Medical Institution Practicing License. Qualified TCM physicians in our offline medical institutions are allowed to prescribe western medicine (both OTC medicine and prescription medicine) in accordance with the relevant PRC laws and regulations.
<b>Online platforms</b> . . . . .	Follow-up consultation and diagnosis, prescription service, decoction service and sales of healthcare products	Medical fees primarily include consultation fees, medicine fee and processing fee. According to the Guidance from the National Healthcare Security Administration on Improving the Policy of "Internet +" Medical Service Prices and Medical Insurance Payment promulgated by National Healthcare Security Administration on August 17, 2019, the prices of online healthcare services provided by private for-profit healthcare service providers are market-regulated (市場調節). Prices of medical fees of our online platforms are set with reference to the prices of offline medical institutions and relevant pricing guidelines, price ceilings and/or cost-plus ceilings of medical institutions. The prices of healthcare products are set based on the procurement cost and the prices of comparable products in the same region.	By bank cards, or online payments via third-party payment platforms	Physicians are only allowed to provide healthcare services to patients with certain common or chronic diseases through Internet hospitals for their follow-up visits, except under the circumstances that the physician is invited to jointly conduct remote consultation via online platform with the physician in charge who provides the consultation and diagnosis simultaneously to the patients at an offline medical institution.
				Other than initial consultation (and for customers with diseases that can not be classified as common diseases or chronic diseases), and services that can only be provided to customers in physical medical institutions in nature (such as physiotherapies, as well as test and examination), other healthcare services such as follow-up consultation and diagnosis, and prescription are complementary and can be provided either online or offline.



## BUSINESS

The following table sets forth a breakdown of our revenue generated from (i) our medical institutions, and (ii) our online healthcare platforms through which we provided follow-up consultation and diagnosis and prescription services, including Gushengtang Physician Terminal (固生堂醫生端, formerly known as Bailu Hospital (白露醫館)) and Bailu TCM (白露中醫), which had been terminated in September 2021 and relevant medical records and operating data of which had been incorporated into our other online healthcare platforms under the brand name of Gushengtang, (collectively, the “**Bailu Platforms**”) for the periods indicated.

	Year ended December 31,						Six months ended June 30,	
	2018		2019		2020		2021	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Medical institutions . . . .	711,670	98.0	883,275	98.6	879,569	95.1	534,307	89.3
Bailu Platforms <sup>(1)</sup> . . . . .	—	—	—	—	24,078	2.6	56,736	9.5
Others <sup>(2)</sup> . . . . .	14,575	2.0	12,881	1.4	21,719	2.3	7,146	1.2
<b>Total . . . . .</b>	<b>726,245</b>	<b>100.0</b>	<b>896,156</b>	<b>100.0</b>	<b>925,366</b>	<b>100.0</b>	<b>598,189</b>	<b>100.0</b>

Note:

- (1) Our revenue generated from Bailu Platforms only included revenue generated through Bailu Platforms from follow-up consultation and diagnosis and prescription services provided by physicians practicing at Bailu Platforms and excluded those provided by physicians of our offline medical institutions. Our revenue generated by Bailu Platforms in 2018 and 2019 were nil and nil, respectively, as Bailu Platforms had not been consolidated into our Group until acquired by us in October 2020.
- (2) Primarily include our sale of healthcare products through our pharmacies and other online platforms.

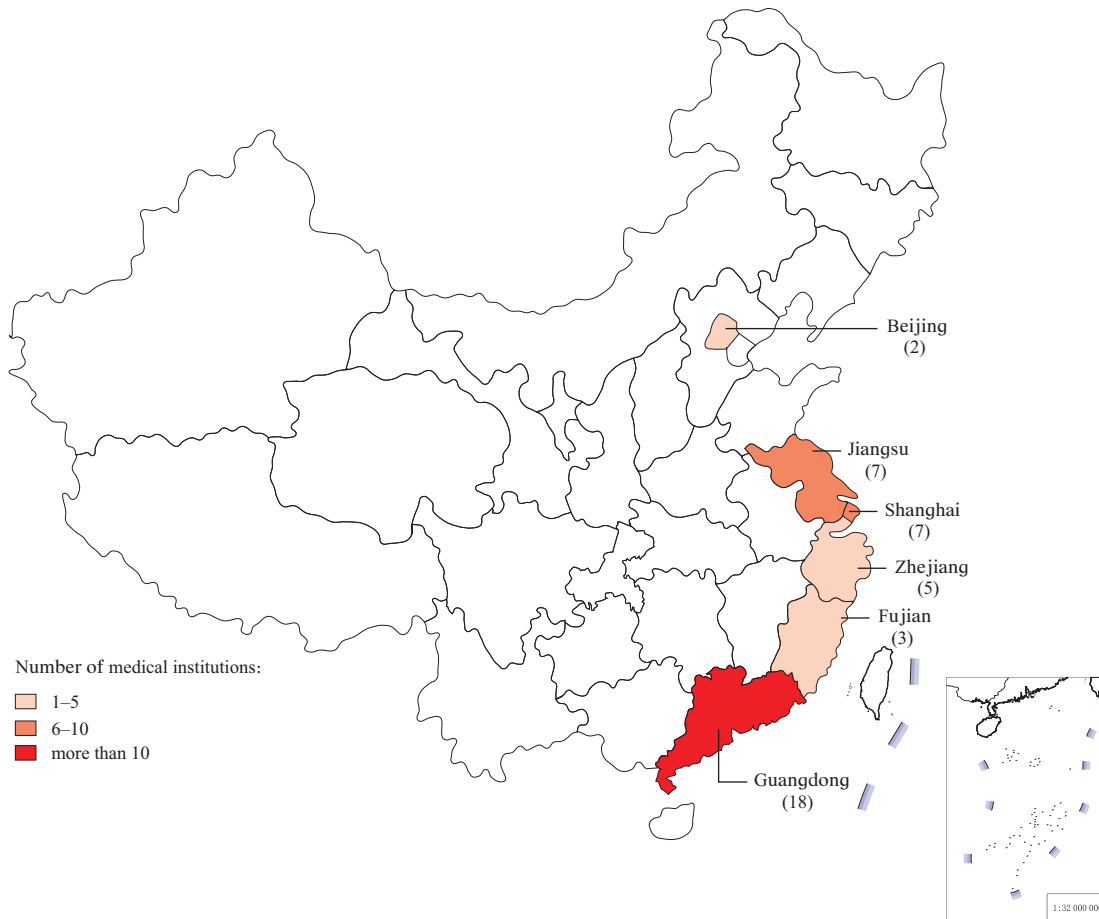
In addition, we also provide other services such as online appointment for offline diagnosis and consultation, online payment for the prescription, and electronic medical records, through our online healthcare platforms, for which we did not charge any extra service fees and the relevant payments for the diagnosis and consultation and the prescriptions services provided by our medical institutions are recorded as revenue under the medical institutions which provided such services.

- *Medical Institutions*

We provide healthcare solutions at our medical institutions. We adopt a three-tier centralized management structure of “headquarter—region—medical institution” to manage our medical institution network. At each medical institution, the management and operations are generally headed by a chief administrator (院長) who is experienced in managing medical institutions and reports to the respective general manager. Other key positions in our medical institutions primarily include the deputy administrator (副院長), physicians, head nurse, the head of pharmacy department, the head of cashier department, the head of valuable medicinal department and the head of back-office department.

## BUSINESS

As of the Latest Practicable Date, we 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).” Set out below is an illustration of the locations of our medical institutions in operation as of the Latest Practicable Date.



## BUSINESS

The following table sets forth a summary of our medical institutions in operation as of the Latest Practicable Date.

No.	Medical institution	Location	Established/ acquired	Time of commencement of operations <sup>(1)</sup>	GFA  <i>(sq.m.)</i>	Number of physicians as of June 30, 2021 <sup>(2)</sup>	Number of other medical professionals as of June 30, 2021 <sup>(3)</sup>	Major qualifications obtained
1. . . .	Shenzhen Nanshan	Shenzhen	Acquired	June 2013	1,149	32	26	Medical Institution Practicing License (醫療機構執業許可證), Class II Medical Device Business Registration Certificate (第二類醫療器械經營備案憑證), Food Distribution License (食品經營許可證)
2. . . .	Shenzhen Zhuzilin	Shenzhen	Acquired	January 2012	1,335	77	30	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
3. . . .	Shenzhen Gushengtang Yuanbo Out-patient Department (深圳固生堂園博門診部)	Shenzhen	Acquired	March 2017	1,656	45	26	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
4. . . .	Foshan Gushengtang TCM Out-patient Department Co., Ltd.(Nanhai Branch) (佛山固生堂中醫門診部有限公司(南海店))	Foshan	Acquired	September 2015	1,260	74	23	Medical Institution Practicing License, Food Distribution License
5. . . .	Fuzhou Gushengtang General Out-patient Co., Ltd. (福州固生堂綜合門診有限公司)	Fuzhou	Acquired	September 2016	1,750	153	30	Medical Institution Practicing License, Food Distribution License, Medical Advertisement Examination Certificate (醫療廣告審查證明)
6. . . .	Shanghai Wanjia	Shanghai	Acquired	November 2016	1,776	270	28	Medical Institution Practicing License, Food Distribution License
7. . . .	Nanjing Ningxi	Nanjing	Acquired	December 2016	1,113	97	24	Medical Institution Practicing License, Food Distribution License, Examination Certificate for Medical Advertisements

## BUSINESS

No.	Medical institution	Location	Established/ acquired	Time of commencement of operations <sup>(1)</sup>	GFA  <i>(sq.m.)</i>	Number of physicians as of June 30, 2021 <sup>(2)</sup>	Number of other medical professionals as of June 30, 2021 <sup>(3)</sup>	Major qualifications obtained
8. . . .	Suzhou Taohuawu	Suzhou	Acquired	December 2016	680	34	12	Medical Institution Practicing License, Food Distribution License
9. . . .	Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd. (寧波海曙固生堂中醫門診有限公司)	Ningbo	Acquired	January 2017	1,200	94	11	Medical Institution Practicing License, Food Distribution License
10. . . .	Ningbo Zhongyishoutang	Ningbo	Acquired	September 2017	1,031	51	14	Medical Institution Practicing License, Food Distribution License
11. . . .	Lingnan Dongshan	Guangzhou	Acquired	November 2015	713	152	44	Medical Institution Practicing License, Food Distribution License
12. . . .	Guangzhou Lingnan	Guangzhou	Acquired	November 2015	720	139	23	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
13. . . .	Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Shuiyin Out-patient Department (廣州市固生堂嶺南中醫館有限公司水蔭門診部)	Guangzhou	Acquired	November 2015	2,042	110	14	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
14. . . .	Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春南禪寺中醫院有限公司)	Wuxi	Acquired	November 2015	1,446	62	7	Medical Institution Practicing License, Radiation Treatment License (放射診療許可證)
15. . . .	Wuxi Chongan Temple Hospital	Wuxi	Acquired	November 2015	1,024	55	10	Medical Institution Practicing License, Radiation Treatment License
16. . . .	Shanghai Duzhuang Out-patient Co., Ltd. (上海都莊門診有限公司)	Shanghai	Acquired	January 2018	926	38	8	Medical Institution Practicing License, Food Distribution License
17. . . .	Shanghai Jinyue Out-patient Department Co., Ltd. (上海金悅門診部有限公司)	Shanghai	Acquired	January 2018	1,259	46	12	Medical Institution Practicing License, Food Distribution License

## BUSINESS

No.	Medical institution	Location	Established/ acquired	Time of commencement of operations <sup>(1)</sup>	GFA  <i>(sq.m.)</i>	Number of physicians as of June 30, 2021 <sup>(2)</sup>	Number of other medical professionals as of June 30, 2021 <sup>(3)</sup>	Major qualifications obtained
18.. . .	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)	Shanghai	Acquired	June 2018	2,002	78	16	Medical Institution Practicing License, Food Distribution License
19.. . .	Suzhou Daru	Suzhou	Acquired	July 2018	1,769	65	23	Medical Institution Practicing License, Food Distribution License
20.. . .	Shenzhen Xiangzhu	Shenzhen	Acquired	March 2019	2,797	59	27	Medical Institution Practicing License, Food Distribution License
21.. . .	Shanghai Zhenantang	Shanghai	Acquired	August 2019	675	102	15	Medical Institution Practicing License
22.. . .	Guangzhou Yuexiu District Gusheng Out- patient Department Co., Ltd. (廣州市越秀區固生 門診部有限公司)	Guangzhou	Acquired	May 2020	889	27	6	Medical Institution Practicing License
23.. . .	Suzhou Tongan	Suzhou	Acquired	August 2020	1,100	39	9	Medical Institution Practicing License
24.. . .	Beijing Gushengtang TCM Hospital Co., Ltd. (北京固生堂中醫醫院有 限公司)	Beijing	Established	September 2011	1,081	77	16	Medical Institution Practicing License, Radiation Treatment License, Radiation Safety License (輻射安全許可證), Class II Medical Device Business Registration Certificate, Food Distribution License
25.. . .	Guangzhou Tianhe	Guangzhou	Established	March 2014	717	84	17	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
26.. . .	Guangzhou Haizhu	Guangzhou	Established	September 2015	1,200	94	19	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
27.. . .	Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. (廣州白雲區固生堂綜合 門診部有限公司)	Guangzhou	Established	January 2018	1,699	77	8	Medical Institution Practicing License, Food Distribution License

## BUSINESS

No.	Medical institution	Location	Established/ acquired	Time of commencement of operations <sup>(1)</sup>	GFA  <i>(sq.m.)</i>	Number of physicians as of June 30, 2021 <sup>(2)</sup>	Number of other medical professionals as of June 30, 2021 <sup>(3)</sup>	Major qualifications obtained
28.. . .	Guangzhou Liwan District Gushengtang General Out-patient Department Co., Ltd. (廣州荔灣區固 生堂綜合門診部有限公 司)	Guangzhou	Established	May 2018	1,316	140	15	Medical Institution Practicing License
29.. . .	Guangzhou Haizhu District Gushengtang Baogang TCM Out-patient Department Co., Ltd. (廣州海珠區固生堂寶崗 中醫門診部有限公司)	Guangzhou	Established	August 2018	834	56	8	Medical Institution Practicing License, Food Distribution License
30.. . .	Guangzhou Tianhe District Gushengtang Wushan General Out-patient Department Co., Ltd. (廣州天河區固生堂五山 綜合門診部有限公司)	Guangzhou	Established	August 2018	1,600	95	14	Medical Institution Practicing License, Food Distribution License
31.. . .	Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. (佛山市順德區 固生堂中醫門診部有限公 司)	Foshan	Established	December 2016	351	43	11	Medical Institution Practicing License, Food Distribution License
32.. . .	Zhongshan Gushengtang TCM Out-patient Co., Ltd. (中山市固生堂中醫門診 有限公司)	Zhongshan	Established	June 2016	2,139	42	9	Medical Institution Practicing License, Food Distribution License
33.. . .	Shenzhen Luohu	Shenzhen	Established	June 2015	1,028	61	14	Medical Institution Practicing License, Class II Medical Device Business Registration Certificate, Food Distribution License
34.. . .	Shanghai Zhongyida TCM Out-patient Department Co., Ltd. (上海眾益達中醫門診部 有限公司)	Shanghai	Acquired	May 2020	1,091	31	11	Medical Institution Practicing License
35.. . .	Ningbo Jiangbei Wenjiao Gushengtang TCM Out- patient Department Co., Ltd. (寧波江北文教 固生堂中醫門診部有限公 司)	Ningbo	Acquired	January 2018	1,162	29	9	Medical Institution Practicing License
36.. . .	Ningbo Manshan	Ningbo	Acquired	December 2020	245	7	4	Medical Institution Practicing License
37.. . .	Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out- patient Department (南京 固生堂華健中醫藥有限公 司浦口白露中醫門診 部) <sup>(4)</sup>	Nanjing	Acquired	October 2020	1,843	5	16	Medical Institution Practicing License, Food Distribution License



## BUSINESS

No.	Medical institution	Location	Established/ acquired	Time of commencement of operations <sup>(1)</sup>	GFA  (sq.m.)	Number of physicians as of June 30, 2021 <sup>(2)</sup>	Number of other medical professionals as of June 30, 2021 <sup>(3)</sup>	Major qualifications obtained
38.	Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司)	Fuzhou	Acquired	May 2021	756	24	7	Medical Institution Practicing License
39.	Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司)	Fuzhou	Acquired	May 2021	700	14	4	Medical Institution Practicing License, Food Distribution License
40.	Shanghai Pudong New District Shenhua TCM Out-patient Department Co., Ltd. (上海浦東新區神華中醫門診部有限公司)	Shanghai	Acquired	January 2021	500	21	3	Medical Institution Practicing License
41.	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	Acquired	March 2021	907	34	10	Medical Institution Practicing License

### *Medical Institution Acquired by Us on June 30, 2021 and In Operation as of the Latest Practicable Date*

No.	Medical institution	Location	Established/ acquired	Time of commencement of operations <sup>(1)</sup>	GFA  (sq.m.)	Number of physicians as of the Latest Practicable Date <sup>(5)</sup>	Number of other medical professionals as of the Latest Practicable Date <sup>(5)</sup>	Major qualification obtained
42.	Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司)	Beijing	Acquired	July 2021	4,268	70	70	Medical Institution Practicing License

#### *Notes:*

- (1) For our self-established medical institutions, time of commencement of operations refers to the time when the medical institution opened for service. For the medical institutions that were acquired by us, (i) with respect to the medical institutions that were not in operation immediately prior to our acquisition, time of commencement of operations refers to the time when the medical institution resumed operations as a result of our integration efforts; and (ii) with respect to the remaining medical institutions acquired by us, their operations were not interrupted immediately before and after our acquisition and thus the time of commencement of operations refer to the time of acquisition.
- (2) Number of physicians includes both physicians employed by us and network physicians, including multi-site practice physicians. A multi-site practice physician is counted as a physician only in his or her primary practicing medical institution within our medical service network.
- (3) Number of other medical professionals primarily includes physician assistants, nurses and pharmacists.
- (4) Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out-patient Department mainly serves as a prescription-filling and decoction center of us.
- (5) Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd., formerly known as Beijing Zhonghai TCM Hospital Co., Ltd. (北京中海中醫醫院有限公司), was acquired by us on June 30, 2021. We started to generate revenue from such medical institution from July 1, 2021. Therefore, the number of physicians and the number of other medical professionals as of June 30, 2021 were considered not applicable to such medical institution. We set out the number of physicians and the number of other medical professionals of such medical institutions as of the Latest Practicable Date for illustrative purpose.

## BUSINESS

Among 42 medical institutions as set out above, 10 were established by us while the remaining 32 were acquired. We have carried out multiple measures to enhance post-acquisition performance of acquired medical institutions, such as designating experienced managerial talents and medical professionals to help improve their operating efficiency and service quality, replacing their original information technology system and supply chain system with our proprietary cloud-based HIS and vertically integrated supply chain system, implementing diversified sales and marketing strategies, and renovating their decorations and other facilities.

As of June 30, 2021, 39 of our medical institutions were Designated Medical Institutions.

For the years ended December 31, 2018, 2019 and 2020, among our 42 medical institutions as set out above, nine, one and two medical institutions were loss-making at subsidiary level, all of which were profitable for the six months ended June 30, 2021, except for Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. which was acquired by us on June 30, 2021 and started to generate revenue from July 1, 2021. Such medical institutions recorded losses primarily as: (i) our self-established medical institutions generally recorded loss at the early stage of development, primarily due to lack of brand awareness and customer base; and (ii) acquired medical institutions generally recorded losses within a short period of time after the acquisition. Such medical institutions achieved turnaround as a result of our efforts to enhance centralized management and operating efficiency, such as (a) integrating such medical institutions into our centralized procurement management system to secure the quality of their purchases and reduce procurement costs; (b) adopting our established operating model to reduce costs and achieve cost savings; and (c) leveraging our operational experiences to employ various customer outreach and acquisition methods to enhance brand awareness and increase customer visits. We did not recognize any impairment in relation to the loss-making medical institutions during the Track Record Period and up to the Latest Practicable Date.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue derived from the newly acquired medical institutions during the relevant financial period accounted for 5.2%, 4.6%, 2.2% and 1.0%, respectively, of our total revenue for the same periods.

The following tables set forth the revenue, customer visits and average spending per customer visits of our five largest medical institutions in terms of revenue for the periods indicated.

### *Six months ended June 30, 2021*

No.	Medical institution	Revenue	As a percentage of our total revenue	Customer visits	Average spending per customer visit
		(RMB'000)	(%)		(RMB)
1 . . . .	Shenzhen Xiangzhu	41,006	6.9	64,389	637
2 . . . .	Shanghai Wanjia	30,488	5.1	40,276	757
3 . . . .	Shenzhen Zhuzilin	29,432	4.9	41,785	704
4 . . . .	Guangzhou Lingnan	25,059	4.2	42,033	596
5 . . . .	Lingnan Dongshan	23,468	3.9	52,652	446
<b>Sub-total . . . . .</b>		<b>149,453</b>	<b>25.0</b>		
<b>Total . . . . .</b>		<b>598,189</b>	<b>100.0</b>		

## BUSINESS

### *Year ended December 31, 2020*

No.	Medical institution	Revenue	As a percentage of our total revenue	Customer visits	Average spending per customer visit
		(RMB'000)	(%)		(RMB)
1 . . . .	Shenzhen Xiangzhu	63,453	6.9	98,273	646
2 . . . .	Shenzhen Zhuzilin	61,784	6.7	89,274	692
3 . . . .	Shanghai Wanjia	53,965	5.8	71,580	754
4 . . . .	Lingnan Dongshan	47,985	5.2	108,174	444
5 . . . .	Guangzhou Lingnan	47,729	5.2	82,165	581
<b>Sub-total . . . . .</b>		<b>274,916</b>	<b>29.7</b>		
<b>Total . . . . .</b>		<b>925,366</b>	<b>100.0</b>		

### *Year ended December 31, 2019*

No.	Medical institution	Revenue	As a percentage of our total revenue	Customer visits	Average spending per customer visit
		(RMB'000)	(%)		(RMB)
1 . . . .	Shenzhen Zhuzilin	82,479	9.2	113,584	726
2 . . . .	Lingnan Dongshan	71,905	8.0	164,546	437
3 . . . .	Guangzhou Lingnan	60,022	6.7	100,099	600
4 . . . .	Shanghai Wanjia	50,197	5.6	65,346	768
5 . . . .	Guangzhou Tianhe	46,881	5.2	70,683	663
<b>Sub-total . . . . .</b>		<b>311,484</b>	<b>34.8</b>		
<b>Total . . . . .</b>		<b>896,156</b>	<b>100.0</b>		

### *Year ended December 31, 2018*

No.	Medical institution	Revenue	As a percentage of our total revenue	Customer visits	Average spending per customer visit
		(RMB'000)	(%)		(RMB)
1 . . . .	Shenzhen Zhuzilin	90,466	12.5	127,222	711
2 . . . .	Lingnan Dongshan	69,406	9.6	165,549	419
3 . . . .	Guangzhou Lingnan	50,930	7.0	90,587	562
4 . . . .	Shanghai Wanjia	42,698	5.9	56,512	756
5 . . . .	Guangzhou Haizhu	37,466	5.2	86,682	432
<b>Sub-total . . . . .</b>		<b>290,966</b>	<b>40.1</b>		
<b>Total . . . . .</b>		<b>726,245</b>	<b>100.0</b>		

## BUSINESS

The following table sets forth the revenue, number of customer visits and average spending per customer visit in relation to services and products provided by our medical institutions that had been in operation for the periods indicated.

	Year ended December 31,									Six months ended June 30,		
	2018			2019			2020			2021		
	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit
	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)
<b>Shanghai</b>												
Shanghai Wanjia . . . . .	42,698	56,512	756	50,197	65,346	768	53,965	71,580	754	30,488	40,276	757
Shanghai Duzhuang Out-patient Co., Ltd. (上海都莊門診有限公司) . . . . .	4,570	9,785	467	9,340	17,718	527	13,346	25,211	529	7,014	13,131	534
Shanghai Jinyue Out-patient Department Co., Ltd. (上海金悅門診部 有限公司) . . . . .	7,330	12,223	600	21,607	34,583	625	26,309	40,432	651	15,879	22,972	691
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) . . . . .	1,278	2,025	631	14,267	23,018	620	21,170	30,983	683	12,464	20,277	615
Shanghai Zhenantang <sup>(1)</sup> . . . . .	–	–	–	5,297	6,747	785	22,494	34,348	655	15,645	25,016	625
Shanghai Zhongyida TCM Out-patient Department Co., Ltd. (上海翠益達中醫 門診部有限公司) . . . . .	–	–	–	–	–	–	8,109	15,057	539	8,402	15,209	552
Shanghai Pudong New District Shenhua TCM Out-patient Department Co., Ltd. (上海浦東新區神華中醫門診 部有限公司) . . . . .	–	–	–	–	–	–	–	–	–	1,972	3,427	575
<b>Sub-total . . . . .</b>	<b>55,876</b>	<b>80,545</b>	<b>694</b>	<b>100,708</b>	<b>147,412</b>	<b>683</b>	<b>145,393</b>	<b>217,611</b>	<b>668</b>	<b>91,864</b>	<b>140,308</b>	<b>655</b>
<b>Beijing</b>												
Beijing Gushengtang TCM Hospital Co., Ltd. (北京固生堂中醫醫院有限公 司) <sup>(2)</sup> . . . . .	12,847	16,857	762	16,370	18,597	880	16,056	13,907	1,155	20,511	14,996	1,368
Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園 中醫醫院有限公司) <sup>(3)</sup> . . . . .	–	–	–	–	–	–	–	–	–	–	–	–
<b>Sub-total . . . . .</b>	<b>12,847</b>	<b>16,857</b>	<b>762</b>	<b>16,370</b>	<b>18,597</b>	<b>880</b>	<b>16,056</b>	<b>13,907</b>	<b>1,155</b>	<b>20,511</b>	<b>14,996</b>	<b>1,368</b>
<b>Guangzhou</b>												
Lingnan Dongshan . . . . .	69,406	165,549	419	71,905	164,546	437	47,985	108,174	444	23,468	52,652	446
Guangzhou Lingnan . . . . .	50,930	90,587	562	60,022	100,099	600	47,729	82,165	581	25,059	42,033	596
Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Shuiyin Out-patient Department (廣州市固生堂嶺南中醫館 有限公司水蔭門診部) . . . . .	27,150	71,426	380	28,111	79,431	354	18,233	48,000	380	10,405	27,326	381
Guangzhou Yuexiu District Gusheng Out- patient Department Co., Ltd. (廣州市越 秀區固生門診部有限公司) <sup>(4)</sup> . . . . .	–	–	–	–	–	–	1,090	1,692	644	5,081	3,652	1,391
Guangzhou Tianhe . . . . .	31,568	46,924	673	46,881	70,683	663	29,334	47,144	622	12,548	23,675	530
Guangzhou Haizhu . . . . .	37,466	86,682	432	36,104	81,353	444	32,476	71,486	454	17,281	34,263	504

# BUSINESS

	Year ended December 31,									Six months ended June 30,		
	2018			2019			2020			2021		
	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit
	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)
Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. (廣州白雲區固生堂綜合門診部有限公司) <sup>(5)</sup>	2,763	8,784	315	6,858	17,722	387	10,720	14,611	734	8,783	8,674	1,013
Guangzhou Liwan District Gushengtang General Out-patient Department Co., Ltd. (廣州荔灣區固生堂綜合門診部有限公司)	3,606	9,547	378	23,990	52,666	456	19,705	46,889	420	9,716	22,853	425
Guangzhou Haizhu District Gushengtang Baogang TCM Out-patient Department Co., Ltd. (廣州海珠區固生堂寶崗中醫門診部有限公司)	1,045	2,489	420	14,159	31,085	455	17,307	43,006	402	8,843	22,670	390
Guangzhou Tianhe District Gushengtang Wushan General Out-patient Department Co., Ltd. (廣州天河區固生堂五山綜合門診部有限公司)	1,924	3,111	618	19,609	28,962	677	27,839	41,044	678	15,970	24,033	665
Guangzhou Gushengtang TCM Oncology Specialty Out-patient Department Co., Ltd. (廣州固生堂中醫腫瘤專科門診部有限公司) <sup>(5)*</sup>	14,127	11,477	1,231	15,612	13,171	1,185	9,623	7,352	1,309	–	–	–
Guangzhou Gushengtang TCM Out-patient Department Co., Ltd. (廣州固生堂中醫門診部有限公司)*	2,054	3,518	584	–	–	–	–	–	–	–	–	–
Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Taojin Out-patient Department (廣州市固生堂嶺南中醫館有限公司淘金門診部) <sup>(6)*</sup>	20,886	24,337	858	–	–	–	–	–	–	–	–	–
<b>Sub-total</b>	<b>262,925</b>	<b>524,431</b>	<b>501</b>	<b>323,251</b>	<b>639,718</b>	<b>505</b>	<b>262,041</b>	<b>511,563</b>	<b>512</b>	<b>137,154</b>	<b>261,831</b>	<b>524</b>
<b>Shenzhen</b>												
Shenzhen Nanshan	33,063	54,297	609	36,406	58,267	625	28,940	45,505	636	15,969	24,038	664
Shenzhen Zhuzilin <sup>(7)</sup>	90,466	127,222	711	82,479	113,584	726	61,784	89,274	692	29,432	41,785	704
Shenzhen Gushengtang Yuanbo Out-patient Department (深圳固生堂園博門診部) <sup>(8)</sup>	9,746	16,582	588	11,675	24,580	475	11,199	22,180	505	22,778	34,145	667
Shenzhen Xiangzhu <sup>(7)</sup>	–	–	–	35,658	54,325	656	63,453	98,273	646	41,006	64,389	637
Shenzhen Luohu	25,938	47,454	547	36,198	55,696	650	33,877	52,258	648	16,904	26,517	637
Shenzhen Gushengtang TCM Health Technology Co., Ltd. Baoan TCM Out-patient Department (深圳固生堂中醫健康科技有限公司固生堂寶安中醫館)*	4,430	6,019	743	–	–	–	–	–	–	–	–	–
<b>Sub-total</b>	<b>163,643</b>	<b>251,574</b>	<b>650</b>	<b>202,416</b>	<b>306,452</b>	<b>661</b>	<b>199,253</b>	<b>307,490</b>	<b>648</b>	<b>126,089</b>	<b>190,874</b>	<b>661</b>
<b>Zhongshan</b>												
Zhongshan Gushengtang TCM Out-patient Co., Ltd. (中山市固生堂中醫門診有限公司)	4,651	14,671	317	5,463	16,728	327	6,361	19,172	332	4,292	11,159	385
<b>Sub-total</b>	<b>4,651</b>	<b>14,671</b>	<b>317</b>	<b>5,463</b>	<b>16,728</b>	<b>327</b>	<b>6,361</b>	<b>19,172</b>	<b>332</b>	<b>4,292</b>	<b>11,159</b>	<b>385</b>

# BUSINESS

	Year ended December 31,									Six months ended June 30,		
	2018			2019			2020			2021		
	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit
	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)
<b>Foshan</b>												
Foshan Gushengtang TCM Out-patient Department Co., Ltd. (Nanhai Branch) (佛山固生堂中醫門診部有限公司(南海店))	13,299	45,882	290	16,072	56,077	287	16,207	48,563	334	9,718	28,295	343
Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. (佛山市順德區固生堂中醫門診部有限公司)	3,752	15,048	249	6,654	20,491	325	6,118	19,184	319	4,851	14,727	329
<b>Sub-total</b>	<b>17,051</b>	<b>60,930</b>	<b>280</b>	<b>22,726</b>	<b>76,568</b>	<b>297</b>	<b>22,325</b>	<b>67,747</b>	<b>330</b>	<b>14,569</b>	<b>43,022</b>	<b>339</b>
<b>Nanjing</b>												
Nanjing Ningxi <sup>(9)</sup>	23,236	33,016	704	26,504	36,062	735	30,164	40,731	741	18,953	25,598	740
Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out-patient Department (南京固生堂華健中醫藥有限公司浦口白露中醫門診部) <sup>(9)</sup>	–	–	–	–	–	–	251	935	268	1,148	3,380	340
<b>Sub-total</b>	<b>23,236</b>	<b>33,016</b>	<b>704</b>	<b>26,504</b>	<b>36,062</b>	<b>735</b>	<b>30,415</b>	<b>41,666</b>	<b>730</b>	<b>20,101</b>	<b>28,978</b>	<b>694</b>
<b>Ningbo</b>												
Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd. (寧波海曙固生堂中醫門診有限公司)	19,728	63,369	311	19,172	66,842	287	19,950	72,943	274	11,851	47,486	250
Ningbo Zhongyishoutang	25,538	80,026	319	26,345	82,365	320	28,872	88,798	325	14,590	54,190	269
Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (寧波江北文教固生堂中醫門診部有限公司)	14,551	53,056	274	17,407	61,858	281	15,197	53,177	286	8,856	32,623	271
Ningbo Manshan	–	–	–	–	–	–	535	2,731	196	2,958	14,833	199
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)	–	–	–	–	–	–	–	–	–	2,261	9,820	230
<b>Sub-total</b>	<b>59,817</b>	<b>196,451</b>	<b>304</b>	<b>62,924</b>	<b>211,065</b>	<b>298</b>	<b>64,554</b>	<b>217,649</b>	<b>297</b>	<b>40,516</b>	<b>158,952</b>	<b>255</b>
<b>Wuxi</b>												
Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春南禪寺中醫院有限公司)	19,455	43,170	451	20,349	50,146	406	19,056	48,060	397	10,323	24,366	424
Wuxi Chongan Temple Hospital	19,997	46,834	427	18,595	46,660	399	18,963	51,897	365	8,848	23,356	379
<b>Sub-total</b>	<b>39,452</b>	<b>90,004</b>	<b>438</b>	<b>38,944</b>	<b>96,806</b>	<b>402</b>	<b>38,019</b>	<b>99,957</b>	<b>380</b>	<b>19,171</b>	<b>47,722</b>	<b>402</b>
<b>Suzhou</b>												
Suzhou Taohuawu <sup>(10)</sup>	23,046	66,490	347	16,171	42,598	380	19,031	47,347	402	10,438	24,808	421
Suzhou Daru <sup>(10)(11)</sup>	10,198	19,657	519	30,661	57,932	529	32,221	60,335	534	17,407	32,084	543
Suzhou Tongan	–	–	–	–	–	–	10,046	19,509	515	10,576	25,446	416
Suzhou Gusu District Gushengtang Laodongwu TCM Clinic Co., Ltd. (蘇州姑蘇區固生堂老東吳中醫診所有限公司) <sup>(11)*</sup>	442	2,390	185	–	–	–	–	–	–	–	–	–
<b>Sub-total</b>	<b>33,686</b>	<b>88,537</b>	<b>380</b>	<b>46,832</b>	<b>100,530</b>	<b>466</b>	<b>61,298</b>	<b>127,191</b>	<b>482</b>	<b>38,421</b>	<b>82,338</b>	<b>467</b>



## BUSINESS

	Year ended December 31,									Six months ended June 30,		
	2018			2019			2020			2021		
	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit	Revenue	Customer visits	Average spending per customer visit
	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)
<b>Fuzhou</b>												
Fuzhou Gushengtang General Out-patient Co., Ltd. (福州固生堂綜合門診有限公司) <sup>(12)</sup>	9,249	27,115	341	10,755	30,288	355	22,425	62,699	358	20,130	55,041	366
Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司)	-	-	-	-	-	-	-	-	-	1,238	3,229	383
Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司)	-	-	-	-	-	-	-	-	-	251	1,158	217
Fuzhou Gulou District Xingfu Longyao TCM Out-patient Co., Ltd. (福州市鼓樓區杏福龍腰中醫門診部有限公司) <sup>(12)</sup>	20,088	40,291	499	24,106	53,353	452	11,429	38,431	297	-	-	-
<b>Sub-total</b>	<b>29,337</b>	<b>67,406</b>	<b>435</b>	<b>34,861</b>	<b>83,641</b>	<b>417</b>	<b>33,854</b>	<b>101,130</b>	<b>335</b>	<b>21,619</b>	<b>59,428</b>	<b>364</b>
<b>Kunshan</b>												
Kunshan Gushengtang Out-patient Department Co., Ltd. (昆山固生堂門診有限公司)*	5,407	8,923	606	862	2,218	389	-	-	-	-	-	-
<b>Sub-total</b>	<b>5,407</b>	<b>8,923</b>	<b>606</b>	<b>862</b>	<b>2,218</b>	<b>389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chengdu</b>												
Chengdu Wuhou District Gushengtang TCM Clinic Co., Ltd. (成都武侯固生堂中醫診所有限公司)*	3,742	7,059	530	1,414	3,979	355	-	-	-	-	-	-
<b>Sub-total</b>	<b>3,742</b>	<b>7,059</b>	<b>530</b>	<b>1,414</b>	<b>3,979</b>	<b>355</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Notes:**

- (1) The operating data represented that of Shanghai Zhenantang TCM Out-patient Department (上海真安堂中醫門診部), which was acquired by us in 2019 and operated by us since then.
- (2) Beijing Gushengtang TCM Hospital Co., Ltd. is not a Designated Medical Institution. Due to the rich medical resources in Beijing, this medical institution has attracted a larger proportion of non-local customers. As a result, customers visiting Beijing Gushengtang TCM Hospital Co., Ltd. have the option and generally choose to buy prescriptions for their healthcare needs for a longer time period in one single visit, which caused the relatively higher average spending per customer visit of Beijing Gushengtang TCM Hospital Co., Ltd. than that of our other medical institutions in other regions.
- (3) We acquired Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (formerly known as Beijing Zhonghai TCM Hospital Co., Ltd. (北京中海中醫醫院有限公司)) on June 30, 2021 and started to generate revenue from such medical institution from July 1, 2021.
- (4) The average spending per customer visit of Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. (formerly known as Guangzhou Yuexin Specialty Out-patient Co., Ltd. (廣州悅心普通專科門診有限公司)) increased significantly in the first half of 2021, as we launched reproductive medical services in this medical institution in this period, the service fees for which are generally higher than other general healthcare services provided by this medical institution. The newly launched reproductive medical services have also driven the increase in customer visits in the first half of 2021.
- (5) We closed Guangzhou Gushengtang TCM Oncology Specialty Out-patient Department Co., Ltd., an oncology TCM specialist clinic, and merged the business into Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd., which started to provide oncology TCM healthcare services in late 2020. As a result, the average spending per customer visit of Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. increased in 2020 and the first half of 2021, as the prices of oncology TCM healthcare services are relatively high.
- (6) Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Taojin Out-patient Department was closed by us due to the deficiency of the building structure of its leased premise.
- (7) We voluntarily redirected certain of our physicians practising at Shenzhen Zhuzilin to Shenzhen Xiangzhu, a medical institution newly acquired in March 2019, due to the operational constraints caused by the relatively small operating area of Shenzhen Zhuzilin compared to its large customer base. As a result, the number of customer visits and revenue of Shenzhen Zhuzilin decreased in 2019 and 2020, while Shenzhen Xiangzhu recorded significant growth in the same years.

## BUSINESS

- (8) The average spending per customer visit of Shenzhen Gushengtang Yuanbo Out-patient Department increased in the first half of 2021, as we launched reproductive specialty TCM services to diversify its service offering in this medical institution in 2021, the service fees of which are generally higher.
- (9) The average spending per customer visit of Nanjing Ningxi is relatively higher than that of Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out-patient Department during the Track Record Period, primarily as Nanjing Ningxi provides oncology TCM healthcare services, the prices of which are relatively high, while Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out-patient Department primarily provides general TCM healthcare services.
- (10) We voluntarily redirected certain of our physicians practicing at Suzhou Taohuawu to Suzhou Daru, a newly acquired medical institution and in close proximity to Suzhou Taohuawu, in order to alleviate the operational constraints caused by the small operating area of Suzhou Taohuawu. As a result, the number of customer visits and revenue of Suzhou Taohuawu decreased in 2019, while Suzhou Daru recorded significant growth in the same year.
- (11) We closed Suzhou Gusu District Gushengtang Laodongwu TCM Clinic Co., Ltd. in 2018 and redirected physicians to Suzhou Daru, which also enhanced the performance of Suzhou Daru in 2019.
- (12) The number of customer visits and revenue of Fuzhou Gushengtang General Out-patient Co., Ltd. increased significantly in 2020, primarily as we merged and closed Fuzhou Gulou District Xingfu Longyao TCM Out-patient Co., Ltd. in the same year for better operational and cost efficiency.
- \* Representing medical institutions that were closed by us during the Track Record Period and not in operations as of June 30, 2021.

Historically, we acquired a number of medical institutions. The operating data in the year of acquisition of the relevant medical institution did not represent, and was not indicative of, its full year performance. Generally, it may take a period of time for a newly acquired medical institution to be integrated into our medical service network and ramp up, during which its operating results may not be comparable with that of existing medical institutions and after which its operating results are expected to be improved in the following one to two years.

The average spending per customer visit of our medical institutions is subject to a number of factors, including among others, the local economy, the spending power of our customers, the different therapeutic services, our physicians' prescribing habits and our customers' medication demand. Therefore, the average spending per customer visit of each of our medical institutions during the Track Record Period may fluctuate from time to time.

In addition, our medical institution network covers all the tier one cities in China, namely, Beijing, Shanghai, Guangzhou and Shenzhen. According to Frost & Sullivan, due to multiple factors including stronger spending power of customers, physicians' prescribing habits and customers' medication demand, the average spending per customer visit of medical institutions located in such tier one cities are generally higher than that of medical institutions located in other cities in China.

The following table sets forth the movement of the number of our medical institutions for the years/periods indicated.

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Number of medical institutions at the beginning of the year/period . . . . .	29	34	34	37
Addition of new medical institutions . . . . .	9	2	5	4
Close of existing medical institutions . . . . .	(4)	(2)	(2)	—
Net increase in medical institutions . . . . .	5	—	3	4
<b>Number of medical institutions at the end of the year/period . . . . .</b>	<b>34</b>	<b>34</b>	<b>37</b>	<b>41</b>

In order to optimize resources allocation and improve our overall operating efficiency, our management periodically conduct comprehensive evaluation to assess the performance of our medical institutions based on multiple factors, including the relevant operating data such as customer visits and average spending per customer visit, as well as revenue contribution, scale and growth potential of the medical institution. For a medical institution that fails to generate a target annual revenue of RMB10.0 million, after being acquired or established by us for a certain period (typically the first full year after our acquisition or establishment), our management will review its business operation and financial performance figures, as well as scale in terms of GFA, and assess its future growth prospect in terms of the local demand of TCM healthcare solutions, growth trend of customer visits and average spending per customer visit, and the strategic presence of our offline medical institutions, in order to decide whether necessary to close such medical institution.

Our closure of existing medical institutions during the Track Record Period was based on a case by case assessment for each such medical institution. In 2018, we closed four medical institutions in total, among which, (i) two were closed for failure to reach the target annual revenue requirement and unpromising growth prospects, (ii) one was closed due to relatively low customer visits caused by the inability to get the Designated Medical Institution qualification and hence we subsequently terminated such medical institution, the business and operation of which were subsequently merged into Suzhou Daru, a newly acquired medical institution in the same region with an aim to save cost and drive better operating results, and (iii) the remaining one was closed due to an in-progress relocation caused by the deficiency of the structure of its prior leased premise. In 2019, we disposed of two medical institutions which failed to reach the target annual revenue requirements and had unpromising growth prospects. In 2020, we closed two medical institutions and their business operations were merged into our other medical institutions, among which, one was closed due to inability to find a proper premise to support its increasing business scale after the expiration of the previous tenancy, the customers of which were redirected to another medical institution of ours in the same region; and the other closure was due to the merger of another medical institution in the same region for better operational and cost efficiency.

We acquired 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. (北京中海中醫醫院有限公司), on June 30, 2021. We started to generate revenue from operating such medical institution from July 1, 2021.

- *Online Healthcare Platforms*

Having witnessed vast growth potential of internet healthcare, which achieved great penetration and superb efficiency in the past decades, we have decided to expand into online business through operation of proprietary online healthcare platforms and collaboration with leading third-party online platforms, with the aim to capture more market opportunities, attract more physicians and customers, as well as explore more benefits brought by the integration of offline and online healthcare services. Online healthcare platform network not only facilitates our access to customers in the lower-tier cities, but also forms an indispensable component of our dual-engine expansion strategy, creating mutually complementary effect under the strong integration of offline and online business. Specifically, in terms of customer outreach and acquisition, our online healthcare platforms act as the access portals for customer traffic for our offline medical institutions. Our cloud-based HIS facilitates the appointment by providing real-time appointment information and availability of physicians in each of our medical institutions. Customers can check the availability and make appointment conveniently with their selected physicians for offline consultation, diagnosis or physiotherapy. Other than initial consultation (and for customers with diseases that can not be

classified as common diseases or chronic diseases), and services that can only be provided to customers in physical medical institutions in nature (such as physiotherapies, as well as tests and examinations), other healthcare services such as follow-up consultation and diagnosis, and prescription are complementary and can be provided either online or offline. In terms of follow-up consultation and diagnosis, through mobile applications, official WeChat accounts and mini programs, we attract the offline customers to online platforms and provide them with online follow-up consultation and diagnosis by telephone, video, text and photos. In addition to customers visited our offline medical institutions, leveraging our online medical platforms, our network physicians also provide follow-up consultation services to customers who visited the local medical institutions where such network physicians practice after their initial consultation. As a result, we are able to expand our service coverage and provide medical services to customers in 343 cities in the PRC through our online medical platforms. With interaction of our offline and online business, our online healthcare platforms make follow-up visits and long-term healthcare management more accessible for customers who have been diagnosed with chronic diseases in offline medical institutions and live in remote areas. In addition, Bailu has collaborated with third-party medical institutions and pharmacies for preparation and delivery of certain healthcare products. For example, physicians practicing at Bailu may specify in their prescriptions specific third-party medical institutions or pharmacies that Bailu collaborates with for certain healthcare products that customers need to take. In such case and upon customers' consent, prescriptions are sent to optimal sales points of the relevant third-party medical institutions or pharmacies for further handling. We have made continuous efforts to integrate the supply chain of Bailu into our vertically integrated supply chain system, as a result of which, we have achieved self-supplying to a large extent for Bailu in April 2021. After consultation and diagnosis procedure, customers can provide their written comments or recommendations through our official WeChat account or short messages, from which our cloud-based HIS is utilized to collect the feedbacks to the administrative site (管理後台). Our online healthcare platforms have multiple features, allowing customers to provide feedback and recommendation, keep medical records electronically, or learn about TCM, amongst other things. Such features enable us to promote our brand among general public. In addition, when expanding into new offline markets, we prioritize areas which have been covered by our online healthcare services. Our insights, experiences, medical and operational data, as well as medical professional resources accumulated through online operations enable us to identify offline expansion opportunities and execute offline expansion plans effectively.

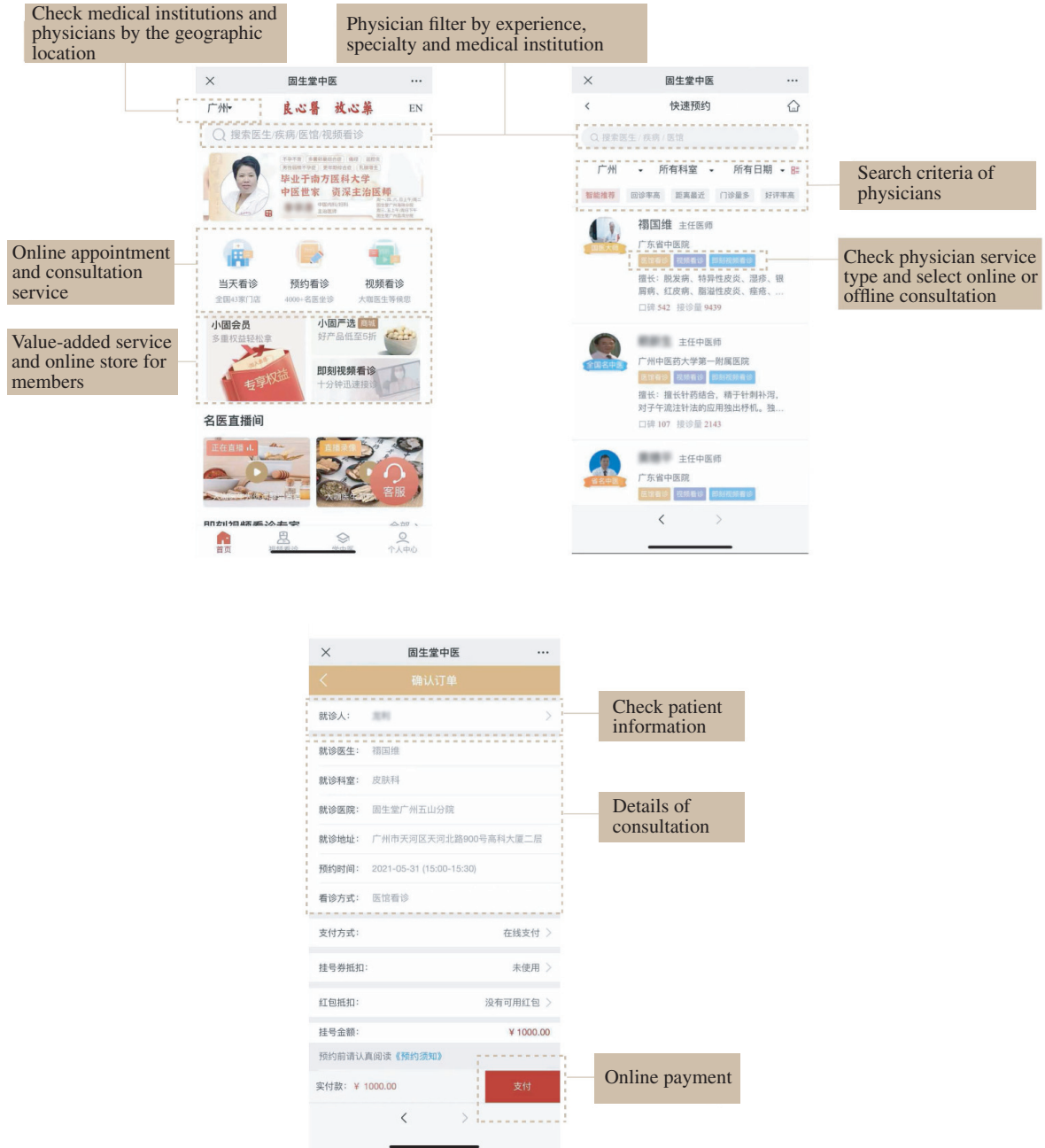
## BUSINESS

As of the Latest Practicable Date, we owned and operated a variety of online channels, including official websites, mobile applications, official WeChat accounts and mini programs, in the name of “Gushengtang,” whereby we offered TCM healthcare solutions to customers in 343 cities in the PRC. The below table sets forth the operating model of our online healthcare platforms in operation:

Online platforms	Nature of the platform	Scope and nature of major services	Regulatory restriction
Gushengtang Official Website (固生堂官網) . . . . .	Proprietary official website	Online appointment for offline diagnosis and consultation and free science popularization through articles	As advised by our PRC Legal Advisors, there are no specific restrictions on online appointment and
Gushengtang TCM (固生堂中醫) . . . . .	Proprietary official WeChat account	Online appointment for offline diagnosis and consultation, online payment for the prescription, electronic medical records and sales of healthcare products	payment services through Gushengtang TCM (固生堂中醫) and Gushengtang Physician Recommendation (固生堂名醫推薦). There are no specific restrictions on online appointment through Gushengtang Official Website (固生堂官網).
Gushengtang Physician Recommendation (固生堂名醫推薦) . . . . .	Proprietary official WeChat mini program	Online appointment for video diagnosis and consultation, online appointment for offline diagnosis and consultation, online payment for the prescription and physician recommendation and sales of healthcare products	
Gushengtang Video Consultation (固生堂視頻看診) . . . . .	Proprietary official WeChat mini program	Online appointment for video diagnosis and consultation, online appointment for offline diagnosis and consultation, online payment for the prescription and online consultation	As advised by our PRC Legal Advisors, physicians can only provide follow-up diagnosis services for patients diagnosed with certain common diseases or chronic diseases through
Gushengtang Physician Terminal (固生堂医生端) . . . . .	Proprietary mobile application	Physician registration, online consultation, online payment for the prescription and free science popularization through articles	Gushengtang Video Consultation (固生堂視頻看診) and Gushengtang Physician Terminal (固生堂医生端). TCM physiotherapies and test and examination can only be provided in offline medical institutions. See “—Comprehensive Healthcare Solutions.”

In addition to the above online healthcare platforms, in order to further strengthen our online presence, we also acquired Wanjia Platform, an online healthcare platform providing online consultation services in April 2021, the business of which has been merged into our existing online platforms upon our acquisition. We synchronized the medical records and operating data of both physician terminal and customer terminal between Wanjia Platform and our existing online platforms before we terminated Wanjia Platform. We transferred all physicians practicing at Wanjia Platform to our existing online platforms and also redirect their customers to our existing online platforms.

Set out below are illustrations of our selected proprietary online healthcare platforms.







In addition to our proprietary online healthcare platforms, we also proactively explore collaboration opportunities with third parties. Third-party online platforms, especially those which are owned and operated by leading internet players in the PRC, have accumulated an extensive customer base with huge demand for TCM healthcare solutions. However, such platforms are typically lack of high-quality TCM medical professionals due to their business focus. With plentiful high-quality medical professional resources, we have become an attractive partner for such platforms. As of the Latest Practicable Date, we had established collaborative relationships with nine third-party online platforms, expecting to benefit from their vast customer base and extensive customer outreach and expand the coverage of our healthcare solutions. We primarily provide online appointment services to customers through these third-party online platforms.

Under our collaboration agreements with third-party online platforms, they only provide us with user traffic from such platforms and we provide their users with professional and high-quality TCM-focused healthcare solutions, TCM prescription pharmaceuticals and other TCM grand healthcare products. Users can check the availability of physicians practicing at our medical institutions and make online appointment through such third-party online platforms to receive consultation and diagnosis services in our medical institutions. In such case, such platforms typically receive registration fees for our consultation services from their users first, and then settle with us on a monthly basis after deducting their commission. For each user's payment of service fee, commission charged by such platforms is either a fixed amount per customer visit or calculated as a percentage of the customer's payment they received. We recognize the full amount paid by the users to the third-party online platforms as our revenue under the medical institutions which provided services and record the commission fees paid to such platforms as selling and distribution expenses. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, we generated revenue of RMB4.4 million, RMB4.3 million, RMB3.6 million and RMB2.2 million, respectively, from providing healthcare solutions to customers who booked through third-party online platforms.

### *Medical Professionals*

Medical professionals, especially physicians, are principal participants of our comprehensive healthcare solutions. Qualification and expertise of our medical professionals are vital to us and our success.

There are generally two types of physicians practicing at our medical service network, namely, physicians employed by us and network physicians. Physicians employed by us are physicians who entered into labor contracts with us, while network physicians are physicians who entered into expert collaboration agreements with us.

As of June 30, 2021, there were 19,203 physicians practicing at our medical service network, including 135 physicians employed by us and 19,068 network physicians. Our network physicians contributed a vast majority of our revenue during the Track Record Period. In 2018, 2019 and 2020, and the six months ended June 30, 2021, the number of network physicians attending to patients physically at our offline medical institutions for an average of over four hours per week each year amounted to 540, 618, 684 and 745, respectively. During the same period, the number of network physicians providing online healthcare services through our online healthcare platforms amounted to nil, nil, 13,607 and 16,370, respectively. The remaining network physicians provide healthcare services less frequently.

- *Honorary Title of Our Medical Professionals*

China is the country of origin of TCM. The PRC government highly acclaims TCM practitioners with occupational prestige and superb skills, and has established an integrated commendation system comprising National TCM Great Master, National Famous TCM Doctor, Provincial Famous TCM Doctor and other honorary titles.

National TCM Great Master is the ultimate accolade in TCM industry, which is only awarded to renowned TCM practitioners who possess profound theoretical knowledge, remarkable academic standing and recognition, enormous industry influence and extensive practicing experience in TCM industry for over 50 years. As of June 30, 2021, among the total of 56 National TCM Great Masters in the PRC, we had 4 practicing at our medical service network, including:

- (i) Xuan Guowei (禰國維), an expert specializing in TCM diagnosis and treatment of dermatological diseases. Xuan Guowei is a doctoral supervisor of Guangzhou University of Chinese Medicine (廣州中醫藥大學), a member of academic committee of China Academy of Chinese Medical Sciences (中國中醫科學院) and an Expert with State Council's Special Allowance (國務院特殊津貼專家). He was honored as "Role Model of Southern Guangdong (南粵楷模);"
  - (ii) Zhou Daihan (周岱翰), an expert specializing in TCM diagnosis and treatment of oncology diseases. Zhou is a doctoral supervisor of Guangzhou University of Chinese Medicine and an Expert with State Council's Special Allowance. He was awarded "National Award for Outstanding Contribution to Traditional Chinese Medicine" (全國中醫藥傑出貢獻獎) by the Ministry of Human Resources and Social Security of the PRC (人力資源和社會保障部), NHC and National Administration of Traditional Chinese Medicine; and
  - (iii) Xu Runsan (許潤三), an expert specializing in TCM diagnosis and treatment of gynecological diseases. Xu Runsan is a chief physician of China-Japan Friendship Hospital (中日友好醫院) and was honored as "Famous TCM Doctor of the Capital (首都國醫名師)."
- *Qualification of Our Medical Professionals*

In the PRC, licensed physicians are subject to periodic assessment of their professional skills, achievements and professional ethics by institutions and/or organizations authorized by the public health department in the PRC. There are three qualifications and three professional ranks for physicians in the PRC: (i) junior qualification (初級職稱) for resident physicians who typically undertake entry-level tasks such as patients' medical record preparation and practice under the supervision of attending physicians or other superiors; (ii) mid-level qualification (中級職稱) for attending physicians who may supervise resident physicians and typically undertake routine medical procedures, teaching and research; and (iii) senior qualification (高級職稱) for (a) associate-chief physicians who may supervise attending and resident physicians, direct research work of a specific field, and typically undertake complex medical procedures; and (b) chief physicians who typically command the highest level of medical capability in a specific field and are generally the head of a clinical department.

As of June 30, 2021, physicians practicing at our medical service network included 3,308 chief physicians, 4,486 associate chief physicians, 5,390 attending physicians and 6,019 resident physicians. We regularly review the profile of our physicians and remind them to apply for their next professional rank when they become eligible.

As of June 30, 2021, our medical service network had 633 other medical professionals. Other medical professionals comprise primarily physician assistants (醫師助理), nurses and pharmacists. Physician assistants practicing at our medical service network comprise primarily medical graduates from medical colleges who work at our medical service network as assistants to the outranking physicians for at least one year and they can take up the role of resident physicians after successfully obtaining the physician qualification certificates (醫師資格證書).

As of June 30, 2021, each of the physicians practicing at our medical service network had obtained the physician qualification certificate. We were not subject to reliance on any particular physician during the Track Record Period. As of June 30, 2021, each of the other medical professionals practicing at our medical service network (except for physician assistants) had obtained the necessary qualification certificate for his or her medical practice in the PRC. We also closely monitor the qualification registration and licensing records on a continuing basis to ensure that all physicians practicing at our medical service network comply with all applicable requirements under PRC laws and regulations, in particular, each physician's practice is within the scope of his or her qualification and license. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material complaints or penalties in relation to our physicians practicing beyond the scope of their respective licenses.

- *Recruitment and Retention of Medical Professionals*

We employ a combination of offline and online approaches to attract and recruit high-quality medical professionals. We have the following major recruitment channels: (i) we establish strategic collaborative relationships with renowned public medical institutions and universities, and invite their renowned medical professionals to practice at our medical service network on a part-time basis as our network physicians; (ii) we recruit outstanding graduates each year from well-known medical colleges as physicians employed by us; (iii) we organize and participate in academic conferences, seminars and symposia to actively approach seasoned medical professionals to invite them to join our medical service network; and (iv) we recruit selected medical professionals retired from our medical institutions or third-party medical institutions, who have rich experience in TCM diagnosis and treatment and have established reputation and trust among patients, as our network physicians. In addition to common recruitment channels, we have launched a mobile application named “Gushengtang Physician Terminal (固生堂醫生端, formerly known as Bailu Hospital (白露醫館)),” to facilitate engagement of online physicians, through which new physicians can access our broad customer base and provide healthcare solutions after completing prescribed registration formalities. Such new physicians are required to submit their basic information as well as qualifications for our verification. All physicians providing healthcare services on our online healthcare platforms must be a physician practicing in a medical institution and holding a physician qualification certificate.

In recruiting new physicians and other medical professionals, we assess, among others, their academic and professional qualifications, awareness among customers, years of industry experience, as well as their character and integrity. We cooperate with management service platform companies to streamline the management of our network physicians. We typically enter into long-term cooperation agreements with management service platform companies, under which such management service platform companies are responsible for management of network physicians who provide healthcare services at our medical service network. Management services they provide typically include handling requisite process such as multi-site practicing registration, arranging and maintaining proper record of consultation schedule and hours for such physicians, keeping track and reconciling monthly remuneration accrued with us and such physicians and dispatching monthly remuneration payments to such physicians. In return, we pay a lump sum fee on a monthly basis to management service platform companies based on factors including remuneration of our network physicians and service fees to such management service platform companies. Our cooperation agreements with management service platform companies may generally be terminated (i) by us with prior written notice; and (ii) by the non-defaulting party in the case of a material breach that is not remedied within a prescribed time period. For the years ended December 31, 2018, 2019 and 2020 and

the six months ended June 30, 2021, the aggregate amount we paid to such management service platform companies amounted to RMB12.9 million, RMB199.1 million, RMB218.3 million and RMB124.9 million, respectively. Such amounts increased significantly from 2018 to 2019, primarily because we started to engage such management service platform companies for the management of a majority of our network physicians since 2019. According to Frost & Sullivan, our cooperative arrangements with such management service platform companies are in line with industry norm. As advised by our PRC Legal Advisors, we do not violate any applicable laws and regulations in the PRC under the arrangements with such management service platform companies.

Physicians employed by us get compensated pursuant to their respective labor contracts with us and typically receive salaries and bonus on a monthly basis. With respect to our network physicians, remuneration is typically calculated as prescribed percentages of medical fees paid by customers, according to expert collaboration agreements between such physicians and us. Remuneration of network physicians is typically settled by the management service platform companies on a monthly basis pursuant to our arrangement with them.

As identifying, recruiting and retaining sufficient high-quality physicians is critical to our business and differentiates us from our competitors, we endeavor to create a physician-friendly working environment to enhance physician stickiness. Physicians at our medical service network may access our entire customer base, obtain customers' electronic medical records, arrange schedule based on conditions of customers and availability of the physician, and provide healthcare solutions through a combination of offline and online channels, such as face to face, telephone, video, text and photos, thereby breaking through temporal and spatial constraints faced by traditional healthcare service and product providers. We also assign helpers to selected seasoned physicians to deal with procedural matters, enabling physicians to focus on providing healthcare solutions. To manage our continuously increasing network physicians, we have implemented series of measures to oversee and monitor their practice. For example, our administrative staff closely monitor our network physicians' service hours. We also collect feedback from customers through our customer feedback system with respect to the service quality and treatment effect. See "Our Customers—Customer Services and Customer Feedback—Customer Feedback System."

We enter into expert collaboration agreements with our network physicians. Salient terms of general expert collaboration agreements between our network physicians and us are as follows:

- ***Duration:*** typically, five years.
- ***Physician's qualification:*** The physician must hold necessary qualification certificates for his or her medical practice in the PRC, such as the physician qualification certificate. The physician should complete multi-site registration within one month upon the execution of the agreement.
- ***Physician's service time and site:*** The physician should meet the minimum service hour as stated in the agreement. Certain physicians agree to exclusively practise at our medical service network, except that multi-site practice physicians are allowed to practise at their primary practicing sites. As of June 30, 2021, approximately 2% of our network physicians agreed in their expert collaboration agreements to exclusively practise in our medical service network.
- ***Remuneration:*** Remunerations are typically calculated as prescribed percentages of medical fees paid by customers and settled monthly.



- **Medical dispute:** For any medical disputes caused by network physician's malpractice, regardless of our respective responsibility under the relevant laws and regulations (which stipulates that the medical institution will be liable for compensation in the case that the physician practicing at the medical institution is at fault for damage inflicted on a patient during the course of diagnosis and treatment), the physician is obliged to bear the relevant responsibility, while we are obliged to provide necessary assistance to such physician. Thus, we have the contractual rights to claim for any damage we suffer due to the network physician's malpractice.
- **Termination:** The agreement may be terminated by us without bearing any compensation liability in the following events: (i) a medical malpractice by the physician in our medical service network causes medical dispute or constitutes medical incident; (ii) the physician violates laws and regulations in relation to physician practice; (iii) the physician is unable to accomplish his or her work due to the physical condition; (iv) the physician's reputation is severely ruined; (v) the physician's failure to conduct multi-site registration or violation of our internal policies, which causes damages to us; and (vi) we send a 30-day prior written notice to terminate the agreement. In addition, the agreement may be terminated by the physician without bearing any compensation liability in the following events: (i) late payment of remuneration for over three months; and (ii) material non-compliance of our medical institution where the physician is practicing. Apart from the above unilateral termination right, the agreement can also be terminated by the voluntary negotiation and mutual consent reached between both parties.

Physicians who have not agreed in the expert collaboration agreement to practise exclusively in our medical service network can choose to practise at other offline medical institutions or online healthcare platforms. Although we had not relied on any particular network physicians during the Track Record Period and we do not expect any material adverse impact on our business if our network physicians practise at other offline medical institutions or online healthcare platforms given they work on part-time basis and the industry is highly fragmented, we still devote great efforts on attracting, recruiting and retaining sufficient network physicians in the highly fragmented and competitive healthcare industry. We employ multiple approaches to satisfy the criteria of physicians when selecting their practicing sites, including the reputation and culture, management efficiency, the quality of facilities, supporting staff, the number of customer visits, compensation, training programs and location. As a result, we have been able to maintain extensive network physicians practicing at our medical service network during the Track Record Period and up to the Latest Practicable Date.

We also enter into confidentiality agreement with physicians employed by us and our network physicians, which requires physicians to keep confidential the trade secrets they gained in the course of their employment. For physicians providing online healthcare services, we are entitled to freeze the physician's account on our online healthcare platforms if the physician fails to perform or fulfill his or her responsibilities or obligations under relevant laws and regulations or as agreed in the above agreements such as practicing requirements. Under such circumstance, the relevant physician is liable for our loss or damage caused by his or her breach of duty.



## BUSINESS

We, after due diligence and analysis, have the rights to delete the information posted by the physician on our online platforms, or suspend or terminate the physician's healthcare services on our online platforms in the event that (i) any third party notifies us that the physician is engaging in malpractice and there is evidence supported such accusation; or (ii) assistants assigned by us for the physicians or our other employees report to us on any malpractice of such physicians on our online platforms.

There were 19,203 physicians practicing at our medical service network as of June 30, 2021, covering surgery, internal medicine, pediatrics, gynecology, andrology, dermatology, oncology, gastroenterology, orthopedics, massage and acupuncture and other specialties. Healthcare services provided by our network physicians primarily include general TCM services and specialized medical services such as surgery, internal medicine, pediatrics, gynecology, andrology, dermatology, oncology, gastroenterology, orthopedics, hepatopathy and otorhinolaryngology.

The following tables set forth the revenue contribution and the number of customer visits contributed by our top five physicians in terms of revenue contribution for the periods indicated.

### *Six months ended June 30, 2021*

Physician Code	Revenue	As a percentage of our total revenue	Number of customer visits
	(RMB'000)	(%)	
Physician A .....	7,959	1.3	4,953
Physician B .....	7,509	1.3	7,225
Physician C .....	7,268	1.2	10,005
Physician D <sup>(1)</sup> .....	7,260	1.2	2,436
Physician E .....	7,065	1.2	6,390
<b>Sub-total .....</b>	<b>37,062</b>	<b>6.2</b>	
<b>Total .....</b>	<b>598,189</b>	<b>100.0</b>	

### *Year ended December 31, 2020*

Physician Code	Revenue	As a percentage of our total revenue	Number of customer visits
	(RMB'000)	(%)	
Physician A .....	13,668	1.5	7,858
Physician B .....	13,273	1.4	12,954
Physician D <sup>(1)</sup> .....	12,742	1.4	4,140
Physician G .....	11,168	1.2	9,648
Physician C .....	10,649	1.2	14,340
<b>Sub-total .....</b>	<b>61,500</b>	<b>6.6</b>	
<b>Total .....</b>	<b>925,366</b>	<b>100.0</b>	

## BUSINESS

### *Year ended December 31, 2019*

Physician Code	Revenue	As a percentage of our total revenue	Number of customer visits
	(RMB'000)	(%)	
Physician B .....	15,922	1.8	16,009
Physician A .....	15,652	1.8	9,563
Physician C .....	13,848	1.6	18,840
Physician D <sup>(1)</sup> .....	13,071	1.5	4,674
Physician G .....	11,178	1.3	9,810
<b>Sub-total</b> .....	<b>69,672</b>	<b>7.8</b>	
<b>Total</b> .....	<b>896,156</b>	<b>100.0</b>	

### *Year ended December 31, 2018*

Physician Code	Revenue	As a percentage of our total revenue	Number of customer visits
	(RMB)	(%)	
Physician A .....	15,937	2.2	9,896
Physician B .....	15,246	2.1	16,129
Physician D <sup>(1)</sup> .....	11,223	1.6	4,261
Physician C .....	10,851	1.5	17,955
Physician G .....	10,395	1.4	9,469
<b>Sub-total</b> .....	<b>63,653</b>	<b>8.8</b>	
<b>Total</b> .....	<b>726,245</b>	<b>100.0</b>	

*Note:*

(1) Physician D is a reputable oncology specialist, whose customers generally choose to buy prescriptions for a longer time period in one single visit, as a result of which, the average spending per customer visit to Physician D during the Track Record Period was higher compared with other physicians.

All of our top five physicians in terms of revenue contribution during the Track Record Period were our network physicians during the relevant period.

### ***Key Financial and Operational Data***

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue generated from providing healthcare solutions amounted to RMB668.1 million, RMB865.9 million, RMB891.8 million and RMB588.9 million, respectively, representing 92.0%, 96.6%, 96.4% and 98.4% of our total revenue for the same periods, respectively.

The price of our healthcare solutions varies. During the Track Record Period, spending per customer visit of our medical service network in connection with healthcare solutions provided generally ranged from RMB100 to RMB1,650, which is within the price range of the industry average, except that such spending per customer visit was typically lower than RMB100 for customers who (i) dispensed with standardized healthcare service processes and only sought to prescribe his/her commonly-used healthcare products; (ii) received certain inexpensive

physiotherapies; or (iii) consulted with physicians with relatively low consultation fees, while such spending per customer visit was typically higher than RMB1,650 for customers who (i) suffered from severe diseases which required costly treatment options; or (ii) requested us to prescribe healthcare products for multiple treatment sessions in a single customer visit.

### ***Third-party Management Services***

We grant access to certain small- and medium-sized TCM clinics which desire to adopt our proprietary cloud-based HIS named “Bai Hui Yun Yi TCM system (百會雲醫中醫診所系統),” a SaaS platform streamlining substantially all aspects of medical institutions’ daily operations to achieve management efficiency. We typically enter into annual licensing agreements with small- and medium-sized TCM clinics, pursuant to which we grant them access to Bai Hui Yun Yi TCM system and provide them with relevant maintenance services. In return, we are entitled to lump-sum license fees at fixed amounts. Our revenue generated from providing third-party management services to small- and medium-sized TCM clinics amounted to nil, nil, RMB25,000 and RMB11,000 for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively. We only generate a small portion of revenue from such business during the Track Record Period, primarily as we provide such services for free or at a relatively low price for promotion purposes as such business was still at its initial stage. As of the Latest Practicable Date, 308 TCM clinics under 283 brands had adopted our Bai Hui Yun Yi TCM system.

### **Sale of Healthcare Products**

During the Track Record Period, we also generated revenue from sale of healthcare products which are typically used by customers to improve well-being. Such healthcare products primarily include valuable medicinal (貴細藥材), such as donkey-hide gelatin (阿膠), cordyceps sinensis (冬蟲夏草), bird’s nest (燕窩), dendrobium nobile (石斛) and American ginseng (西洋參); and nourishment, such as compound donkey-hide gelatin syrup (複方阿膠漿), donkey-hide gelatin cake (阿膠糕), honey (蜂蜜), healthy tea (養生茶), ready-to-eat fish maws (即食花膠) and ready-to-eat bird’s nest (即食燕窩). We have a dedicated expert team responsible for research and development of our private label nourishment, while we engage third-party contract manufacturers to produce the same.

Benefiting from our business coverage with both offline and online operations, we are able to access potential customers and sell healthcare products through multiple channels. In addition to the sale of healthcare products via our medical institutions and online healthcare platforms to our walk-in customers, we owned and operated four offline pharmacies and three flagship stores opened on third-party e-commerce platforms for healthcare product sales as of the Latest Practicable Date. We primarily sell valuable medicinal, health supplements and nourishment on the three flagship stores opened on third-party e-commerce platforms. We recognize the full amount paid by the purchasers to the third-party online platforms as our revenue and record the commission fees paid to such platforms as selling and distribution expenses. Meanwhile, similar to our healthcare solutions, we provide healthcare product packages to large-scale enterprises, mainly financial and insurance institutions, for their employees’ benefits and end-customers’ value-added benefits. Our subsidiary, Blue Ocean, also resell third-party healthcare products that we procured to other third-party medical institutions and pharmacies as a trading company.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue generated from sale of healthcare products amounted to RMB58.1 million, RMB30.3 million, RMB33.6 million and RMB9.3 million, respectively, representing 8.0%, 3.4%, 3.6% and 1.6% of our total revenue for the same periods, respectively.

## **OUR FUTURE EXPANSION**

Our future expansion plans primarily include expansion of medical service network and expansion of our product offerings.

### **Expansion of Medical Service Network**

We expect to expand our medical service network through both organic growth and acquisitions.

#### ***Organic Growth***

When expanding by new establishments, we will prioritize markets that we have entered into or that are well penetrated by our online operations. We intend to open new medical institutions in a number of provinces to further expand our medical institution network. We will locate new medical institutions in communities with convenient transportation and high customer traffic. We intend to establish new medical institutions in Guangdong, Jiangsu, Shanghai and Zhejiang from 2022 to 2025. We expect the expenses for establishing new medical institutions from 2022 to 2023 will be financed by the proceeds from the Global Offering. See “Future Plans and Use of Proceeds” for details.

The establishment of a new medical institution generally involves a number of steps, including preliminary planning, market research, site selection, feasibility study, regulatory approval process, construction and decoration of premises, recruitment of necessary personnel, and preparation for commencement of operations. According to our past experience, the establishment of a new medical institution generally takes three to six months to complete. Taking Guangzhou Liwan District Gushengtang General Out-patient Department Co., Ltd. (廣州荔灣區固生堂綜合門診部有限公司), which commenced operation in May 2018, as a typical example of our self-established medical institution during the Track Record Period, the breakeven period and the payback period of this medical institution was approximately five months and 18 months, respectively.

#### ***Acquisitions***

We have built our medical service network so far primarily through acquisitions, and we intend to continuously pursue acquisition opportunities of medical institutions. When expanding by acquisition, we will prioritize markets with developed economies, high population density and vast demand for TCM healthcare solutions and products. We will primarily target medical institutions (i) which are relatively sizeable with stable customer base and physician resources; (ii) which are Designated Medical Institutions; (iii) having significant synergies with us; and (iv) having potential in improving their management approaches as well as efficiency. We typically empower acquired medical institutions with our management system and extensive resources, with the aim of achieving rapid integration with our existing medical service network. Taking Shanghai Jinyue Out-patient

Department Co., Ltd. (上海金悦門診部有限公司), which commenced operation in January 2018, as a typical example of our acquired medical institution during the Track Record Period, it already achieved breakeven at the time of our acquisition and the payback period of this medical institution was approximately 35 months.

We evaluate potential acquisition targets based on a number of criteria, including:

- location of the target: we typically choose acquisition targets that are located in or adjacent to large-scale residential communities or other areas with convenient transportation and high customer traffic. We also consider the distance between our existing offline medical institutions and pharmacies and the acquisition targets to avoid material cannibalization with our existing medical institutions;
- local physician resources and local customers' preferences for TCM healthcare solutions and products: we typically choose acquisition targets located in the region where we have established brand awareness and reputation;
- the target's qualification as a Designated Medical Institution: for the regions where Designated Medical Institutions are subject to government-approved annual quota from local medical insurance bureaus under the national reimbursement programs, we typically choose targets with higher income level, which are more likely to obtain and maintain relatively high quota;
- the target's historical regulatory and business compliance: we review the targets' compliance history and only consider targets that have obtained all material licenses, permits and approvals required for operation;
- the target's synergies with us in supply chain, physician resource and management system, including the adequacy and quality of existing medical professionals and potential cost and supply chain synergy with our Group post integration; and
- estimated investment amount required for working capital: based on our assessment of the quality of maintenance of the premise, existing facilities and equipment, and the renovation and upgrade required.

According to Frost & Sullivan, as of June 30, 2021, there were more than 40,000 private TCM institutions in China, among which only approximately 5% are medium- and large-scale medical institutions. In addition, Jiangsu, Guangdong, Sichuan, Beijing, Shanghai and Chongqing are regions with the largest number of private TCM medical institutions, according to the same source. As advised by Frost & Sullivan, (i) the market is highly fragmented, and (ii) there are a large number of fragmented small-scale TCM clinics that meet our selection criteria, there are sufficient number of suitable target medical institutions available in the market for our aforementioned expansion plan.

We plan to seek and acquire medical institutions meeting our criteria from 2022 to 2025 in a number of locations across China, including Shanghai, Zhejiang, Jiangsu, Fujian, Beijing and Guangdong. We expect half of the expenses for acquiring medical institutions from 2022 to 2023 will be financed by the proceeds from the Global Offering. See "Future Plans and Use of Proceeds" for details of the planned acquisitions to be financed by the proceeds from the Global Offering. If suitable opportunities arise, we may, acquire more medical institutions in the future, utilizing our operating

cash flow and bank borrowings, depending on the condition of the acquisition target, our business plan and the then market condition. Based on our prior experience in acquisition of medical institutions, we estimate the payback period of an acquired medical institution to be approximately three years.

As of the Latest Practicable Date, we had not entered into any letters of intent or agreements with respect to acquisitions and had not identified any definite acquisition targets. When determining the amount of proceeds allocated to acquisition, we mainly consider (i) growth in local demand for TCM healthcare services and our expansion plan in terms of pace and the number of new medical institutions to be established in different locations; (ii) availability of suitable premise at our desired locations for the establishment or acquisition of medical institutions; (iii) the historical financial performance of each potential acquisition target; (iv) the estimated price-earning ratio or price-to-sales ratio; and (v) our above-mentioned selection criteria for acquisitions targets. The allocation of proceeds among the different types of targets is subject to adjustments based on market conditions. The actual number of acquisition targets will depend on the scale and consideration of the actual acquisition. Although our Directors has not identified any suitable targets as of the Latest Practicable Date, we have determined the criteria for evaluating potential targets. These efforts are based on our experience in acquisition during the Track Record Period, as well as the results of research, financial due diligence and preliminary assessments and feasibility studies undertaken during the Track Record Period and up to the Latest Practicable Date. See “Future Plans and Use of Proceeds.” If our future acquisition plan cannot materialize, we will (i) continue exploring new acquisition targets; and/or (ii) turn to establish new medical institutions in our targeted market instead to achieve our planned expansion.

We may face a number of challenges in implementing our expansion plans, such as recruiting experienced physicians and other medical professionals, obtaining the requisite licenses and permits, and maintaining our competitive advantages. To this end, we intend to continue to attract and retain seasoned medical professionals to join us by offering competitive benefits and promising career opportunities. In addition, we will, in accordance with all applicable laws, regulations and rules, apply for the necessary approvals, permits and licenses for our expansion plans. Our expansion plans are inevitably subject to our operations and the market conditions from time to time and we may make adjustments accordingly for our best interests. See “Risk Factors—Risks Relating to Our Business and Industry—We may be unable to identify expansion opportunities or execute expansion plans, which may materially and adversely affect our business, results of operations, financial condition and prospects.”

### **Expansion of Product Offerings**

We plan to expand and diversify our product offerings. Physicians with extensive TCM medical experience have inherent advantages in research and development and therefore enable us to develop TCM healthcare products with medicinal effects. With years of experience in TCM consultation and diagnosis, seasoned physicians practicing at our medical service network generally have certain proprietary TCM formulas with proven effects during the long-term medical practice in respect of their respective specialties. When such a TCM formula has been prescribed by the physicians on our online healthcare platform or any of our medical institutions for five years, our online healthcare platform or such medical institutions, as the case may be, may apply to the Provincial Medical Products Administration (省級藥品監督管理局) for a registration number of TCM in-hospital preparations (傳統中藥製劑備案號), with an exemption from certain requirements



for application materials. Once approved, such in-hospital preparation candidate becomes eligible for mass production and can be prescribed only within the holder of its registration number. According to *Provisions on the Supervision and Management of Preparation of Medical Institution Pharmaceutical Preparations* (《醫療機構製劑配製監督管理辦法》(試行)) promulgated by NMPA, medical institutions that have obtained the Medical Institution Preparation License (醫療機構製劑許可證) are entitled to produce in-hospital preparations in its preparation center. We plan to establish an in-house preparation center to be operated by our Guangzhou Gushengtang Information Technology. Pursuant to the prescription of physicians, customers from both our online healthcare platforms and medical institutions can purchase the in-hospital preparations produced by our in-house preparation center. Leveraging prescription experience of our seasoned network physicians and our operating resources accumulated over years of operation, we believe we have enough professionals, facilities, examination equipment, sanitary condition and management system to support the establishment of in-house preparation center. As of the Latest Practicable Date, our in-house preparation center was under construction as scheduled. We expect to obtain the Medical Institution Preparation License by the first quarter of 2022 and do not foresee any material impediment for us to obtain such license. As advised by our PRC Legal Advisors, we believe if our ongoing preparatory work complies with the requirements as stipulated in the *Norms on the Quality Management for Pharmaceutical Preparations of Medical Institutions* (《醫療機構製劑配製質量管理規範》(試行)) promulgated by NMPA, there is no material legal obstacle for us to obtain the Medical Institution Preparation License. As of the Latest Practicable Date, nine TCM formulas had been selected by us and were in clinical use in our medical service network, and we expect to apply for the registration number for one of them in the second quarter of 2022. As we have not established laboratory for the research and development of in-hospital preparations, we engaged an Independent Third Party CRO in 2020 to test samples, optimize processes and draft application materials for seven of our in-hospital preparation candidates. We pay such CRO tiered technical service fees by installment upon its achievement of major research and development milestones. During the Track Record Period, our payment of technical service fees to such CRO amounted to RMB0.2 million. With respect to the remaining two in-hospital preparation candidates, we are negotiating terms of technical service agreements with such CRO.

## **OUR CUSTOMERS**

Our customers primarily comprise customers who receive our healthcare solutions and/or purchase healthcare products provided by us, substantially all of which are individuals in the PRC. To a lesser extent, we also generated revenue from certain corporate customers during the Track Record Period, mainly including (i) large-scale enterprises which purchased healthcare solutions and/or products from us in bulk; (ii) third-party medical institutions and pharmacies which procured healthcare products from us; and (iii) small- and medium-sized TCM clinics which adopted our Bai Hui Yun Yi TCM system. Given the dispersed base of our customers, we do not have a concentration risk. The revenue contributed by our five largest customers in each year/period during the Track Record Period accounted for less than 1.5% of our total revenue.

All of our five largest customers in each year/period during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any Shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

## Customer Acquisition and Retention

We aim to attract new customers to further expand our customer base, while retaining existing customers and enhancing customer loyalty through multichannel customer acquisition and differentiated customer retention strategies.

- Multichannel customer acquisition strategies:** We attract new customers primarily through our increasingly established brand awareness and recognition underpinned by our extensive physician resource and outstanding service capability. In particular, our strategic collaboration with renowned public medical institutions and universities affords us numerous renowned physicians to practice at our medical service network on a part-time basis, making us attractive to advocates of such physicians. We also actively engage in sales and marketing activities, such as free medical assistance, academic lectures and other customer education activities, to enhance our brand awareness and recognition among potential customers. In addition, we carefully maintain our business relationships with third-party online platforms and corporate customers, expecting to generate customer traffic, enhance exposure to our target customers and develop new customers. Moreover, we encourage existing customers to recommend our healthcare solutions and products to their acquaintances, and offer them vouchers as reward for any successful referral. We believe that our multichannel customer acquisition strategies enable us to expand our customer base with relatively low customer acquisition costs.
- Differentiated customer retention strategies:** We attach great importance to customer experience and feedbacks. For example, we keep in close contact with our existing customers through WeChat groups and other social media channels, in order to obtain their real-time feedbacks and conduct targeted marketing. We have also established an integrated membership program across our medical service network. See “—Customer Services and Customer Feedback.” We believe these customer retention strategies differentiate us from our competitors and help us enhance customer loyalty.

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

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
New customers <sup>(1)</sup>	333,418	377,199	361,754	227,500
Accumulated customers at the end of each year/period <sup>(2)</sup>	915,052	1,292,251	1,654,005	1,881,505
Customer visits (thousands)	1,440	1,740 <sup>(3)</sup>	1,787	1,181
Accumulated customer visits at the end of each year/period (thousands)	3,729	5,468	7,256	8,437
Customer return rate <sup>(4)</sup> (%)	50.9	55.1	57.5	61.5
Average spending per customer visit (RMB)	504	515	518	507

*Notes:*

- Refer to customers who received healthcare solutions or purchased healthcare products provided by us for the first time.
- Refer to, as at the end of any financial year/period, the total number of customers who had ever visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time on or before the end of such financial year/period.
- The increase in customer visits in 2019 was primarily attributable to more customer visits to medical institutions established or acquired by us in 2018.

## BUSINESS

(4) Refer to, in respect of any financial year/period, a fraction (expressed as a percentage) equal to the number of returning customers in respect of such financial year/period divided by the total number of customers who had visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time during such financial year/period. The customer return rate in 2020 included those of Bailu for the entire year of 2020 for statistical purpose. See “Risk Factors—Risks Relating to Our Business and Industry—The historical operating results of Bailu may not be indicative of its results after acquisition by us” for risks relating to the operational data of Bailu before acquisition by us.

The following tables set forth the number of new customers and the number of accumulated customers of our five largest medical institutions in terms of revenue for the periods indicated.

### *Six months ended June 30, 2021*

No.	Medical institution	New customers	Accumulated customers at the end of period
1 . . .	Shenzhen Xiangzhu	8,959	39,080
2 . . .	Shanghai Wanjia	6,527	65,931
3 . . .	Shenzhen Zhuzilin	6,996	169,007
4 . . .	Guangzhou Lingnan	6,935	116,049
5 . . .	Lingnan Dongshan	8,741	154,386

### *Year ended December 31, 2020*

No.	Medical institution	New customers	Accumulated customers at the end of year
1 . . .	Shenzhen Xiangzhu	17,140	30,121
2 . . .	Shenzhen Zhuzilin	16,075	162,011
3 . . .	Shanghai Wanjia	13,916	59,404
4 . . .	Lingnan Dongshan	19,029	145,645
5 . . .	Guangzhou Lingnan	14,649	109,114

### *Year ended December 31, 2019*

No.	Medical institution	New customers	Accumulated customers at the end of year
1 . . .	Shenzhen Zhuzilin	25,057	145,936
2 . . .	Lingnan Dongshan	29,509	126,616
3 . . .	Guangzhou Lingnan	22,971	94,465
4 . . .	Shanghai Wanjia	16,614	45,488
5 . . .	Guangzhou Tianhe	15,589	86,743

### *Year ended December 31, 2018*

No.	Medical institution	New customers	Accumulated customers at the end of year
1 . . .	Shenzhen Zhuzilin	29,945	120,879
2 . . .	Lingnan Dongshan	32,175	97,107
3 . . .	Guangzhou Lingnan	20,117	71,494
4 . . .	Shanghai Wanjia	15,405	28,874
5 . . .	Guangzhou Haizhu	21,804	60,768

**Payment Methods**

As substantially all of our medical institutions are Designated Medical Institutions (定點醫療機構), customers may choose to rely on national reimbursement programs to pay for healthcare solutions and products provided by our medical institutions that are eligible for national reimbursement programs. Customers may also rely on applicable commercial medical insurance policies or pay to our medical institutions in cash, bank cards or online payments via third-party payment platforms. For healthcare solutions and products provided by us through other channels, customers generally pay in cash, bank cards or online payments via third-party payment platforms.

***National Reimbursement Programs***

According to the Interim Measures for the Management of Medical Insurance in Designated Medical Institutions, to be qualified as a Designated Medical Institution, the medical institution shall have, besides obtaining the Medical Institution Practicing License, met the following requirements: (i) at least three months of official operation; (ii) at least one certified medical professional, whose primary registered practicing site is such medical institution; (iii) the principal manager shall be in charge of medical insurance and assisted by a full-time or part-time medical insurance manager; (iv) having the medical insurance management system, financial system, statistical information management system, core system of medical quality and safety that meet the requirements of managing the medical insurance agreement; (v) having the medical security management mechanisms as well as the medical institution information system technology and interface standards that could realize effective connection between such medical institution and the governmental medical security information system, which shall meet the requirements of managing the medical insurance agreement; and (vi) complying with other conditions stipulated in other applicable laws and regulations on medical service. Designated Medical Institutions are required to have annual review on the compliance for the above requirements in order to maintain their qualification of Designated Medical Institution.

As of the Latest Practicable Date, our medical institutions were Designated Medical Institutions, except for Beijing Gushengtang TCM Hospital Co., Ltd., Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. and Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. Therefore, some of healthcare solutions and products provided by our medical institutions are eligible to be paid by national reimbursement programs. We did not apply for the qualification of Designated Medical Institutions for Beijing Gushengtang TCM Hospital Co., Ltd., Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. and Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. based on the specialty focus of business operations and our business needs. In particular, (i) Beijing Gushengtang TCM Hospital Co., Ltd. only provides out-patient healthcare services and based on management's experiences, medical institutions with in-patient healthcare services were more likely to be qualified to obtain the qualification of Designated Medical Institution in Beijing; (ii) Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. is focusing on providing reproductive medical services, and substantially all of such services are not covered by the public medical insurance programs, which makes it less meaningful to obtain the qualification of Designated Medical Institution; and (iii) Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. was the smallest in terms of GFA among our self-established medical institutions and its revenue was below 1% in each of the reporting periods of the Track Record Period. Given its small scale, we have not seen the imminent needs to obtain the qualification of Designated Medical Institution. However, we will closely monitor our

business needs and may explore the plan to apply for the qualification in the future. The specific percentage covered by national reimbursement programs may vary based on criteria including type of the insurance program, local practice, age of the customer and type of service or product involved. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue derived from settlement through national reimbursement programs accounted for 28.8%, 27.9%, 28.9% and 28.1% of our total revenue for the same periods, respectively.

For medical fees covered by the national reimbursement programs and payable by the local medical insurance bureaus, we typically receive reimbursement for such portion deemed as eligible by the local medical insurance bureaus in the following one to three months.

Depending on the relevant practice with respect to national reimbursement programs, 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 medical insurance bureaus. Medical institutions with higher income level and higher settlement through national reimbursement programs are generally more likely to have higher annual quota. In such case, the relevant medical insurance bureau conducts annual review and settlement, where it compares total medical insurance reimbursements received by our relevant medical institution in the preceding year with such medical institution's government-approved annual quota in the preceding year to decide the annual quota of the following year for such medical institution. For excess amounts, the relevant medical insurance bureau may either (i) request such medical institution to refund all or part of these excess amounts; or (ii) deduct such medical institution's government-approved annual quota in the year when the relevant annual review and settlement was conducted to the extent equal to or less than these excess amounts. For the years ended December 31, 2018, 2019 and 2020, such excess amounts were RMB3.1 million, RMB2.6 million and RMB1.4 million, respectively. However, during the Track Record Period, we had not been required by the local medical insurance bureaus to refund any excess amounts we received, nor had they reduced any government-approved quotas under the national reimbursement programs for any excess amounts we received. The aggregate annual quota of our relevant medical institutions was approximately RMB70.2 million, RMB87.3 million and RMB96.7 million, respectively, in 2018, 2019 and 2020, representing 91.3%, 98.7% and 99.6%, respectively, of total medical fees of our relevant medical institutions covered by the national reimbursement programs and subject to government-approved annual quota for the same years.

### ***Commercial Medical Insurance Policies***

As of the Latest Practicable Date, we had entered into collaboration arrangements with nine commercial insurance institutions on direct billing settlement. If healthcare solutions and products provided by us are eligible to be paid by the relevant commercial medical insurance policies, customers may make zero or partial payment with the remainder settled between us and the commercial insurance institutions directly. We typically grant a credit term of 30 to 45 days to commercial insurance institutions. During the Track Record Period, our revenue derived from direct billing settlement through commercial medical insurance policies was insignificant. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material bad debts from the commercial insurance institutions and we believe we have a relatively low counterparty risk.

**Customer Services and Customer Feedback*****Customer Experience***

Ever since our inception in 2010, we have accumulated a large customer base and have valued customer experience as a high priority. In order to acquire new customers and enhance loyalty of existing customers, we are committed to offering unparalleled customer experience both offline and online through the following efforts:

- ***Convenient options underpinned by the integration of our offline and online medical service network:*** We believe that convenience improves customer experience. Therefore, we strive to provide customers with a variety of convenient options at each stage of our comprehensive healthcare solutions. Benefiting from our cloud-based HIS and business coverage, our customers can experience a seamless transition during the whole process of disease diagnosis and treatment and healthcare management.
- ***Standardized and streamlined management:*** We improve customer experience by, among others, reducing their waiting time for healthcare solutions and products. Leveraging our information technology system, we are able to achieve standardized and streamlined management, whereby we offer a convenient customer experience while improving operating efficiency.
- ***Diversified healthcare solutions and products of high quality:*** We are committed to providing our customers with diversified healthcare solutions and products of high quality based on their specific healthcare needs. In particular, we have introduced advanced equipment and technologies, in order to achieve higher diagnosis accuracy and treatment efficacy. We have also developed a variety of preparation forms to improve medication convenience for customers. In addition, we provide a full set of supporting services, such as decoction service and delivery service, to cater to diversified needs and preferences of customers. In 2019 and 2020 and the six months ended June 30, 2021, among customers who received our healthcare solutions through our official WeChat account and submitted their satisfaction rating for our solutions, 87.2%, 97.1% and 92.1% of them gave us the highest rating in our five-star rating system, respectively.
- ***Established customer feedback system:*** We believe that customer feedback system improves our responsiveness and enables us to provide superior customer service. See “—Customer Feedback System” for more details about our established customer feedback system.

We believe that high-quality customer experience in turn increases the willingness of our customers to recommend us to their acquaintances. For the six months ended June 30, 2021, approximately 24.2% of our new customers were referred by our existing customers through customer referral program.

We have established an integrated membership program across our medical service network since March 2019, where customers become our members after purchasing membership cards with a validity period of one year. We clearly inform our customers the validity period of the membership cards before they purchase our membership cards, and they should be bound by such rules, which are listed out on the relevant user interfaces of our online healthcare platforms. As advised by our PRC Legal Advisors, the operation of such membership program does not violate the applicable laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.



## BUSINESS

We exclusively grant various benefits covering the full-cycle of healthcare to our members. For example, our members are entitled to, among others, exclusive packages of healthcare solutions and products, discounted price for valuable medicinal, discount coupons for consultation fees, and green channels for healthcare services, during the validity period of their membership. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, prepayments with unrealized healthcare solutions and/or products upon the expiry of the corresponding prepaid membership packages amounted to nil, nil, RMB0.4 million and RMB0.2 million, respectively, representing an insignificant portion of both our total revenue and the sales amount of our membership cards during the same periods. We contact our members regularly to provide information on new healthcare solutions and products as well as membership benefits.

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/periods indicated.

	Year ended December 31,		Six months ended June 30,
	2019	2020	2021
Number of members who had made any spending in our medical service network. . . . .	32,513	79,745 <sup>(1)</sup>	74,877
Member visits (thousands) . . . . .	133	369 <sup>(2)</sup>	326
Member return rate <sup>(3)</sup> (%). . . . .	88.2	89.1	87.4
Average spending per member (RMB) . . . . .	2,261	2,782 <sup>(4)</sup>	2,562
Average spending per non-member customer (RMB) . . . . .	1,723	1,485 <sup>(5)</sup>	1,245

*Notes:*

- (1) The increase in number of members who had made any spending in our medical service network in 2020 was in line with our business growth.
- (2) The increase in member visits in 2020 was primarily due to (i) the increase in number of members who had made any spending in our medical service network in 2020; and (ii) our members have shown increasing recognition of and reliance on healthcare solutions and products provided by us.
- (3) Refer to, in respect of any financial year/period, a fraction (expressed as a percentage) equal to the number of returning members in respect of such financial year/period divided by the total number of members who had visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time during such financial year/period.
- (4) The increase in average spending per member in 2020 was primarily because our membership program was established in March 2019, resulting in the average spending per member in 2019 covering only approximately 10 months rather than a whole year.
- (5) The decrease in average spending per non-member customer in 2020 was primarily because certain of our non-member customers with relatively high annual spending became our members in 2020.

For the years ended December 31, 2019 and 2020 and the six months ended June 30, 2021, the revenue contributed by our members amounted to RMB73.5 million, RMB221.8 million and RMB191.9 million, respectively, accounting for 8.2%, 24.0% and 32.1%, respectively, of our total revenue for the same periods.

### **Customer Feedback System**

As a measure to enhance customer loyalty and establish long-term relationships with our customers, we have implemented a customer feedback system to collect customers' comments and ascertain customers' expectations. We collect customers' feedbacks through various channels including a customer service hotline and call-back interviews with customers. In particular, we have implemented a rating system across our medical institution network as well as on our official WeChat account in 2019, through which customers may grade our service and product quality, interior environment as well as physicians and other medical professionals after receiving our healthcare solutions. We also encourage customers to submit detailed written comments on our healthcare solutions and provide recommendations for improvement.

### Management of Customer Complaints

Due to the nature of our business, we receive customer complaints from time to time. Customer complaints are usually in relation to the following categories by nature:

- **Customer experience:** This occurs when customers find healthcare solutions or products provided by us below their expectations, such as imperfect decoction of preparations, dissatisfying treatment efficacy, longer waiting time required and less responsiveness of physicians.
- **Logistic matters:** Customers may file complaints against us for logistic matters, such as delay in issuance of invoices, delay in delivery of healthcare products and broken packaging of healthcare products.

Customer service staff are responsible for handling customer complaints. In order to ensure prompt and proper handling of customer complaints, we have adopted a tiered reporting system and implemented internal guidelines which we strictly require our medical professionals and other staffs to follow. All complaints received must be reported to the head of customer service staff, who seeks to resolve such complaints reasonably and amicably as soon as possible. When the head of customer service staff fails to settle a customer complaint through apologies and mediation efforts, such complaint must be reported to the responsible business manager for further handling.

Customers generally accept apologies, product exchanges and/or refunds to settle their complaints. We may voluntarily elect to pay monetary compensation to settle customer complaints. We review the grounds of the requests for refunds or compensation on a case-by-case basis, depending on the reasonableness of the customer's complaint and demand, as well as other factors such as resources that we may otherwise have to spend in handling the matter. During the Track Record Period and up to the Latest Practicable Date, the total amount of monetary compensation paid to settle customer complaints was approximately RMB0.2 million.

We maintain detailed records of the customer complaints. To prevent recurring complaints of a similar nature, we hold discussions to review the relevant complaints and implement appropriate measures for rectification.

A customer complaint becomes a medical dispute when initial negotiation fails to reach a settlement and the customer requests to resolve the complaint through mediation or litigation. See “—Compliance and Legal Proceedings—Legal Proceedings—Medical Disputes.”

### SUPPLIERS AND PROCUREMENT

Our suppliers primarily comprise suppliers of decocting pieces, TCM patent medicines, health supplements, nourishment, medical equipment and medical consumables. To a lesser extent, we directly procure certain TCM medicinal from authentic origins and cooperate with reliable decocting piece suppliers for processing, in order to better control the quality of decocting pieces and reduce our costs. We also engage third-party manufacturers to produce our private label nourishment. In addition, we engage management service platform companies to streamline the management of our network physicians. See “—Our Services and Products—Healthcare Solutions—Cornerstones of Healthcare Solutions—Medical Professionals—Recruitment and Retention of Medical Professionals.”

We have a centralized procurement management department at our headquarter, which is responsible for approving procurement channels and negotiating procurement terms. Each of our medical institutions, pharmacies and online healthcare platforms reports its procurement requirements to our centralized procurement management department on a monthly basis, which then consolidates all procurement requirements and negotiates procurement particulars with the selected high-quality suppliers. We designate one of our subsidiaries to place purchase orders with the selected suppliers under the quantities and procurement prices as approved by our centralized procurement management department, and deliver such supplies to the relevant medical institutions, pharmacies and online healthcare platforms. To a lesser extent, purchase orders of certain supplies are also placed in the name of individual medical institutions and pharmacies after taking into consideration local procurement policies, frequency of usage, and timeliness of delivery of the relevant supplies. In such case, supplies are directly delivered to the relevant medical institutions and pharmacies. We believe the centralized procurement allows us to achieve economy of scale and better control the cost and quality of our purchases.

We strategically transact with suppliers at harvest time, when there tends to be a buyer's market. In such case, we are able to negotiate favorable procurement terms leveraging strong bargaining power. We also frequently communicate with suppliers for strategic stockpiling in advance, thereby reducing our procurement costs in the case of short supply.

We select our suppliers based on stringent criteria and applicable laws and regulations to ensure the quality of our purchases. When selecting suppliers, we consider, among others, their qualification, service or product offerings, pricing, reputation, quality and delivery schedule. We also have external professional consultants specializing in medicinal appraisal to conduct blind inspection on samples submitted by supplier candidates. Only those suppliers which fulfill all our selection criteria and pass our blind inspection are selected. In particular, we are committed to standardizing the upstream supply chain of decocting pieces by selecting suppliers through nationwide bidding schemes. We routinely review and assess our suppliers' performance and check their qualifications to ensure the legality, quality and stability of our supplies. The approved suppliers list maintained by our centralized procurement management department is updated annually according to bidding results as well as annual performance of the relevant suppliers. Those suppliers who fail to meet our standards or requirements are removed from our approved suppliers list.

All of our decocting pieces, TCM patent medicines, authentic medicinal, health supplements, nourishment, medical equipment and medical consumables are sourced within the PRC. Depending on the different types of supplies and our relationships with the suppliers, the terms of the supply agreements with our suppliers vary from supplier to supplier. We generally enter into annual procurement agreements with our suppliers, with individual purchase orders generally separately placed for each purchase. We are typically given credit terms ranging from one month to three months by our suppliers. We normally pay our suppliers via wire transfer. Our suppliers are generally responsible for arranging the delivery to our designated warehousing facilities. Additionally, our suppliers typically enter into separate quality assurance agreements with us. Suppliers who violate such quality assurance agreements will be subject to severe penalties, such as compensation for our damages and termination of agreements.

## BUSINESS

We are typically entitled to return or exchange certain supplies that do not meet our standards upon inspection after delivery and during usage after acceptance. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant return or exchange of supplies that did not meet our standards and had not suffered any significant loss or damage caused by quality problems with the supplies.

We typically source each type of supplies from one supplier with several alternative options for backup, in order to ensure supply stability while maintaining supply consistency. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant shortage of or delay in the delivery of supplies.

The price of certain supplies, especially decocting pieces and authentic medicinal, may be affected by a number of factors including weather and harvest conditions, market supplies and demands, and government policies. We typically stipulate a price lock-up period in the procurement agreements with most of our suppliers. We and our suppliers may adjust procurement prices according to supplies and demands in the market. With strong bargaining power and frequent communications with suppliers for strategic stockpiling in advance, we had not experienced any significant fluctuation in the prices of our supplies which had a material impact on our results of operations or gross profit margins during the Track Record Period.

### Our Five Largest Suppliers

The following tables set forth certain information of our five largest suppliers during the Track Record Period.

#### *For the six months ended June 30, 2021*

Supplier	Major services/products purchased by us	Credit terms	Settlement information	Amount of purchases	As a percentage of our total purchases	Length of business relationship with us	Background
				(RMB'000)	(%)		
Supplier A . . .	Management of network physicians	One month	Wire transfer	101,887.1	33.8	Since 2019	Third-party platform company providing human resource management services
Supplier L . . .	Management of network physicians	One month	Wire transfer	21,445.9	7.1	Since 2020	Third-party platform company providing human resource management services
Supplier D . . .	Materials	30 to 90 days	Wire transfer	17,935.0	6.0	Since 2019	Wholesale company providing TCM patent medicines, decocting pieces and other materials. A wholly-owned subsidiary of a public company listed on Shenzhen Stock Exchange
Supplier B . . .	Materials	90 days	Wire transfer	11,860.8	3.9	Since 2018	TCM decocting piece manufacturer
Supplier E . . .	Materials	90 days	Wire transfer	10,037.6	3.3	Since 2018	TCM decocting piece manufacturer
				<b>163,166.4</b>	<b>54.2</b>		

## BUSINESS

### *Year Ended December 31, 2020*

Supplier	Major services/products purchased by us	Credit terms	Settlement information	Amount of purchases (RMB'000)	As a percentage of our total purchases (%)	Length of business relationship with us	Background
Supplier A . . .	Management of network physicians	One month	Wire transfer	209,947.9	48.4	Since 2019	Third-party platform company providing human resource management services
Supplier B . . .	Materials	90 days	Wire transfer	34,766.7	8.0	Since 2018	TCM decocting piece manufacturer
Supplier C . . .	Materials	90 days	Wire transfer	16,323.2	3.8	Since 2018	TCM decocting piece manufacturer
Supplier D . . .	Materials	One month	Wire transfer	14,729.4	3.4	Since 2019	Wholesale company providing TCM patent medicines, decocting pieces and other materials. A wholly-owned subsidiary of a public company listed on Shenzhen Stock Exchange
Supplier E . . .	Materials	90 days	Wire transfer	12,543.8	2.9	Since 2018	TCM decocting piece manufacturer
				<b>288,311.0</b>	<b>66.5</b>		

### *Year Ended December 31, 2019*

Supplier	Major services/products purchased by us	Credit terms	Settlement information	Amount of purchases (RMB'000)	As a percentage of our total purchases (%)	Length of business relationship with us	Background
Supplier A . . .	Management of network physicians	One month	Wire transfer	185,599.9	44.3	Since 2019	Third-party platform company providing human resource management services
Supplier F . . .	Materials	One month	Wire transfer	28,620.8	6.8	Since 2017	Wholesale company providing TCM patent medicines, decocting pieces and other materials. A wholly-owned subsidiary of a public company listed on Shanghai Stock Exchange
Supplier B . . .	Materials	90 days	Wire transfer	24,210.3	5.8	Since 2018	TCM decocting piece manufacturer
Supplier C . . .	Materials	90 days	Wire transfer	15,058.0	3.6	Since 2018	TCM decocting piece manufacturer
Supplier G . . .	Management of network physicians	One month	Wire transfer	13,451.5	3.2	2018 – 2019 <sup>(1)</sup>	Third-party platform company providing human resource management services
				<b>266,940.5</b>	<b>63.7</b>		

## BUSINESS

### *Year Ended December 31, 2018*

Supplier	Major services/products purchased by us	Credit terms	Settlement information	Amount of purchases (RMB'000)	As a percentage of our total purchases (%)	Length of business relationship with us	Background
Supplier H . . .	Materials	One month	Wire transfer	12,996.7	5.7	Since 2018	TCM decocting piece manufacturer
Supplier G . . .	Management of network physicians	One month	Wire transfer	12,903.8	5.7	2018 – 2019 <sup>(1)</sup>	Third-party platform company providing human resource management services
Supplier I . . .	Materials	90 days	Wire transfer	11,075.4	4.9	2017 – 2018 <sup>(1)</sup>	TCM decocting piece manufacturer
Supplier J . . .	Materials	90 days	Wire transfer	10,321.0	4.6	Since 2017	TCM decocting piece manufacturer
Supplier K . . .	Materials	30 days	Wire transfer	9,073.0	4.0	Since 2018	Donkey-hide gelatin manufacturer
				56,369.9	24.9		

*Note:*

(1) We terminated our cooperation with (i) Supplier G in 2019 primarily due to our engagement of Supplier A in 2019 for subsequent network physician management services; and (ii) Supplier I in 2018 primarily due to Supplier I's failure to obtain our subsequent procurement contract during bidding process in 2018.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the purchase from our largest supplier in each year/period during the Track Record Period accounted for 5.7%, 44.3%, 48.4% and 33.8% of our total purchases during the same periods, respectively. The significant increase in our purchase attributable to our largest supplier in 2019 and 2020 was primarily attributable to the switch to collaborating with a third-party management service platform company to manage a vast majority of our network physicians. The third-party management service platform companies help to recommend network physicians to us and then we decide whether to engage the network physicians to provide healthcare services at our medical service network. The third-party management service platform companies establish direct contractual relationships with our network physicians. Management services provided by the third-party management service platform companies typically include handling requisite process such as multi-site practicing registration, arranging and maintaining proper record of consultation schedule and hours for such physicians, keeping track and reconciling monthly remuneration and dispatching monthly remuneration payments to such physicians. We are not responsible for the arrangement of social insurance and housing provident fund contributions for network physicians practicing at our medical service network, as neither us nor third-party management service platform companies are the employer of such physicians. Considering the continuous expansion of our medical service network and increase of our network physicians, we believe leveraging professional human resource management capabilities, the third-party management service platform company can help minimize administrative burden and help us better manage our physician network, so as to increase our operation efficiency.

For risks in relation to our concentration risks on certain suppliers, see “Risk Factors—Risks Relating to Our Business and Industry—Our failure to maintain our business relationship with our suppliers, or any decrease, shortage or delay in the supply, or an increase in the cost of our purchases may affect our business, financial condition and results of operations.”



All of our five largest suppliers in each year/period during the Track Record Period are Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective associates or any Shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

### Quality Control

We believe that quality control is of vital importance to our reputation and success. We have established and maintained a stringent quality control system that covers the procurement and usage of our supplies. Our quality control department is independent from our centralized procurement management department and responsible for the implementation of such system. As of June 30, 2021, our quality control department comprised four employees, all of which have educational background and/or working experience in healthcare industry.

Key aspects of our quality control system are as follows:

- ***Quality control from the source:*** In order to better control the quality of supplies and reduce our costs, we have devoted substantial efforts in cultivating a vertically integrated supply chain by streamlining upstream and downstream of TCM industry. For example, we strategically identify common storable TCM herbs with low price and TCM herbs that are vulnerable to industry-wide shortages, directly procure them from authentic origins, and cooperate with reliable decocting piece suppliers for processing. We also facilitate the direct collaboration between authentic origins and decocting piece suppliers, thereby securing our procurement quality from the source.
- ***Quality control at supplier selection stage:*** We follow stringent procedures in supplier selection. In particular, we conduct unannounced inspections of supplier candidates, primarily focusing on their inventory level, production capacity, quality control measure and packaging standard. Meanwhile, we have external professional consultants to conduct blind inspection on samples submitted by supplier candidates. Each of our external professional consultants has specialized in medicinal appraisal for over 20 years with remarkable achievements in scientific research, and serves as core members in multiple prestigious professional and/or industry associations. We also conduct background searches on supplier candidates, ensuring that we only transact with suppliers with trustworthy reputation and proven track records.
- ***Quality control before delivery of supplies:*** Prior to delivery of supplies by our selected suppliers, we typically conduct on-site inspections of such suppliers to make sure sufficient quantities of quality supplies will be delivered in a timely manner.
- ***Quality control upon delivery and during usage of supplies:*** For supplies delivered to our centralized warehouse located in Guangzhou, Guangdong province, we check quantity and inspect quality before acceptance of such supplies. For supplies directly delivered to our medical institutions and pharmacies, quality control groups led by external professional consultants will be formed to conduct random quality inspection in the relevant medical institution and pharmacy. In addition, our medical professionals and other staffs may complain to our quality inspection specialists for inferior supplies during their usage. Once receiving such complaints, our quality inspection specialists will arrange on-site investigations on the relevant suppliers to determine whether quality assurance agreements between such suppliers and us have been violated. Suppliers who violate quality assurance agreements will be subject to severe penalties, such as compensation for our damages and termination of agreements.

## **INVENTORY MANAGEMENT**

Our inventories primarily consist of pharmaceuticals, consumables and packing materials. We typically keep 75-day stock of inventories, with slight adjustments to be made according to supplies and demands in the market. We have a strict inventory management and control system that monitors each stage of the warehousing process, including procurement, storage, distribution, exchange, return, and disposal. We have stringent internal policy on the management, storage and disposal of inventories under relevant laws and regulations. Our warehousing personnel are responsible for the inspection, storage and distribution of inventories. All inventories are inspected upon delivery, recorded in stock system, and stored in different areas according to their respective storage condition requirements, properties, usages and batch numbers. Our warehousing personnel carry out regular check to ensure consistency among inventories and record. Suppliers of decocting pieces and valuable medicinal typically generate a QR code for each batch of supplies, allowing our warehousing personnel to trace back production information of any batch through scanning its unique QR code. We adopt a first-in, first out principle in inventory consumption. Unless specially authorized following a strict authorization procedure, or for the purposes of inventory check, financial verification or management inspection, non-warehousing personnel are strictly prohibited from entering our warehousing facilities. Once we identify any expired inventories, we either directly write off such inventories or negotiate with the relevant suppliers for product return in accordance with our agreements with them.

As of the Latest Practicable Date, our warehousing facilities primarily included one centralized warehouse that we leased in Guangzhou, Guangdong province for storing our inventories. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our inventory turnover days were 105 days, 75 days, 85 days and 78 days, respectively. During the Track Record Period, we did not make provision for impairment loss of our inventories.

## **PRICING**

Pursuant to the applicable PRC laws and regulations, private for-profit medical institutions, pharmacies and online healthcare platforms are generally entitled to set the prices of their healthcare solutions and products at their own discretion, while Designated Medical Institutions may only charge medical fees within the stipulated price range in accordance with the pricing guidelines, price ceilings and/or cost-plus ceilings set by the relevant local healthcare administrative authorities for services and products eligible to be paid by the national reimbursement programs. For services and products eligible to be paid by the national reimbursement programs, customers enrolled in the national reimbursement programs may choose to rely on such programs to settle their medical costs. See “Regulatory Overview—Regulations Relating to The Price of Healthcare Service and Medicine” for further details of laws and regulations in relation to our pricing. In 2018, 2019, 2020 and the six months ended June 30, 2021, our revenue derived from settlement through national reimbursement programs accounted for 28.8%, 27.9%, 28.9% and 28.1% of our total revenue for the same periods, respectively. As the majority of our revenue during the Track Record Period was generated from healthcare services and products not covered by the national reimbursement programs, our ability to set the prices had not been materially restricted by the pricing guidelines, price ceilings and/or cost-plus ceilings set by the relevant local healthcare administrative authorities.

Medical fees charged by us in connection with healthcare solutions primarily consist of consultation fees, medicine fee, processing fee and physiotherapy fee, as the case may be. Our medical institutions, which are Designated Medical Institutions, may only charge medical fees in accordance with the pricing guidelines, price ceilings and/or cost-plus ceilings set by the relevant local healthcare administrative authorities for services and products eligible to be paid by the national reimbursement programs, while we have the discretion to price the remaining healthcare solutions and products, which is based on certain factors, including public medical institutions' pricing of similar healthcare solutions and products. For physicians employed by us, we typically set pricing range of consultation fees on the basis of their respective qualifications and consultation fees charged by their comparable physicians in Class III Grade A hospitals in the same region. Considering the majority of the physicians employed by us have comparable healthcare experience and qualification compared to physicians in Class III Grade A hospitals, we believe that our reference to consultation fees of comparable physicians in Class III Grade A hospitals is reasonable and enable us to attract more experienced physicians. For our network physicians, we typically set pricing range of consultation fees with reference to consultation fees charged by such physicians in VIP out-patient departments (特需門診部) of comparable public medical institutions. For the price of healthcare products that we are entitled to set the prices at our own discretion, we typically set prices of decocting pieces and TCM patent medicine based on our procurement costs and the market prices of the same or comparable products. The centralized procurement management department at our headquarter regularly inspects the price lists of our medical service network to ensure regulatory compliance.

## **SALES AND MARKETING**

As of June 30, 2021, we had 226 sales and marketing employees, being responsible for our sales and marketing activities in the PRC.

### **Physician-end Sales and Marketing**

We from time to time organize and participate in a variety of regular knowledge sharing academic conferences, seminars and symposia for public social benefit in order to continuously enhance our exposure to physicians and other medical professionals. For example, we participated National Symposium on TCM Outstanding Contribution Award (全國中醫藥突出貢獻獎學術研討會) in 2019, where we offered handsel to four prize winners of "TCM Outstanding Contribution Award" (three of which were National TCM Great Masters) as a reward for their continuous support to our development. In the same year, we organized Symposium on Application of TCM Traditional Therapy and Paste Preparation (固生堂中醫藥傳統療法與膏方應用研討會) and introduced our brand to renowned physicians, including an Expert with State Council's Special Allowance and certain Provincial Famous TCM Doctors. In addition, we approach seasoned physicians and other medical professionals and invite them to practice at our medical service network.

**Customer-end Sales and Marketing**

We deem medical institutions and pharmacies as our primary offline marketing channels, therefore we strategically locate them in or adjacent to large-scale residential communities or other areas with convenient transportation, high customer traffic and good publicity effects, making them easily accessible to potential customers. We also actively engage in pro-bono activities (such as free medical assistance) organized by local governments, with the aim to enhance our brand awareness and recognition among potential customers. To achieve word-of-mouth promotion, we encourage existing customers to recommend our healthcare solutions and products to their acquaintances, and offer them vouchers as reward for any successful referral. In addition, we provide healthcare product packages to large-scale enterprises from time to time, mainly financial and insurance institutions, for their employees' benefits and end-customers' value-added benefits, expecting to enhance our exposure to potential customers.

In recent years, we have increasingly used internet and new media platforms to promote our brand, medical professionals, as well as healthcare solutions and products, including publishing press releases and conducting customer education activities on our or our medical professionals' social media accounts. Moreover, third-party online platforms that we collaborate with are typically motivated to promote us through various channels, such as advertisements, banners and posters, whereby they expect to benefit from the massive customers attracted by our brand, resources and capabilities.

To promote healthcare products, we also offer free trial opportunities to attract potential customers. We also have well-trained and knowledgeable product guides in our medical institutions and pharmacies to directly communicate with potential customers.

Historically, we had been penalized by the relevant government authorities in connection with our sale of healthcare products. During the Track Record Period and up to the Latest Practicable Date, three of our subsidiaries were fined a total of RMB82,310 and confiscated the relevant healthcare products and/or relevant income, for improper labeling of validity period of certain healthcare products, sale of expired healthcare products, and preparation, sale as well as use of healthcare products failed to meet the relevant standards or processing specifications. Such improper labeling was due to our staff's negligence caused by lack of training. We have therefore enhanced our internal training on the management of product labeling, preparation and use, and the monitoring of validity term of inventories. As advised by our PRC Legal Advisors, the risks of such subsidiaries being imposed any further administrative penalties for the abovementioned matters are remote. Taking into account of the impact of such administrative penalties on us, our rectification measures adopted and our PRC Legal Advisors' view, our Directors are of the view that the abovementioned administrative penalties do not have any material impact on our Group's business, results of operations and financial positions.

**PRODUCT RETURNS, EXCHANGES AND RECALLS****Product Returns and Exchanges**

Given the special nature of healthcare products and in accordance with applicable laws and regulations, we generally do not allow customers to return or exchange healthcare products sold by us, unless (i) solely for our online sale of health supplements or nourishment, wrong deliveries occur, defective products are identified, or customers request a return or exchange of intact products for any reason within seven days from the date of acceptance; or (ii) customers have other justifications for, or we are otherwise liable for, such return or exchange according to applicable laws or regulations. Returned healthcare products will be stored in a specific area with clear warning signs and disposed of in accordance with stringent internal procedures. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material product return or exchange.

**Product Recalls**

We have also established product recall procedures with reference to applicable laws and regulations, and have prescribed recall guidelines and processes, which specify responsible persons to announce a recall and the handling procedure of the recalled products. Pursuant to quality assurance agreements between our suppliers and us, suppliers are required to compensate us for any damages or losses arising from any liability caused by product defects that are attributable to them. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material product recall, nor had we experienced any material product liability claim.

**SEASONALITY**

In line with the healthcare industry in the PRC, we typically generate a majority of our total revenue in the second half of the year, during which customers in certain geographic regions tend to receive healthcare solutions and purchase healthcare products to promote well-being with the weather getting cold. Additionally, customers usually avoid visiting medical institutions shortly before and after the Chinese New Year. As a result of the foregoing, our revenue was slightly lower in the first half of each financial year during the Track Record Period. Nevertheless, we were not subject to significant seasonality during the Track Record Period and up to the Latest Practicable Date.

**COMPETITION**

According to Frost & Sullivan, there are numerous market players in the TCM diagnosis and treatment services segment of the grand TCM healthcare industry, which makes the market highly fragmented. Our revenue generated from healthcare solutions in 2020 was RMB892 million, accounted for 0.3% of the entire TCM diagnosis and treatment services segment in the same year.

In addition, according to Frost & Sullivan, private TCM healthcare providers in China are mainly out-patient departments and clinics focusing on primary care. Public TCM healthcare providers in China are mainly comprehensive state-owned hospitals and have been dominating the TCM diagnosis and treatment service segment with long establishment history and good reputation among patients, sufficient physician resources and advanced medical facilities, as well as support from local governments. Hence, we mainly compete with private TCM healthcare providers in China in our principal businesses. We primarily compete on the following key factors: service and product quality, brand recognition, accessibility, medical professionals network and pricing. We ranked eighth

among all the private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare services in 2020, according to Frost & Sullivan. However, we believe we are well positioned to capitalize on the future industry growth and industry trend, leveraging advantages gained from expanding offline healthcare service to online platforms and connecting offline medical service network with online healthcare platforms and our market knowledge accumulated over years of operation. See “Industry Overview” for a more detailed discussion regarding the industries and markets where we operate.

## **INFORMATION TECHNOLOGY SYSTEMS**

Our information technology department is responsible for research and development as well as maintenance of our information technology systems, including data protection. As of June 30, 2021, our information technology department comprised 40 employees, nearly 70% of whom held bachelor’s degrees or above. Key employees of our information technology department have been deeply involved in the establishment and development of our information technology systems.

Our offline and online healthcare service network continuously evolve with the support of, our established information technology system. Set out below are key components of our information technology system.

- ***Underlying technologies:*** Advanced technologies are fundamental to research and development, application and optimization of our diversified and evolving middle-office functional modules, laying a solid technological foundation for our information technology system. We employ multiple third-party technologies (such as memory cache, database and full text index) to store, backup, retrieve and process massive medical and operational data derived from our daily operations or otherwise made available to us.
- ***Middle-office (中台) functional modules:*** Supported by advanced underlying technologies, we have developed a variety of middle-office functional modules to cater to specific needs of our business operations. Specifically, business middle-office section (業務中台) connects all the participants and covers the entire process of our healthcare service and product offerings, including, among others, consultation and diagnosis, order processing, prescription filling, decoction and delivery, aiming at addressing diversified needs of both customers and medical professionals from the technological perspective. Connecting physicians, customers, medical service network and product delivery system, business middle-office section integrates offline and online medical resources and enables our physicians to provide comprehensive healthcare solutions through various channels. Meanwhile, data middle-office section (數據中台) strives to improve our operating efficiency leveraging our data analysis capability. Capitalizing on data analysis, we provide personalized healthcare services to customers and optimize our service offerings on a continuing basis.
- ***Cloud-based HIS and Offline and Online Healthcare platform:*** Permutating and combining various middle-office functional modules according to our specific business needs, we have established a proprietary cloud-based HIS, which streamlines and standardizes substantially all aspects of our internal management and external healthcare service and product offerings. See “—Our Services and Products—Healthcare Solutions—Cornerstones of Healthcare Solutions—Information Technology Infrastructure” for more details. We are in the process of independently developing our



proprietary mobile application (customer terminal), “Gushengtang App (固生堂App),” as a customer terminal enabling customers to conveniently receive services including online appointment, follow-up diagnosis and treatment services through text, photos, video and/or telephone, as well as integrated services for members. We target to launch this application in December 2021. In addition, we independently developed and launched two operation management systems in October 2021: (i) “Medical CRM Operation Management System (醫務CRM運營管理系統),” an operation management system for physician management. Major functions under development comprises physician acquisition, operation management and sales and marketing knowledge base, which enable us to expand our physician resources; and (ii) “Digitalized Member CRM System (會員CRM數字化平台),” an operation management system for the member management. Utilizing the expertise and system development experience of our information technology professionals, our research and development team developed multiple functional models of these two CRM systems, such as physician management and customer management, and integrated these modules into our existing online platforms, in order to further facilitate daily management of our physician resources and customers. We will continue to improve the interface of the system through visualization processing (可視化處理).

Our information technology systems are built on third-party information technology infrastructures, which enable us to store, backup, retrieve and process data derived from our daily operations. We connect such underlying technology infrastructures with our middle-office functional modules and integrate them into our existing information technology system.

### **Data Privacy and Protection**

During our provision of healthcare solutions and products, with the prior consent of our customers, we collect and maintain their personal and medical information to the extent necessary and in accordance with the relevant laws and regulations on data privacy and security in the PRC. We have taken measures to maintain the confidentiality of such information to ensure regulatory compliance. Specifically, we perform de-identification on raw data stored, during which we redact personal identifiable data, such as name, identification number and phone number of a specific customer. Since the collection, storage, usage, retention and transmission of information that can be identified as specific individuals or reflect the relevant activities of specific individuals are all subject to relevant data protection laws and regulations, the de-identification of raw data is necessary for us to efficiently protect personal and medical data of our customers. We also encrypt personal and medical information in cloud-based HIS so that it cannot be viewed without proper authorization or exported in bulk. We store information relating to national reimbursement programs only in our intranet system to avoid information leakage. We set up firewalls to prevent information loss or leakage caused by cyber-attacks. In addition, we from time to time examine the security of our data storage system. We strictly restrict the range of data that our employees are authorized to access based on their seniority and function. We from time to time arrange trainings to our employees on protection of personal and medical information of our customers and have entered into confidentiality agreements with our employees to prevent improper use or disclosure of information.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material data leakage or data loss, nor did we experience any material unauthorized use of customer’s personal and medical information.

On June 10, 2021, the Data Security Law was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and became effective on September 1, 2021. On August 20, 2021, the Standing Committee of National People's Congress adopted the PIPL, which came into effect on November 1, 2021. See “Regulatory Overview—Regulations Relating to Personal Information or Data Protection.”

To mitigate the potential impact of any such regulatory changes, we have established a comprehensive set of internal cybersecurity and data protection rules and policies. We have formulated the overarching system data security management policy, user personal information protection management policy and network security management policy, which provide the principal management rules on cybersecurity and data protection. We have set up personal information protection institutions such as the healthcare data security committee and data security working group and designated the responsible staff for personal information protection according to Data Security Law, PIPL and relevant rules governing the industry where we operate. In terms of data classification and grading, we have formulated the data classification and confidentiality management system according to Data Security Law, which classifies data according to the importance of the system, the sensitivity of the data and the impact caused by data leakage, and separately classifies personal information and takes corresponding security measures to ensure the safety of data and personal information. With respect to personal information impact assessment as required by the PIPL, we have formulated the Personal Information Security Impact Assessment System and plan to comply with it in a step-by-step manner to match the latest regulatory requirements. In addition, we also continue to pay close attention to the legislative and regulatory developments in cybersecurity and data protection, and will conduct routine cybersecurity and data protection compliance check and rectification to keep pace with regulatory development.

The Cyberspace Administration of China published the Draft Cybersecurity Review Measures on July 10, 2021. See “Regulatory Overview – Regulations relating to Internet Security.” If the Draft Cybersecurity Review Measures are fully implemented as-is, the following definitions and guidance remain to be clarified and refined so as to guide enterprises through the review.

***Critical information infrastructure operators (the “CIIO”) procuring Network Products and Services affect or may affect national security (stipulated in Measures for Cybersecurity Review which already came into effect on June 1, 2020)***

Although CIIOs are required under the Draft Cybersecurity Review Measures to conduct a pre-assessment and determination as to whether the Network Products and Services to be procured have or may have potential national security bearing and are thus subject to review by relevant regulatory authority, the Draft Cybersecurity Review Measures do not define CIIO in this regard and do not provide clear guidance to guide CIIO through the self-assessment process.

The scope of critical information infrastructure (the “CII”) remains uncertain under the current legal regime. The Cybersecurity Law and Critical Information Infrastructure Security Protection Regulations (effective from September 1, 2021, the “**CII Protection Regulations**”) both have a broad definition of CII, and include a non-exhaustive list of key industrial sectors or businesses that would constitute CII. The Cybersecurity Law defines CII as “public communication and information services, power, traffic, water resources, finance, public service, e-government and other important industries and sectors which if destroyed, disabled, or experiencing data leakage may seriously endanger national security, national welfare or the people’s livelihood, or the public

interest.” The CII Protection Regulations also include “national defense technology” in the important industries and sectors. As with the Cybersecurity Law and the CII Protection Regulations, the Draft Cybersecurity Review Measures do not define CII operator clearly. CIIOs identification rules still need to be formulated and clarified by CII Protection Work Departments (the competent departments and supervision and management departments of important industries and sectors) in future legislation. As of the Latest Practicable Date, we had not received any notification of the recognition of us as a CIIO by the regulatory authorities.

Therefore, as any other players in this healthcare sector, whether we will be deemed as CIIO remains uncertain until more detailed measures are promulgated by the relevant regulatory authority.

***Data processors carrying out data processing activities affect or may affect national security***

The scope of review also extends to data processors carrying out data processing activities. The risk factors to be evaluated mainly include “risks of core data, important data or substantial personal information being stolen, leaked, damaged, illegally used or exported overseas,” and “risks of CII, core data, important data or substantial personal information data being affected, controlled and maliciously used by foreign governments after a foreign listing.” However, the scope of the concepts of “core data” and “important data” is yet to be determined.

***Operators (CIIO or data processors) controlling personal information of more than one million users listing in a foreign country***

The Draft Cybersecurity Review Measures provides that Operators controlling personal information of more than one million users, which are listing abroad, must apply for cybersecurity review with the Cybersecurity Review Office. However, the Draft Cybersecurity Review Measures provides no further explanation or interpretation for “listing in a foreign country.” As of the Latest Practicable Date, the Draft Cybersecurity Review Measures has not been formally adopted, and we will pay close attention to such regulatory development.

***Regulatory authority-initiated security review***

Except the above voluntary filings, regulatory authority (the cybersecurity review working mechanism) may initiate cybersecurity reviews if it is of the opinion that the network product or service, data processing activities or listing in a foreign country affects or is likely to affect national security.

In sum, to avoid such concerns, we are taking a more prudent approach in business operation and can prepare measures in advance to reduce its risk of exposure to the implementation of the Draft Cybersecurity Review Measures to a certain extent:

- Pay close attention to the latest trends in CII identification by industry authorities and maintain continuous communication with competent and regulatory authorities and local government departments;
- Adopt relevant security measures and internal control system to protect the underlying products and services from the risks of data leakage, theft and destruction and illegal control, preferably, as encouraged by Cybersecurity Law, voluntarily participate in the CII protection system and perform relevant obligations as stipulated in the CII Protection Regulations to make advance preparations for possible future CII protection efforts;

## BUSINESS

- Be more conservative in network product or services procurement process; and
- Conduct personal information security impact assessment and relevant internal assessment to address security issues/concerns that may raise national security concerns in data processing activities.

With the continuous expansion of our business and growth of our customer base, there can be no assurance that the constantly evolving regulations on the collection and use of personal information in the PRC will have no material adverse effect on us. See “Risk Factors—Risks Relating to Our Business and Industry—Our business generates and possesses a large amount of customers’ personal and medical information, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.” We will closely monitor the rule-making process of the relevant regulatory requirement and adjust our data practices in a timely manner to comply with the relevant laws and regulations, if necessary.

## AWARDS, RECOGNITIONS AND PUBLICATIONS

The following table sets forth recent major awards and recognitions received by us or our key personnel.

Year	Entity/Person receiving award/ recognition	Award/Recognition	Award issuing authority
2021	Our Group	China Future Healthcare Rankings 2020-2021 Top 100 Medical Service Companies (2020-2021未來醫療100強—中國創新醫療服務榜100強)	Vcbeat (動脈網)
2021	Our Group	Future Star of Enterprises in Nansha District (南沙區未來企業之星)	Government of Nansha District of Guangzhou City (廣州市南沙區政府)
2020	Our Group	Unit with Special Contribution in the Healthcare Campaign for the Elderly in Extreme Poverty in Guangzhou (廣州市城鎮特困老人健康關愛行動特別貢獻單位)	Guangzhou Medical Industry Association (廣州市醫療行業協會)
2020	Shenzhen Nanshan	Advanced Grass-roots Unit of TCM (基層中醫藥工作先進單位)	Shenzhen Municipal Health Commission (深圳市衛生健康委員會)
2020	Ningbo Zhongyishoutang	Famous Paste Preparation Clinic of Zhejiang School (Municipal Level) in 2020 (2020年度百姓心中的浙派名醫(市級)膏方名館)	Zhejiang Province Health Industry Research Association (浙江省健康產業研究會), Zhejiang Pharmaceutical Association (浙江省藥學會), Zhejiang Pharmaceutical Industry Association (浙江省醫藥行業協會)

## BUSINESS

Year	Entity/Person receiving award/ recognition	Award/Recognition	Award issuing authority
2019	Shenzhen Luohu	Famous TCM Therapy Center of Shenzhen (深圳市名中醫診療中心)	Shenzhen Municipal Health Commission (深圳市衛生健康委員會)
2018	Mr. Tu	Meritorious Figures in TCM Medical Institutions of the 40th Anniversary of the Reform and Opening Up (改革開放40周年醫館界功勳人物)	Xinyi Health Technology (Shenzhen) Co., Ltd. (TCM Hospital) (心醫健康科技(深圳)有限公司(醫館界))
2018	Guangdong Gushengtang	Consumers' Favorite Brands of TCM Medical Institution in the Nationwide Health Industry in 2018 (2018年全國健康行業消費者最喜愛中醫館類品牌)	Yangcheng Evening News (羊城晚報)
2017	Guangdong Gushengtang	Qihuang Educational Practice Base of Shanghai University of Traditional Chinese Medicine (上海中醫藥大學岐黃育人實踐基地)	Shanghai University of Traditional Chinese Medicine (上海中醫藥大學)
2016	Shenzhen Nanshan, Shenzhen Zhuzilin	Famous TCM Therapy Center of Shenzhen (深圳市名中醫診療中心)	Shenzhen Municipal Health Commission (深圳市衛生健康委員會)
2015	Ningbo Zhongyishoutang	Intangible Cultural Heritage Inheritance Base of Ningbo—Zhong's Medical Skill of Internal Medicine (寧波市非物質文化遺產傳承基地—鐘氏內科醫術)	People's Government of Ningbo Municipality (寧波市人民政府), Bureau of Culture, Radio, Television, Press and Publication of Ningbo Municipality (寧波市文化廣電新聞出版局)
2010	Mr. Tu	Gold Diamond Medal for National Outstanding Entrepreneurs of Small- and Medium-sized Enterprises (全國優秀中小企業家金鑽獎章)	Organizing Committee of China Small & Medium Entrepreneurs Annual Meeting (中國中小企業家年會組委會), China Association for Small & Medium Commercial Enterprises (中國中小商業企業協會)
2010	Beijing Gushengtang TCM Health Technology Co., Ltd. (北京固生堂中醫養生健康科技股份有限公司)	Top 10 Brands in TCM Industry in China (中國中醫養生行業十大品牌)	China Academy of Management Science (中國管理科學研究院), China Association for Small & Medium Commercial Enterprises
2010	Beijing Gushengtang TCM Health Technology Co., Ltd.	Top 100 National Small- and Medium-sized Enterprises in 2010 (2010全國中小企業100強)	Organizing Committee of China Small & Medium Entrepreneurs Annual Meeting, China Association for Small & Medium Commercial Enterprises

## BUSINESS

We have gained widespread recognition for our research and publications. The following table sets forth recent major publications of us or our medical professionals.

Year	Publication	Journal/Press
2019	Research on Febrile Diseases (《傷寒論匯》)	Beijing Xueyuan Press (北京學苑出版社)
2018	Summary on Obstetrics and Gynecology (《嗣育 略要》)	Hunan Science and Technology Press (湖南科學技術出版社)
2017	Discussion on TCM Formulas (Revised Edition) (《經方雜談(增訂版)》)	Beijing Xueyuan Press (北京學苑出版社)

## INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had (i) 23 registered trademarks in the PRC and one registered trademark in Hong Kong; (ii) four registered domain names; and (iii) 17 registered copyrights in the PRC, which were material to our business. See “Appendix IV—Statutory and General Information—B. Further Information about Our Business—2. Intellectual property rights of our Group” for more details of our material intellectual property rights.

We rely on a combination of intellectual property right protection laws in the PRC, confidentiality procedures, contractual provisions and strict internal procedures to protect our intellectual properties. Our principal intellectual properties include our trademarks for the Gushengtang brand and copyrights in relation to our proprietary cloud-based HIS. Our legal department closely monitors our intellectual properties, ensuring that all necessary application, renewal or filing for such intellectual properties have been timely made to competent authorities, or that any third-party intellectual properties have been reasonably circumvented.

During the Track Record Period and up to the Latest Practicable Date, we had not been sued on the basis of, and had not undergone arbitration in respect of, nor had we received any notification from third parties claiming, infringement of any intellectual property or sale of counterfeit products that have had a material adverse effect on our business. In addition, during the Track Record Period and up to the Latest Practicable Date, we had not been the subject of any adverse finding in an investigation or audit by any government authorities in respect of infringement of any intellectual property of third parties or sale of counterfeit products that had a material adverse effect on our business.

## EMPLOYEES

As of June 30, 2021, we had 1,527 employees. The following table sets forth a breakdown of our employees by function as of the same date.

Function	Number of employees	% of total employees
Physicians and other medical professionals . . . . .	768	50.3%
Management, operations and others. . . . .	382	25.0%
Sales and marketing . . . . .	226	14.8%
Supply chain . . . . .	104	6.8%
Information technology and research and development. . .	47	3.1%
<b>Total</b> . . . . .	<b>1,527</b>	<b>100.0%</b>



Our success depends on our ability to attract, retain and motivate qualified personnel, especially qualified medical professionals. We use various methods for our recruitment, including campus recruitment, internal and external recommendation and social recruitment, to satisfy our demands for different types of talents, and we adopt high standards and strict procedures in our recruitment to ensure the quality of new hiring. Our employees typically enter into standard labor contracts with us. All of our employees have entered into confidentiality agreements with us, and are subject to non-compete agreements effective during and up to two years after his or her employment with us.

We provide competitive compensation packages. Remuneration packages for our employees mainly comprise base salary and performance-based bonus. We set performance targets for our employees primarily based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. We also align our interest with selected Directors, senior management, employees and experts by offering them participation in Pre-IPO Share Option Plan. See “Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Plan.” To maintain and enhance the knowledge and skill levels of our workforce, we provide our employees with internal training, including orientation programs for new employees and technical training for existing employees. We also offer external training opportunities to our management team and medical professionals.

During the Track Record Period, we did not make social insurance and housing provident fund contributions for certain of our employees, or we failed to make full social insurance and housing provident fund contributions for certain of our employees, which was primarily due to (i) inconsistent implementation of the PRC laws and regulations by local authorities; (ii) the relevant personnel who did not fully understand the relevant requirements under the PRC laws and regulations; and (iii) unwillingness of employees to make contributions of social insurance and housing provident fund in full for personal reasons, mainly considering the increase in their financial burden. As advised by our PRC Legal Advisors, according to the relevant PRC laws and regulations: (i) with respect to social insurance, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period with a late charge at the daily rate of 0.05% on the outstanding amounts, and if and only if we fail to do so, they may impose a maximum fine or penalty equivalent to three times the outstanding amounts; and (ii) with respect to housing provident funds, the relevant authorities may order us to pay the outstanding amounts within the prescribed time period, and they may apply to a competent court for enforcement of the outstanding amounts if we fail to do so.

We were not historically imposed any administrative penalties as a result of our non-compliance with social insurance and housing provident fund related PRC laws and regulations. Our PRC Legal Advisors have further advised us that the risk we will be imposed any administrative penalties by the relevant government authorities for our non-compliance concerning social insurance and housing provident fund contributions is remote. In respect of the potential liabilities arising from our non-compliance concerning social insurance and housing provident fund contributions in 2018, 2019 and 2020 and the six months ended June 30, 2021, we made provisions in a total amount of RMB32.2 million, RMB35.0 million, RMB26.4 million and RMB28.5 million, respectively, equivalent to the aggregate sum of the estimated unpaid amounts of social insurance and housing provident fund contributions. As of the Latest Practicable Date, we made social insurance and housing provident fund contributions for all of our employees, but had not made social insurance and housing provident contributions in full amount (benchmarked to the relevant employees’ salaries). In addition, we have started to make social insurance and housing provident fund contributions in full in accordance with all applicable PRC laws and regulations for some of these employees.

## BUSINESS

Except as disclosed above, we contribute to social insurance and housing provident funds for our employees in accordance with applicable PRC laws, rules and regulations.

We believe we have maintained good relationships with our employees. Our employees are not represented by a labor union. During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes or any labor disputes with our employees which have had or are likely to have a material effect on our business.

### LICENSES, PERMITS AND CERTIFICATES

We operate in heavily regulated industries in the PRC. We and our medical institutions, pharmacies and online healthcare platforms are required to obtain various licenses, permits and certificates for our and their respective operations. See “Regulatory Overview—Regulations Relating to the Management of Medical Institutions” for details of the relevant requirements.

The following table sets forth the major licenses, permits and certificates for us and our medical service network which we believe to be material to us as of the Latest Practicable Date.

Holder	License/Permit/ Certificate	Issuing authority	Issuance Date	Expiration Date
Shenzhen Nanshan . . .	Medical Institution Practicing License (醫療機構執業許可證)	Health Bureau of Nanshan District of Shenzhen (深圳市南山區衛生健康局)	January 2, 2020	March 27, 2023
Shenzhen Zhuzilin . . .	Medical Institution Practicing License	Health Bureau of Futian District of Shenzhen (深圳市福田區衛生健康局)	January 8, 2020	April 15, 2023
Shenzhen Gushengtang Yuanbo Out-patient Department . . . . .	Medical Institution Practicing License	Health Bureau of Futian District of Shenzhen	December 1, 2020	November 30, 2025
Foshan Gushengtang TCM Out-patient Department Co., Ltd. (Nanhai Branch) . . . . .	Medical Institution Practicing License	Health Bureau of Nanhai District of Foshan City (佛山市南海區衛生健康局, formerly known as Health and Family Planning Bureau of Nanhai District of Foshan City (佛山市南海區衛生和計劃生育管理局))	June 21, 2021	July 19, 2026
Fuzhou Gushengtang General Out-patient Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Gulou District of Fuzhou City (福州市鼓樓區衛生健康局)	January 1, 2020	December 31, 2022
Shanghai Wanjia . . . .	Medical Institution Practicing License	Health Commission of Minhang District of Shanghai (上海市閔行區衛生健康委員會, formerly known as Health and Family Planning Commission of Minhang District of Shanghai (上海市閔行區衛生和計劃生育委員會))	July 20, 2017	July 23, 2022

## BUSINESS

Holder	License/Permit/ Certificate	Issuing authority	Issuance Date	Expiration Date
Nanjing Ningxi . . . . .	Medical Institution Practicing License	Health Commission of Jianye District (建鄴區衛生健康委員會)	August 16, 2019	August 15, 2024
Suzhou Taohuawu . . . .	Medical Institution Practicing License	Civil Affairs and Health Bureau of Gusu District of Suzhou City (蘇州市姑蘇區民政和衛生健康局, formerly known as Health and Family Planning Commission of Gusu District of Suzhou City (蘇州市姑蘇區衛生和計劃生育局))	November 3, 2018	November 2, 2023
Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Haishu District of Ningbo City (寧波市海曙區衛生健康局)	June 30, 2021	June 30, 2024
Ningbo Zhongyishoutang . . . .	Medical Institution Practicing License	Health Bureau of Yinzhou District of Ningbo City (寧波市鄞州區衛生健康局)	June 15, 2021	June 30, 2024
Lingnan Dongshan . . .	Medical Institution Practicing License	Health Bureau of Yuexiu District of Guangzhou City (廣州市越秀區衛生健康局)	August 3, 2020	August 13, 2025
Guangzhou Lingnan . .	Medical Institution Practicing License	Health Bureau of Yuexiu District of Guangzhou City	August 3, 2020	August 13, 2025
Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Shuiyin Out-patient Department . . . . .	Medical Institution Practicing License	Health Bureau of Yuexiu District of Guangzhou City	July 20, 2020	August 13, 2025
Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd. . . . .	Medical Institution Practicing License	Health Commission of Liangxi District of Wuxi City (無錫市梁溪區衛生健康委員會)	September 7, 2020	September 6, 2025
Wuxi Chongan Temple Hospital . . .	Medical Institution Practicing License	Health Commission of Liangxi District of Wuxi City	April 1, 2019	March 31, 2022
Shanghai Duzhuang Out-patient Co., Ltd. . . . .	Medical Institution Practicing License	Health Commission of Minhang District of Shanghai (上海市閔行區衛生健康委員會, formerly known as Health and Family Planning Commission of Minhang District of Shanghai (上海市閔行區衛生和計劃生育委員會))	May 16, 2017	May 10, 2022

## BUSINESS

Holder	License/Permit/ Certificate	Issuing authority	Issuance Date	Expiration Date
Shanghai Jinyue Out-patient Department Co., Ltd. ....	Medical Institution Practicing License	Health Commission of Baoshan District of Shanghai (上海市寶 山區衛生健康委員會, formerly known as Health and Family Planning Commission of Baoshan District of Shanghai (上 海市寶山區衛生和計劃生育委 員會))	July 17, 2017	August 29, 2022
Shanghai Gushengtang Tongbaokang TCM Out-patient Department Co., Ltd. ....	Medical Institution Practicing License	Health Commission of Yangpu District of Shanghai (上海市楊 浦區衛生健康委員會, formerly known as Health and Family Planning Commission of Yangpu District of Shanghai (上海市楊浦區衛生和計劃生育 委員會))	December 6, 2018	December 20, 2023
Suzhou Daru. ....	Medical Institution Practicing License	Civil Affairs and Health Bureau of Gusu District of Suzhou City	August 1, 2019	July 31, 2024
Shenzhen Xiangzhu..	Medical Institution Practicing License	Health Bureau of Futian District of Shenzhen	June 30, 2021	June 26, 2026
Shanghai Zhenantang. ....	Medical Institution Practicing License	Health Commission of Xuhui District of Shanghai (上海市徐 匯區衛生健康委員會, formerly known as Health and Family Planning Commission of Xuhui District of Shanghai (上 海市徐匯區衛生和計劃生育委 員會))	December 9, 2020	June 23, 2025
Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. ....	Medical Institution Practicing License	Health Bureau of Yuexiu District of Guangzhou City	June 2, 2020	October 23, 2023
Suzhou Tongan. ....	Medical Institution Practicing License	Civil Affairs and Health Bureau of Gusu District of Suzhou City	August 1, 2019	July 31, 2024
Beijing Gushengtang TCM Hospital Co., Ltd. ....	Medical Institution Practicing License	Health Commission of Dongcheng District of Beijing (北京市東城區衛生健 康委員會, formerly known as Health and Family Planning Commission of Dongcheng District of Beijing (北京市東 城區衛生和計劃生育委員會))	January 1, 2019	December 31, 2023

## BUSINESS

Holder	License/Permit/ Certificate	Issuing authority	Issuance Date	Expiration Date
Guangzhou Tianhe . . .	Medical Institution Practicing License	Health Bureau of Tianhe District of Guangzhou City (廣州市天河區衛生健康局, formerly known as Health and Family Planning Bureau of Tianhe District of Guangzhou City (廣州市天河區衛生和計劃 生育局))	June 10, 2021	June 9, 2026
Guangzhou Haizhu . . .	Medical Institution Practicing License	Health Bureau of Haizhu District of Guangzhou City (廣州市海珠區衛生健康局, formerly known as Health and Family Planning Bureau of Haizhu District of Guangzhou City (廣州市海珠區衛生和計劃 生育局))	November 14, 2018	November 14, 2023
Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Baiyun District of Guangzhou City (廣州市白雲區衛生健康局, formerly known as Health and Family Planning Bureau of Baiyun District of Guangzhou City (廣州市白雲區衛生和計劃 生育局))	January 5, 2018	January 14, 2023
Guangzhou Liwan District Gushengtang General Out-patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Liwan District of Guangzhou City (廣州市荔灣區衛生健康局, formerly known as Health and Family Planning Bureau of Liwan District of Guangzhou City (廣州市荔灣區 衛生和計劃生育局))	April 15, 2021	April 14, 2026
Guangzhou Haizhu District Gushengtang Baogang TCM Out- patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Haizhu District of Guangzhou City (formerly known as Health and Family Planning Bureau of Haizhu District of Guangzhou City)	June 20, 2018	June 20, 2023
Guangzhou Tianhe District Gushengtang Wushan General Out-patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Tianhe District of Guangzhou City (formerly known as Health and Family Planning Bureau of Tianhe District of Guangzhou City)	July 6, 2018	July 5, 2023
Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Shunde District of Foshan City (佛山市順德區衛生健康局)	February 21, 2017	February 20, 2022

## BUSINESS

Holder	License/Permit/ Certificate	Issuing authority	Issuance Date	Expiration Date
Zhongshan Gushengtang TCM Out-patient Co., Ltd. ....	Medical Institution Practicing License	Health Bureau of Zhongshan City (中山市衛生健康局, formerly known as Health and Family Planning Bureau of Zhongshan City (中山市衛生和 計劃生育局))	July 12, 2021	July 11, 2026
Shenzhen Luohu . . . .	Medical Institution Practicing License	Health Bureau of Luohu District of Shenzhen City (深圳市羅湖 區衛生健康局)	July 13, 2020	July 12, 2025
Shanghai Zhongyida TCM Out-patient Department Co., Ltd. ....	Medical Institution Practicing License	Health Commission of Minhang District of Shanghai (上海市閔 行區衛生健康委員會, formerly known as Health and Family Planning Commission of Minhang District of Shanghai (上海市閔行區衛生和計劃生育 委員會))	November 2, 2021	November 1, 2026
Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. ....	Medical Institution Practicing License	Health Bureau of Jiangbei District of Ningbo City (寧波市 江北區衛生健康局)	June 16, 2021	June 30, 2024
Ningbo Manshan. ....	Medical Institution Practicing License	Health Bureau of Zhenhai District of Ningbo City (寧波市 鎮海區衛生健康局)	June 5, 2020	June 30, 2022
Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out-patient Department . . . . .	Medical Institution Practicing License	Administrative Examination and Approval Bureau of Pukou District of Nanjing City (南京市 浦口區行政審批局)	September 27, 2019	September 26, 2024
Ningbo Gushengtang Pharmacy . . . . .	Value-added Telecommunications Business Operating License (增值電信 業務許可證)	Zhejiang Communications Administration (浙江省通信管 理局)	February 26, 2021	September 17, 2025
	Pharmaceutical Operation Permit (藥品經營許可證)	Ningbo City Administration for Market Regulation (寧波市市場 監督管理局)	March 12, 2020	November 30, 2022
	Food Distribution License	Haishu District of Ningbo City Administration for Market Regulation	January 21, 2020	March 22, 2022
	Internet Pharmaceutical Information Service Certificate (互聯網 藥品信息服務資格 證書)	Zhejiang Medical Products Administration (浙江省藥品監 督管理局)	July 31, 2020	July 30, 2025



## BUSINESS

Holder	License/Permit/ Certificate	Issuing authority	Issuance Date	Expiration Date
Ningbo Shenrong . . . .	Pharmaceutical Operation Permit Food Distribution License	Ningbo City Administration for Market Regulation Yinzhou District of Ningbo City Administration for Market Regulation	August 18, 2017 September 11, 2017	August 17, 2022 August 17, 2022
Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互 聯網醫院管理有限 公司) . . . . .	Medical Institution Practicing License*	Health Bureau of Nansha District of Gaungzhou City (廣 州市南沙區衛生健康局)	August 25, 2020	August 24, 2025
Guangzhou Gushengtang Information Technology . . . . .	Value-added Telecommunications Business Operating License	Guangdong Communications Administration (廣東省通信管 理局)	August 24, 2020	August 24, 2025
Fuzhou Xiulichun TCM Out-patient Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Gulou District of Fuzhou City	May 12, 2021	May 11, 2024
Lianjiang Gushengtang Out- patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Lianjiang County of Fuzhou City (福州市 連江縣衛生健康局)	June 15, 2020	June 14, 2023
Shanghai Pudong New District Shenhua TCM Out- patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Commission of Pudong New District of Shanghai (上海 市浦東新區衛生健康委員會, formerly known as Health and Family Planning Commission of Pudong New District of Shanghai (上海市浦東新區衛生 和計劃生育委員會))	July 10, 2020	August 23, 2025
Ningbo Haishu Gushengtang Liuting TCM Out- patient Department Co., Ltd. . . . .	Medical Institution Practicing License	Health Bureau of Haishu District of Ningbo City (寧波市 海曙區衛生健康局)	March 29, 2021	December 14, 2023
Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd.(北京固生堂潘 家園中醫醫院有限 公司) . . . . .	Medical Institution Practicing License	Health Commission of Chaoyang District of Beijing (北京市朝陽區衛生健康委員會, formerly known as Health and Family Planning Commission of Chaoyang District of Beijing (北京市朝陽區衛生和計劃生育 委員會))	July 5, 2019	December 31, 2023

**Note:**

\* Representing the license for our online healthcare platforms, which are solely operated by Guangzhou Gushengtang Internet Hospital Management Co., Ltd. According to the relevant PRC regulations, before providing any online healthcare services on an online healthcare platform, physicians shall be directly employed by an online healthcare platform with Internet hospital license or otherwise complete a multi-site practicing registration under the online healthcare platform holding an Internet hospital license. Physicians who provide online healthcare services through our online healthcare platforms, include the following two categories:

- (i) For physicians directly employed by Guangzhou Gushengtang Internet Hospital Management Co., Ltd., they do not need to complete the multi-site practicing registration and their online healthcare services are covered by the Internet hospital license.

---

## BUSINESS

---

- (ii) For our network physicians (including physicians working at our offline medical institutions and physicians who directly connect to our online healthcare platforms), they have completed the multi-site practicing registration for the provision of online healthcare services. As they are providing services through our online healthcare platforms under Guangzhou Gushengtang Internet Hospital Management Co., Ltd., their online healthcare services are covered by the Internet hospital license.

Based on the above, as advised by our PRC Legal Advisors, all of the physicians who provide online healthcare services through our online healthcare platforms can be covered by the Internet hospital license held by Guangzhou Gushengtang Internet Hospital Management Co., Ltd., and none of our offline medical institutions is required to hold a separate Internet hospital license.

As advised by our PRC Legal Advisors, we and our medical service network, including all of our medical institutions, pharmacies and online healthcare platforms in operation that provide healthcare services, had obtained all material licenses, permits and approvals required for the current operations and such licenses, permits and approvals were valid and remain in effect as of the Latest Practicable Date.

We monitor the validity status of, and make timely applications for the renewal of, relevant licenses, permits and certificates prior to the expiration date. We had not experienced any material difficulty in obtaining or renewing the required licenses, permits and certificates for our business operations during the Track Record Period and up to the Latest Practicable Date. Our PRC Legal Advisors are of the view that, there is no material legal impediment in renewing these licenses, permits, approvals and certificates as they expire in future as long as we are in compliance with applicable laws, regulations and rules. However, we cannot assure you that we will be able to obtain or renew such licenses, permits or certificates in the future. See “Risk Factors—Risks Relating to Our Business and Industry—If we fail to timely renew any existing license, permits or certificates or fail to obtain any license, permits or certificates for our newly commenced or acquired business, we may not be able to maintain or expand our business operations.”

## INSURANCE

We maintain insurance for our senior management, physicians and other selected employees to insure their major illness, accidental injury and accidental death. As advised by our PRC Legal Advisors, we are not required to, and generally do not, maintain medical liability insurance, property insurance, product liability insurance, business interruption insurance or key person insurance.

During the Track Record Period and up to the Latest Practicable Date, we did not submit any material insurance claims, nor did we experience any material difficulties in renewing our insurance policies.

Our Directors believe that our insurance coverage is adequate and is in line with industry practice. However, the risks related to our business and operations may not be fully covered by insurance. See “Risk Factors—Risks Relating to Our Business and Industry—Our business is subject to professional and other liabilities for which we may not be insured.”

## PROPERTIES

As of the Latest Practicable Date, we did not own any properties. As of the same date, we leased 105 properties in the PRC with an aggregate GFA of 70,239.1 sq.m. (excluding the GFA of 14 properties, which were primarily staff dormitories, offices or places of business registration). Our leased properties are primarily used as medical institution premises and offices.

As of the Latest Practicable Date, our subsidiaries' use of 11 leased properties in Shanghai and Guangdong as medical institution premises was inconsistent with the designated usage specified in the Building Ownership Certificates of such properties, namely, for commercial, industrial or residential purposes. As advised by our PRC Legal Advisors, we, as the lessee, may be subject to a fine of up to RMB30,000 for each leased property designated for residential purpose but used by us as medical institution premises. However, in accordance with policies issued by certain local government authorities, enterprises are encouraged to utilize properties designated for commercial or industrial purposes for emerging economies purposes, such as providing healthcare services, and our PRC Legal Advisors have further advised us that the risk our relevant subsidiaries will be penalized by competent authorities for inconsistent usage of the five leased properties designated for commercial or industrial purposes is remote. During the Track Record Period and up to the Latest Practicable Date, none of our relevant subsidiaries had been imposed penalties or required to vacate from the relevant properties for inconsistent usage. We estimate that the maximum penalty we may be subject to for inconsistent usage will be approximately RMB180,000, which we believe is immaterial. Therefore, we believe that such inconsistent usage will not have any material adverse effect on our financial condition or results of operations. We have established enhanced internal control measures in June 2021, pursuant to which, we will review the Building Ownership Certificates or other proofs evidencing legitimate rights of the relevant landlords before entering into any lease agreements for medical institution premises, and only properties which are designated for commercial purposes will be leased by us.

As of the Latest Practicable Date, 81 of our lease agreements with an aggregate GFA of 52,596.1 sq.m. (excluding the GFA of 14 properties, which were primarily staff dormitories, offices or places of business registration) had not been registered with the relevant PRC government authorities, primarily because that (i) certain landlords failed to cooperate to complete the lease registration; (ii) landlords of nine properties leased by our subsidiaries had not provided the relevant Building Ownership Certificates or other proofs evidencing their legitimate rights; or (iii) our staff were unfamiliar with the relevant requirements. According to applicable PRC laws and regulations, failure to register an executed lease agreement will not affect its legality, validity or enforceability. However, we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement if the relevant PRC government authorities require us to rectify and we fail to do so within the prescribed time period. We estimate that the maximum penalty we may be subject to for such unregistered lease agreements will be approximately RMB810,000, which we believe is immaterial. Therefore, we believe that the failure to register such lease agreements will not have any material adverse effect on our financial condition or results of operations. We will actively liaise with the respective landlords to complete the registration of all such lease agreements, if possible.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")**

We are 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. We have established ESG policies which set forth our environmental protection measures, social responsibility principles and internal governance.

Our 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. Our 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.

We have identified multiple risks and related opportunities on ESG-related issues through regular assessment and internal report procedure during our years of operation.

First, risks in relation to climate change and extreme weather. Global warming continues to exacerbate sea level rise and extreme weather, such as typhoon, drought, snowstorms, fires and floods, which could affect the harvest time, supply, quality and price of TCM medicinal, the maintenance of offline medical institutions and customer demands for healthcare services on chronic diseases, all of which could materially affect the operations of our medical service network. See “Risk Factors—Risks Relating to Our Business and Industry—Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC could prevent our medical service network from effectively serving our customers and thus adversely affect our results of operations.”

Second, risks in relation to occupational safety of medical professionals. Medical professionals in our medical service network may encounter emergency such as power outage, water leakage, fire, earthquake, toxic substance pollution or leakage, or occupational exposure during the daily operations. Work accidents and injuries may materially and adversely affect our business operations and health of our medical professionals. See “Risk Factors—Risks Relating to Our Business and Industry—If we cannot comply with the evolving requirements or interpretations of relevant laws, regulations and rules on occupational health and safety, we could be subject to investigations and administrative penalties, which may materially and adversely affect our business, results of operations and financial condition.”

Third, risks in relation to energy consumption as well as disposal of medical waste and discharge of waste water and pollutants. Any leakage of medical waste or waste water may pose threat to the health and safety of our customers, our medical professionals and other staff. In addition, if we cannot comply with the evolving requirements or interpretations of relevant laws, regulations and rules, we may face non-compliance and may materially and adversely affect our reputation and our business. See “Regulatory Overview—Regulations relating to Environmental Protection related to Medical Institutions” for details of relevant regulatory requirement.

We have been taking measures to mitigate such ESG-related risks, such as (i) closely assessing our customers’ healthcare demands when abnormal weather occurs; (ii) closely communicating with suppliers and monitoring our inventories of materials; (iii) actively reviewing the occupational safety performance of our medical institutions; and (iv) setting strict policies and procedures on medical sanitation and disposal of medical waste.

**Environmental Protection**

We are subject to various PRC laws, regulations and rules with respect to environmental matters, including disposal of medical waste and discharge of waste water and pollutants. See “Regulatory Overview—Regulations Relating to Environmental Protection Related to Medical Institutions” for more details. We have implemented internal policies and procedures in this regard. We have formulated policies to regulate our disposal of medical waste and discharge of waste water and pollutants. We request each medical institutions to timely and properly classify, sterilize and store, and properly dispose medical waste. Under our policies, the temporary storage of medical waste must be less than 48 hours. Considering any leakage of medical waste or waste water may pose threat to the health and safety of our customers, as well as our medical professionals and other staff, we have put in place policies and procedures on medical sanitation and disease control in order to reduce the risk of our staff handling medical wastes, and strictly prevent our customers from exposure to medical waste. Our medical institutions are required to strictly follow our internal procedures and requirements for sorting, collection, temporary storage and safe disposal of medical waste. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our annual cost of compliance with environmental protection rules and regulations was RMB0.7 million, RMB0.9 million, RMB1.0 million and RMB0.6 million, respectively. We expect such compliance cost to increase in the future in line with the growth and expansion of our business. During the Track Record Period and up to the Latest Practicable Date, we complied with all PRC laws and regulations with respect to environmental matters in all material respects.

For the healthcare products we provided to customers, such as TCM patent medicines, healthcare supplements, nourishment with our private label or third-party label, we procure them from qualified suppliers with relevant certificates as stipulated by applicable laws and regulations. We do not produce such healthcare products thus are not involved in any process that may cause any pollution. For the TCM decoction we provided to customers, the raw materials used are primarily decocting pieces. The decoction process typically do not generate medical waste that may have material impact on the environment. We collect and dispose the waste water and TCM medicinal residue timely pursuant to our internal procedure. For healthcare products made from animal resources, we routinely review our suppliers’ qualifications and monitor their performance to ensure the products are produced legally, humanely and properly. We also entered into strategic collaboration agreement with relevant suppliers to ensure safe and stable supply of such products.

Our operations are not the major sources of environmental pollution as they do not involve any significant direct air emissions and noise emissions. We collect and dispose TCM medicinal residue discharged from our decocting process timely. We have also established strict internal procedures on safe disposal of medical waste. Hence, we are not aware of any risks arising from potential violations of the relevant environmental laws and regulations in respect of air and greenhouse gas emissions, discharge into water or land, and generations of hazardous and non-hazardous waste that would cause a significant impact on our business operations and our future strategy and financial planning.

***Energy and Water Consumption and Green Gas Emission***

Our energy consumption is mainly derived from electricity consumption from our medical institutions, offices and information technology systems maintained by us. It is also the main source of our indirect greenhouse gases emissions. We also use water during our daily operations. We have implemented measures to increase energy and water efficiency in our operations in order to fulfill our environmental and social responsibility. For example, we encourage our medical institutions to use LED light system, which has much higher energy efficiency.

## BUSINESS

The below table sets forth our electricity consumption analysis for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Electricity consumption (kWh) . . .	6,089,561.27	5,785,981.50	6,136,644.57	3,905,118.23
Electricity consumption (kWh)/revenue (RMB in millions) . . . . .	8,385.00	6,456.44	6,631.59	6,528.23

The below table sets forth our water consumption analysis for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Water consumption (ton'000) . . . . .	66.09	70.77	69.72	51.71
Water consumption (ton'000)/revenue (RMB in millions) . . . . .	0.09	0.08	0.08	0.09

### Occupational Safety

We do not operate any production facilities and we engage third-party logistics service providers to deliver products to our customers. Therefore, we are not subject to significant health or occupational safety risks. To ensure occupational safety of our employees and normal operations of our medical service network, we have adopted a set of stringent contingency plans to deal with emergency such as power outage, water leakage, fire, earthquake, toxic substance pollution or leakage, or occupational exposure at our medical service network. In addition, we provide occupational safety education and trainings to our employees to enhance their awareness of work safety. We also provide our employees with regular health assessment to monitor their overall health. Moreover, we have a proper system in place for recording and handling accidents. Responsible personnel are designated for handling work accidents and injuries as well as maintaining health and work safety compliance record.

### Social Responsibility

We believe the best approach to corporate social responsibility is through embedding elements of social responsibility in our business. Since our founding, we have been upholding our commitment to corporate social responsibility by extending the benefits of our ecosystem to the community at large. For example, we periodically provide pro bono consultation services to the community to increase the public awareness of wellbeing and to promote TCM. We also actively made donations to philanthropic foundations. During the Track Record Period, our donations amounted to RMB1.1 million, RMB2.5 million, RMB0.6 million and RMB1.2 million, respectively. During the outbreak of COVID-19, we actively engaged in the donations of thousands of medical consumables, such as respirators and medical protective clothing, as well as providing consultation and diagnosis for free to the local residents that were affected by the pandemic.



**Board Diversity**

We have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board.

For example, Ms. Jin Xu was appointed as our independent non-executive Director with a view to promoting the gender diversity at our Board level given its composition of all-male Directors before the appointment of Ms. Jin Xu. See “Directors and Senior Management.”

To ensure compliance with applicable laws and regulations, from time to time, our human resource department would, if necessary and after consultation with our legal advisers, adjust our human resources policies to accommodate material changes to relevant laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we complied with all PRC laws and regulations with respect to health and occupational safety matters in all material respects.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents in the course of our operations, nor were we subject to any material claims for personal or property damages or compensation paid to employees.

Going forward, our Board will be responsible for establishing, adopting and reviewing our ESG policies and to evaluate, determine and address our ESG-related risks once a year. Necessary improvement will then be implemented to mitigate the risks. In particular, we plan to establish a ESG Committee within one year upon Listing. The ESG Committee is expected to have three committee members, including both our management and employees, who are led by Mr. Tu. The primary duties of such committee are expected to include, among others, (i) coordinating with our management team and business areas to identify the ESG-related risks and opportunities, especially risks and opportunities related to climate change; (ii) holding meetings among management team on the latest development on laws, regulations and rules with respect to ESG matters; (iii) supplementing and updating the ESG policies covering environmental protection, occupational safety, social responsibility and climate-related issues; (iv) setting targets for each material ESG KPIs with reference to guidance on ESG released by the Stock Exchange; and (v) annually evaluating the ESG KPIs of our Group and reviewing the ESG report of comparable companies in healthcare industry.

We expect to establish ESG policies to cover the following details: (i) proper utilization of renewable resources, such as TCM medicinal residue discharged from our decocting process; (ii) internal report and feedback procedure on risks and opportunities on ESG matters; (iii) surveillance and evaluation procedure on the relationship between our operation performance and climate change; (iv) periodic education and training arrangement on occupational safety; and (v) surveillance systems for the prevalence of nosocomial infections (醫院感染現患率) at our medical institutions. Our ESG Committee will set the following material KPIs at the beginning of each financial year:

- KPIs in relation to employee and social-related matters, such as gender structure, age distribution, frequency of employee training and hours for team building activities;

- KPIs in relation to use of resources, such as electricity consumed in kilowatt-hour, the volume of water in thousand tonne, the average monthly costs of energy and water, the energy and water consumed per revenue. We target to reduce our consumption of energy and freshwater per revenue; and
- KPIs in relation to waste generated, such as medical waste in tonnes, and hazardous waste produced per revenue. We target to maintain 100% compliance rate in relation to hazardous waste disposal.

In addition, we plan to review our key ESG performance on a regular basis. Our management team will actively participate in setting our ESG strategies and targets and monitoring the implementation of ESG policies. For the climate-related risks and opportunities, our management closely monitors and assesses KPIs in relation to use of resources and waste generated. Once received report from the ESG Committee, our management team will timely conduct thorough review on the issue and further evaluate the potential influence and materiality on our Group. We may engage independent professional third parties to help us make necessary improvements on ESG issues, when necessary.

## COMPLIANCE AND LEGAL PROCEEDINGS

### Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been imposed any material administrative penalties by the relevant government authorities. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any non-compliance incidents that are systemic or have a material adverse effect on our business, financial condition or results of operations.

### *Failure to Complete the Fire Safety Filing for Certain Leased Properties*

#### *Background and Reasons for Non-compliance*

As of the Latest Practicable Date, 10 of our subsidiaries had not yet completed the Fire Safety Filing (消防備案) with the housing and urban-rural development departments of local governments in respect of 11 leased properties with an aggregate GFA of 9,290.8 sq.m., among which 10 were primarily used as medical institution premises and one was primarily used as our in-house pharmacy. Besides, 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.) (“**Zhonghai Hospital**”), which was newly acquired by us in June 2021, had not yet completed the requisite fire safety acceptance check (“**Fire Safety Acceptance** (消防驗收)”) by the relevant authorities in respect of one property where the hospital is located at (together with the 10 subsidiaries failing to complete the Fire Safety Filing, the “**Non-compliant Subsidiaries**”). The incidents arose because such subsidiaries were acquired by us through share acquisition or asset acquisition, and their former shareholders failed to complete the Fire Safety Filing or the Fire Safety Acceptance in respect of their relevant leased properties. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our revenue derived from the Non-compliant Subsidiaries amounted to RMB172.3 million, RMB204.8 million, RMB176.7 million and RMB103.1 million, respectively, representing 23.7%, 22.8%, 19.1% and 17.2%, respectively, of our total revenue for the same periods.

*Legal Consequences*

According to applicable PRC laws and regulations, for each leased property for which our relevant subsidiary fails to complete the Fire Safety Filing after completion of construction acceptance, our relevant subsidiary may be ordered by the housing and urban-rural development departments of local governments to rectify and subject to a fine of up to RMB5,000. With respect to the one leased property for which we were not able to complete the Fire Safety Acceptance, Zhonghai Hospital may not be able to use such property and may be subject to a fine of up to RMB300,000.

We have engaged fire safety consultants (the “**Fire Safety Consultants**”) to conduct fire safety inspections on each of the 12 leased properties which had not yet completed the relevant Fire Safety Filing or the Fire Safety Acceptance (the “**Leased Properties**”) through on-site inspection, surveys and document review. The Fire Safety Consultants hold relevant qualifications and certificates (such as the fire safety assessment qualification and fire facilities maintenance qualification) and are certified fire safety specialists, with experience in the maintenance and inspection of fire safety facilities and fire safety evaluation. All Fire Safety Consultants are Independent Third Parties and qualified to conduct fire safety evaluation services in accordance with the relevant PRC laws and regulations. As confirmed by the Fire Safety Consultants, (i) the 12 relevant premises’ fire safety condition are in compliance with regulatory requirements and in line with industry standards; (ii) we have established and implemented a comprehensive set of fire safety policies and procedures as well as fire safety and emergency evacuation plan that are in compliance with the applicable PRC laws and regulations; and (iii) no fire safety accident had occurred in these Leased Properties and we have not been subject to any material administrative penalty or public notice of violations due to any fire safety issues with respect to these Leased Properties.

As advised by our PRC Legal Advisors, as for the 11 leased properties in respect of which the Fire Safety Filings have not been completed, there are no specific rules prohibiting us from completing the filing procedures. Although we have been advised by our PRC Legal Advisors that such non-compliance is immaterial under applicable PRC laws and regulations, we will continue to use our best efforts to consult with the relevant government authorities in order to complete the Fire Safety Filings. However, it is difficult to predict whether these filings will eventually be completed. In the event that such filings are not completed, we may be subject to a penalty of RMB5,000 for each property.

In addition, as for the one leased property in respect of which the Fire Safety Acceptance has not been obtained, our PRC Legal Advisors have advised us that the risk of being penalized by the relevant government authorities due to the failure to complete Fire Safety Acceptance is remote, because (i) the competent government authority for the Fire Safety Acceptance of Zhonghai Hospital, Municipal Commission of Housing and Urban-rural Development of Chaoyang District of Beijing (北京市朝陽區住房與城鄉建設委員會), had confirmed that Zhonghai Hospital would not be imposed any administrative penalties for the failure to complete Fire Safety Acceptance, and can continue operating at its current premise; and (ii) as advised by the Fire Safety Consultant, the safety condition of Zhonghai Hospital complies with the applicable fire safety laws, regulations and standards.

As for the one leased property which has not completed the Fire Safety Acceptance, we are proposing to renovate Zhonghai Hospital and thoroughly go through the requisite fire safety protection procedures so as to complete the new fire safety acceptance check thereafter. We will strictly go through all necessary fire safety acceptance review process (i.e. submitting the required documents to the competent government authority and passing the on-site check conducted by the competent government authority) and duly obtain the fire safety acceptance check accordingly and timely. As further confirmed by Municipal Commission of Housing and Urban-rural Development of Chaoyang District of Beijing, there will be no material legal impediment for us to complete the requisite fire safety acceptance check after obtaining the fire protection design review and construction permit of the renovation project and submitting the requisite documents to the relevant governmental authority then.

Our Directors are of the view that such non-compliance incident has not had and will not have any material adverse effect on our business, financial condition or results of operations, after taking into account (i) the maximum potential penalty of RMB355,000 is immaterial to us, (ii) we are able to continue to operate normally at the relevant premises, and (iii) during the Track Record Period and up to the Latest Practicable Date, none of our Non-compliant Subsidiaries had been imposed penalties as a result of their failure to complete the Fire Safety Filing or the Fire Safety Acceptance. As a result, we did not make any provision in connection with such non-compliance incident.

#### *Rectification Measures Adopted and Internal Control Measures*

We have established enhanced internal control measures in May 2021, pursuant to which our newly established and acquired medical institutions and pharmacies are not permitted to commence operations until the Fire Safety Filing or any other applicable fire safety approvals have been completed or obtained. In particular, we regard regulatory compliance in respect of fire safety as a key criterion when evaluating potential acquisition target. We will review the documentation of Fire Safety Filing or any other applicable fire safety approvals during our due diligence before acquisition. If we intend to conduct renovation after acquisition, we will perform the relevant fire safety procedures in accordance with applicable laws and regulations before resumption of operations. In addition, we have included a regulatory compliance provision in our acquisition agreements, pursuant to which the sellers are required to provide undertaking on the compliance status and are liable to indemnify us if there are any non-compliance incidents (including their fire safety facilities).

Except as disclosed in “—Failure to Complete the Fire Safety Filing for Certain Leased Properties,” as advised by our PRC Legal Advisors, we complied with the law and regulations of the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date.

Based on (i) the facts and circumstances leading to our non-compliance incident; (ii) the rectification measures adopted to address such incident; and (iii) the enhanced internal control measures established by us, our Directors are of the view that such incident does not have any material impact on the suitability of our Directors and our suitability for Listing.

**Legal Proceedings**

We are subject to legal proceedings, disputes and claims that arise in the ordinary course of business, which primarily include medical disputes brought by customers and/or their families against our medical service network. These medical disputes are primarily related to complications and physical injuries that the customers claim to have suffered during or after receiving healthcare services at, or taking healthcare products purchased from, our medical service network. Most of the physical injuries incurred were not material and could not have been completely avoided due to the inherent risks involved or unforeseeable conditions that may result in complications, physical injuries or even deaths of the customers. As part of our risk management and internal control procedures, we have taken steps to inform our customers of these inherent risks and obtained their informed consents before provision of the relevant healthcare solutions and products, as appropriate.

As of the Latest Practicable Date, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we were not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation.

***Medical Disputes***

Due to the nature of our business, we occasionally encounter medical disputes brought by our customers and/or their families against our medical service network. We normally settle medical disputes through private settlement, mediation or litigation. During the Track Record Period and up to the Latest Practicable Date, we did not experience any medical disputes that could cause a material adverse effect on our business, financial condition or results of operations.

During the Track Record Period and up to the Latest Practicable Date, we had one medical dispute resolved and settled by us. In 2018, a customer brought a law suit against Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd., for alleged physically unwell and movement disorder after being diagnosed with cervical spondylosis and treated by us. We settled with such customer through mediation and paid compensation amount of approximately RMB0.2 million in April 2019.

We believe that the medical professionals have followed appropriate treatment procedures and protocols. The above medical dispute did not involve any determination of medical incident (醫療事故). During the Track Record Period and up to the Latest Practicable Date, none of the physicians and other medical professionals practicing at our medical service network was involved in any disciplinary proceedings or otherwise determined to be liable for medical incident.

As of the Latest Practicable Date, we did not have any unresolved medical disputes.

**INTERNAL CONTROL AND RISK MANAGEMENT**

Our internal control and risk management measures are designed to meet our specific business needs and minimize our risk exposure. We have adopted different internal guidelines, policies and procedures to monitor and reduce the impact of risks which are relevant to our business, improve our corporate governance and ensure compliance with the applicable laws and regulations. Our Board is responsible for establishing our internal control and risk management measures and reviewing their effectiveness. We have established an audit committee which comprises Mr. Li Tie (李鐵), Mr. Jiang

Xiaodong (蔣曉冬) and Mr. Wu Taibing (吳太兵) chaired by Mr. Li Tie (李鐵). The audit committee has also adopted its terms of reference which set out clearly its duties and obligations for reviewing our compliance, accounting policies and financial reporting procedures, supervising the implementation of our internal audit system, advising on the appointment or replacement of external auditors and liaising between our internal audit department and external auditors.

### Anti-corruption Risk Management

We have adopted policies on anti-bribery and anti-corruption (the “**Policies**”) since September 2015. We have also appointed a compliance officer to implement such Policies. Pursuant to the Policies:

- we have a zero-tolerance policy towards bribery and corruption incidents. Each member of our Group is required to abide by all anti-bribery and anti-corruption related laws and regulations in jurisdictions where it operates;
- each member of our Group is required to implement stringent procedures to prevent its directors, senior management, employees, third-party intermediaries and business partners from engaging in bribery, corruption or unethical behaviors;
- each member of our Group is required to comply with applicable laws and regulations when associating with government officers. For example, they are strictly prohibited from making or proposing improper payments to government officers or their families;
- each member of our Group is required to implement stringent procedures in engaging third-party intermediaries. For example, they are required to conduct due diligence investigations on third-party intermediary candidates before engaging them. Third-party intermediaries engaged by any member of our Group is required to sign a declaration undertaking their compliance with the Policies. Agreements with such third-party intermediaries are also required to include anti-bribery and anti-corruption provisions;
- each member of our Group is required to implement stringent procedures in recruiting employees. Employees of any member of our Group are required to sign a declaration confirming their relationships with government officers and their former employment with competing companies or associates of such competing companies;
- each member of the Group is required to implement stringent procedures for financial affairs, such as maintenance of detailed financial records;
- we provide anti-bribery and anti-corruption trainings to directors, senior management and employees of all members of our Group;

The Policies also include whistleblower provisions that require all employees to report any suspected non-compliance, which will be submitted to our compliance officer, who is required to maintain detailed records of such reports for five years and review such reports with the Board on a regular basis. We may take actions, including termination of term of office, termination of employment, civil charge or criminal charge, as the case may be, against directors, senior management, employees, third-party intermediaries and business partners of any member of our Group for their violation of the Policies.



**Management of Online Pharmaceutical Sales**

We have adopted policies to regulate our daily management of pharmaceuticals in October 2020, pursuant to which each member of our Group that is involved in online pharmaceutical sales is required to, among others:

- ensure the accuracy and reliability of the source of e-prescriptions and review as well as fill such e-prescriptions in strict compliance with the requirements of applicable laws and regulations;
- mark used prescriptions clearly;
- establish and implement a set of internal control policies covering pharmaceutical procurement, storage, sales, distribution management, complaint management, report of adverse reactions and pharmaceutical recalls;
- advise customers to upload their prior medical records received from physical medical institutions before the physician issue e-prescriptions online and ensure pharmacists to review the e-prescriptions to further ensure the accuracy and rationality;
- issue invoices to customers; and
- ensure that displayed information of prescription pharmaceuticals are true, accurate, legitimate and effective.

With comprehensive internal control measures as disclosed above, we believe that we will be able to fully comply with the requirements set out in the Draft Measures for Online Pharmaceutical Sales published by the NMPA for public comment in November 2020.

**Internal Control Review**

In preparation for the Listing, we have engaged an independent internal control advisor in November 2020 to perform a review of our internal controls based on agreed scope (the “**Internal Control Review**”). During the course of the Internal Control Review, the internal control advisor provided its findings and recommendations. Based on such findings and recommendations, we have accordingly implemented a series of internal control policies and taken the enhanced internal control measures to address the findings of Internal Control Review and make improvements. For example, we have adopted and implemented policies regarding anti-money laundering, conflict of interest between our Directors, senior management and staff with material business function and personal medical information protection. The independent internal control advisor performed the follow up review in May 2021 to review the status of the management actions taken by us to address the findings of the Internal Control Review and did not have any further recommendation.

In addition, we have adopted and implemented a series of new internal control policies as well as measures and procedures designed to provide further assurance on effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. These enhanced internal control policies cover our business operation and corporate governance in the following metrics, including among others, investment restrictions on directors to acquire or dispose shares of listed companies, management of insider information, the confidentiality management, legal affair management, performance evaluation procedures for network physicians, supply chain management, sales and marketing procedure, intellectual property protection and internal audit. Going forward, we will continue to regularly review and improve these internal control policies, measures and procedures. Our Directors and senior management will review and monitor the implementation of our internal control policies through regular meetings and inspections.

### Enhanced Internal Control Measures

In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented measures with a view to establishing and maintaining our internal control system, including monitoring of operational processes, the establishment of risk management policies and compliance with applicable laws and regulations. In particular:

- our Directors have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and the Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong;
- we have instituted procedures for lines of communication and provided a process by which our employees can identify and report potential non-compliance exposures; and
- we have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among others, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.

### OUTBREAK AND SPREAD OF COVID-19

There has been an outbreak of an infectious disease caused by a novel coronavirus (the “COVID-19”). The disease quickly spread within the PRC and globally and materially and adversely affected the global economy.

Our Directors are of the view that the recent outbreak and spread of COVID-19 worldwide has had the following impacts on our business, results of operations and financial condition:

- **Industry trend:** During the COVID-19 pandemic, the NHC and the National Administration of Traditional Chinese Medicine jointly issued the *Guidelines for the Diagnosis and Treatment of COVID-19* (《新冠肺炎診療方案》) as amended from time to time, which affirms therapeutic effects of TCM for prevention and treatment of COVID-19. Multiple government policies favorable to TCM healthcare industry have been promulgated, including Opinions of the State Council of the CPC Central Committee on Promoting the Inheritance and Innovation of Traditional Chinese Medicine and Several Policies and Measures on Promoting the Development of Traditional Chinese Medicine. With government promotion, favorable policies and positive publicity, TCM has gained wide recognition among the general public in the PRC. In the meantime, the COVID-19 pandemic has expedited the general public’s demand for, as well as receptiveness of, online healthcare solutions and products, thereby facilitating prosperity of internet healthcare industry.
- **Service and product offerings:** 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. Our customers also generally avoided visiting our medical institutions and pharmacies to minimize the risk of infection. As a result, the demands for offline healthcare solutions and products decreased and the operations of our medical institutions and pharmacies suspended. During the first four months of 2020, during which we were most affected by COVID-19 pandemic, our offline medical institutions suspended operation for 25.4 days on average. Our customer visits decreased by 35.6% to 311 thousands for the four months ended April 30, 2020 from 483 thousands for the four months ended April 30, 2019. As such, our revenue for the four

months ended April 30, 2020 decreased compared to the same period in the previous year. We tapped into online business by making offline healthcare solutions and products online. During COVID-19 epidemic, we further observed vast potential of online business, and therefore expanded our online operations and optimized our business structure by acquiring Bailu as well as proactively collaborating with leading third-party online platforms.

- **Supply chain:** We encountered delay in the supply of, or fluctuation in the price of, certain decocting pieces, TCM patent medicines, authentic medicinal and other materials, primarily due to (i) introduction of policies restricting the use of wild medicinal animal resource. See “Regulatory Overview—Regulations Relating to Wild Animal Protection”; (ii) decrease in their production or import volume; or (iii) increase in their market demands because of their potential therapeutic effect on the epidemic, all of which resulted from the outbreak and spread of COVID-19. As of the Latest Practicable Date, all of our suppliers that supply wild animal medicinal to us had obtained relevant certificate. We also closely monitor the demand and supply of such medicinal during the daily operation. Leveraging our strong supply chain capabilities and national supply chain coverage, we have not encountered any shortage of our inventory during the outbreak of COVID-19. We believe that such policies will not have material adverse impact on our supply chain going forward. Our centralized procurement management department managed to secure supplies by, among others, frequently communicating with our suppliers for strategic stockpiling in advance, expanding procurement channels and transacting with manufacturers of TCM patent medicines directly. Therefore, such delay or price fluctuation did not have a material impact on us.
- **Rent reduction:** In 2020, we actively communicated with lessors of our leased properties and the lessors granted us rent concession of RMB3.5 million during the COVID-19 pandemic.

## DIRECTORS AND SENIOR MANAGEMENT

### OVERVIEW

The following table sets forth certain information regarding our Directors and members of our senior management:

Name	Age	Position	Time of joining the Group	Date of appointment as Director or senior management	Roles and responsibilities
<b>Directors</b>					
Mr. TU Zhiliang (涂志亮) . . . . .	43	– Chairman of the Board – Executive Director	September 2010	May 8, 2014	Formulating the overall corporate and business strategies, overseeing the management and operation of our Group
Mr. JIANG Xiaodong (蒋晓冬) . . . . .	44	– Non-executive Director	August 2014	August 21, 2014	Providing strategic advice and making recommendations on financial management and business development to our Board
Mr. HUANG Jingsheng . . .	63	– Non-executive Director	August 2014	August 21, 2014	Providing strategic advice and making recommendations on financial management and business development to our Board
Mr. XU Yongjiu (徐永久) . . . . .	43	– Non-executive Director	July 2017	July 15, 2017	Providing strategic advice and making recommendations on financial management and business development to our Board

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Time of joining the Group	Date of appointment as Director or senior management	Roles and responsibilities
Mr. LIU Kanghua (劉康華) <sup>(1)</sup> . . . . .	35	– Non-executive Director	May 2021	May 25, 2021	Providing strategic advice and making recommendations on financial management and business development to our Board
Mr. GAO Jian (高建) . . . . .	59	– Non-executive Director	May 2021	May 25, 2021	Providing strategic advice and making recommendations on financial management and business development to our Board
Ms. JIN Xu (金旭) . . . . .	52	– Independent non-executive Director	November 2021	November 16, 2021	Providing independent opinion and judgement to our Board
Mr. LI Tie (李鐵) . . . . .	44	– Independent non-executive Director	November 2021	November 16, 2021	Providing independent opinion and judgement to our Board
Mr. WU Taibing (吳太兵) . . . . .	46	– Independent non-executive Director	November 2021	November 16, 2021	Providing independent opinion and judgement to our Board

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Time of joining the Group	Date of appointment as Director or senior management	Roles and responsibilities
<b>Senior Management</b>					
Mr. TU Zhiliang (涂志亮) . . . . .	43	– Chief executive officer	September 2010	August 21, 2014	Formulating the overall corporate and business strategies, overseeing the management and operation of our Group
Mr. DENG Shigang (鄧仕剛) . . . . .	48	– Chief financial officer	August 2019	August 5, 2019	Overseeing the mergers, acquisitions and financing and taking charge of financial management and capital operating system of our Group
Ms. LI Jie (李潔) . . . . .	42	– Vice president	June 2012	October 16, 2019	Overseeing the operation in Shenzhen business area and supervising the operation in Suzhou, Wuxi, Ningbo and Fuzhou business areas



## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Time of joining the Group	Date of appointment as Director or senior management	Roles and responsibilities
Mr. ZHENG Xiang (鄭項) . . . . .	37	– Vice president	September 2020	September 9, 2020	Taking charge of establishment and development of the technology system, leading the promotion and expansion of online hospital with TCM healthcare services, and overseeing the overall business operation in Nanjing business area of our Group
Ms. ZHANG Qiumin (張秋敏) . . . . .	39	– Regional general manager	April 2011	January 1, 2018	Overseeing the overall business operation in Shanghai and Beijing business areas of our Group

*Note:*

(1) Mr. Liu Kanghua (劉康華) is the brother-in-law of Mr. Tu.

### DIRECTORS

Our Board is responsible for, and has general powers over, the management and operation of our business. It currently consists of nine Directors, comprising one executive Director, five non-executive Director and three independent non-executive Directors.

The following sets forth the biographies of our 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 primarily responsible for the overall corporate and business strategies, overseeing the management and operation of our Group.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

With over 15 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 is a member of the Twelfth Guangdong Province's Political Consultative Conference of (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.

### Non-executive Directors

**Mr. JIANG Xiaodong (蔣曉冬)**, aged 44, 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 has over 15 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 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.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

**Mr. HUANG Jingsheng**, aged 63, 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 has about 19 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(有限合伙)). From July 2014 to June 2020, he was a general manager of Harvard Center Shanghai and responsible for the overall management of the center.

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.

**Mr. XU Yongjiu (徐永久)**, aged 43, 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 12 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.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

**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 has over 11 years of experience in quality control and internal control. From July 2009 to March 2011, he served in GP Batteries Industrial Limited. From June 2011 to September 2017, he worked at SGS-CSTC Standards Technical Services Co., Ltd., Guangzhou Branch (通標標準技術服務有限公司廣州分公司), mainly responsible for auditing and supplier audit review. From October 2017 to April 2018, he served at Guangzhou Evergrande Materials Equipment Company Limited (廣州恒大材料設備有限公司). He also served as a senior accountant at Ernst & Young (China) Enterprise Consulting Co., Ltd., Guangzhou branch (安永(中國)企業諮詢有限公司廣州分公司) and responsible for consulting business from April 2018 to May 2021.

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.

**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.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### Independent Non-executive Directors

**Ms. JIN Xu (金旭)**, aged 52, 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 has over 27 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 now as the vice chairman of the board of directors. 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.

**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 has over 18 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.



---

## DIRECTORS AND SENIOR MANAGEMENT

---

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.

**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 has about 17 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&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.

### Other information required to be disclosed under Rule 8.10(2) of the Listing Rules

As of the Latest Practicable Date, Mr. Xu Yongjiu, one of our non-executive Directors, 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. Our Directors are of the view that there is no material competition between Chongqing Hedaotang and our Group arising from Mr. Xu's directorship in Chongqing Hedaotang for the following reasons:

- (i) Chongqing Hedaotang only operates its business in Chongqing, where our Group has not commenced our healthcare business;
- (ii) Mr. Xu does not control the board of Chongqing Hedaotang nor the appointment of the directors thereof;
- (iii) Mr. Xu serves as a non-executive director in both our Company and Chongqing Hedaotang, and is not involved in the daily management of these two companies; and
- (iv) our 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 our Group and the Shareholders as a whole.

See the section headed “Relationship with our Controlling Shareholders” for details of our corporate governance measures to manage potential conflict interest between our Group and our Directors.



---

## DIRECTORS AND SENIOR MANAGEMENT

---

For details of our Directors' respective interests or short positions (if any) in our Shares, particulars of our Directors' service agreements and Directors' remuneration, please see "Appendix IV—Statutory and General Information—C. Further Information about Our Directors and Substantial Shareholders" in this prospectus.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of our Directors that need to be brought to the attention of our Shareholders, nor is there any information relating to our Directors that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules, including matters relating to directorship held by our Directors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business. The following sets forth the biographies of the members of our senior management.

**Mr. TU Zhiliang (涂志亮)**, see "—Directors—Executive Director" in this section.

**Mr. DENG Shigang (鄧仕剛)**, aged 48, 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 20 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 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.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

**Ms. LI Jie (李潔)**, aged 42, was appointed as the vice president of our Group on October 16, 2019, primarily responsible for overseeing the operation in Shenzhen business area and supervising the operation in Suzhou, Wuxi, Ningbo and Fuzhou business areas.

Ms. Li has over 18 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 Xinhuali 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 Xinhuali 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 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.

**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, and overseeing the overall business operation in Nanjing area of our Group.

Mr. Zheng has nearly 13 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.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

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.

**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 approximately 14 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 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.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of our Directors and senior management members that need to be brought to the attention of our Shareholders and none of our Directors and senior management members held any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

Five of our former Directors, namely Tu Xingguo, Huang Yu, Yang Wenjing, Lin Rui and Dorothy Dong resigned on May 25, 2021. In particular, (a) Tu Xingguo, aged 69, resigned due to his retirement, (b) Huang Yu (being a representative of Guoshou Chengda (Shanghai) Health Service Industry Private Equity Center (LLP), one of the convertible loan holders), resigned because the relevant convertible loan was redeemed on March 31, 2021, (c) Yang Wenjing, who was a former employee of the Group, resigned because she ceased to have any executive position in the Group; and (d) Lin Rui and Dorothy Dong resigned as the relevant institutional investors they represented wish to remain as the Shareholder of the Company instead of having any board representation in our Company upon Listing. Each of the directors who resigned has confirmed that he or she did not have any disagreement with the Board.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### JOINT COMPANY SECRETARIES

**Ms. XIE Xiaoping (謝小平)**, aged 45, was appointed as one of the joint company secretaries of our Company on May 25, 2021, which took effect on the same day.

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 (東凌集團有限公司) from June 2016 to January 2020.

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)**, was appointed as one of the joint company secretaries of our Company on July 16, 2021. 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.

### BOARD COMMITTEES

#### Audit Committee

Our Company has established an audit committee with written terms of reference in compliance with the requirements under the Listing Rules. The audit committee consists of three members, being Mr. Li Tie (李鐵), Mr. Jiang Xiaodong (蔣曉冬) and Mr. Wu Taibing (吳太兵). The chairperson of the audit committee is Mr. Li Tie (李鐵), who is the independent non-executive Director with the appropriate accounting and related financial management expertise. The primary duties of the audit committee include, among others:

- reviewing our compliance, accounting policies and financial reporting procedures;
- supervising the implementation of our internal audit system;
- advising on the appointment or replacement of external auditors;
- liaising between our internal audit department and external auditors; and
- other responsibilities as authorized by our Board.

---

## DIRECTORS AND SENIOR MANAGEMENT

---

### Remuneration Committee

Our Company has established a remuneration committee with written terms of reference in compliance with the requirements under the Listing Rules. The remuneration committee consists of three members, being Ms. Jin Xu (金旭), Mr. Li Tie (李鐵) and Mr. Huang Jingsheng. The chairperson of the remuneration committee is Ms. Jin Xu (金旭). The primary duties of the remuneration committee include, among others:

- making recommendations to the Board on our policy and structure concerning remuneration of our Directors and members of the senior management;
- making recommendations to the Board on the specific remuneration package of each Director and members of the senior management;
- reviewing and approving compensations payable to executive Directors and members of senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of any Director for his or her misconduct to ensure that such arrangements are consistent with contractual terms and are otherwise reasonable and appropriate; and
- other responsibilities as authorized by our Board.

### Nomination Committee

Our Company has established a nomination committee with written terms of reference in compliance with the requirements under the Listing Rules. The nomination committee consists of three members, being Mr. Tu Zhiliang (涂志亮), Ms. Jin Xu (金旭) and Mr. Wu Taibing (吳太兵). The chairperson of the nomination committee is Mr. Tu Zhiliang (涂志亮). The primary duties of the nomination committee include, among others:

- reviewing the structure, size and composition of the Board annually, and advising on any changes of the Board proposed in accordance with the strategies of our Company;
- identifying, selecting or making recommendations to our Board on the selection of individuals nominated for directorships;
- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of our Directors;
- assessing the independence of independent non-executive Directors; and
- other responsibilities as authorized by our Board.

## CORPORATE GOVERNANCE

Pursuant to code provision A.2.1 in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the roles of chairman 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, our Directors consider that vesting the roles of



---

## DIRECTORS AND SENIOR MANAGEMENT

---

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. Taking into account all the corporate governance measures that we are going to implement upon Listing, our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Accordingly, our Company had not segregated the roles of its chairman and chief executive officer. Our Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of our Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole.

Saved as disclosed above, as of the Latest Practicable date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

### BOARD DIVERSITY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our 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.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, TCM healthcare services, accounting and financial management. They obtained degrees in various majors, including in business administration, computer science and technology, sociology, chemical engineering and technology, economy and law. We have also 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 our independent non-executive Directors, two of our existing senior management and our two joint company secretaries are female upon Listing. Taking into account our existing business modes and specific needs as well as the different background of our Directors, we are of the view that the composition of our Board satisfies our board diversity policy.

Going forward, under the objectives of the board diversity policy, we expect to have two female Directors at the Board within five years following the Listing, subject to our 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 our Company and our 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, our 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).



---

## DIRECTORS AND SENIOR MANAGEMENT

---

Our nomination committee is responsible for ensuring the diversity of our Board. After the Listing, our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on annual basis.

### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management members receive compensation from our Company in the form of salaries, bonuses, and other benefits in kind such as contributions to pension plans and pension scheme contributions.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 were approximately RMB0.9 million, RMB0.8 million, RMB0.7 million and RMB0.6 million, respectively.

The five highest paid individuals for the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, included 1, 1, 1 and 0 Directors, respectively, whose remunerations are included in the aggregate amount of remuneration set out above. For the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) for the remaining 4, 4, 4 and 5 highest paid individuals who are not Directors of our Group were approximately RMB3.2 million, RMB3.6 million, RMB5.5 million and RMB18.6 million.

It is estimated that remuneration equivalent to approximately RMB1.7 million in aggregate will be paid to the Directors (inclusive of benefits in kind but exclusive of any discretionary bonuses) by our Company for the year ending December 31, 2021 based on the arrangements currently in force.

No remuneration was paid by our Company to the Directors or the five highest paid individuals as inducement to join or upon joining our Company or as a compensation for loss of office during the Track Record Period. Furthermore, none of the Directors had waived or agreed to waive any remuneration during the Track Record Period.

### COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules, and the compliance adviser will advise our Company in the following circumstances.

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;

---

## DIRECTORS AND SENIOR MANAGEMENT

---

- where our Company proposes to use the proceeds of the Global Offering in a manner that is different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecasts, estimates or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules a false market in the Shares.

The terms of the appointment of the compliance adviser will commence on the Listing Date and is expected to end on the date when our Company distributes the annual report of its financial results for the first full financial year commencing after the Listing Date.

### OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders include Mr. Tu and his wholly-owned investment companies (Action Thrive, Celestial City, Dream True and Wumianshan Ltd.).

As of the Latest Practicable Date, (i) Mr. Tu, through his wholly-owned investment companies (Celestial City and Action Thrive), controlled an aggregate of approximately 14.84% of the voting power at general meetings of the Company; (ii) pursuant to the TZL Family Trust, Trident Trust held (through Dream True) approximately 9.25% of the voting power at the general meetings of the Company; and (iii) pursuant to the Voting Deeds, Mr. Tu was also interested in and controlled an aggregate of approximately 17.22% of the voting power at general meetings of the Company. For further details on the Voting Deeds, the identities of the Principal Shareholders and their relationship with the Group (being directorships and/or senior management roles in our Group), Mr. Tu and/or their respective close associates, see the section headed “History, Reorganization and Corporate Structure—Establishment of Family Trust” and “History, Reorganization and Corporate Structure—Voting Deeds.” Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), Mr. Tu will be deemed to control approximately 36.31% of our enlarged total issued share capital and he (together with Action Thrive, Celestial City, Dream True and Wumianshan Ltd.) will be considered as the Controlling Shareholders for the purpose of the Listing Rules after the Listing.

The structure of the TZL Family Trust is commonly adopted by the Trident Trust, where the intermediary holding vehicles (i.e., Frandor Limited and Tu Family Holdings Limited) are set up by the Trident Trust to hold interest in Dream True, which in turn directly holds the Shares on behalf of the TZL Family Trust. The Trident Trust and the intermediary holding vehicles mainly serve for administrative purposes and shall not be regarded as members of our Controlling Shareholders for the following reasons:

- pursuant to the Trust Deed (defined above), Mr. Tu is entitled to remove the trustee and appoint a new trustee to the TZL Family Trust at his sole discretion, and the trustee (i.e., the Trident Trust) can only exercise the investment power as to the trust properties under the TZL Family Trust (including the disposal of the Shares beneficially owned by the TZL Family Trust) in accordance with the investment decisions of Mr. Tu;
- Mr. Tu is the sole director of Dream True and is therefore able to directly exercise and has the immediate control over the voting rights attaching to the Shares held by Dream True;
- Frandor Limited and Tu Family Holdings Limited were set up by the Trident Trust as nominee holding vehicles merely for the purpose of holding interest in Dream True with a view to facilitating the general management of the TZL Family Trust, where the right to appoint or remove their director rests with its sole shareholder (i.e., Trident Trust) instead of Mr. Tu; and
- unlike Dream True, which is the trust property under the TZL Family Trusts administered and controlled by Mr. Tu in the capacity as the sole director thereof and via the investment powers reserved upon Mr. Tu, the relevant intermediary holding vehicles are not trust properties injected by the settlor into the TZL Family Trust.

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

Save as disclosed in “Directors and Senior Management” of this prospectus, neither our Controlling Shareholders nor any of our Directors, including their respective close associates, was, as of the Latest Practicable Date, interested in any business, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

Prior to the entering into of the Voting Deeds, there was no acting in concert arrangement between Mr. Tu on the one hand and any of the Principal Shareholders on the other hand. In addition, under the Voting Deeds, the Principal Shareholders have unilaterally entrusted their voting rights to Mr. Tu, so the exercise of such voting rights has been under the exclusive control of Mr. Tu instead of under a joint control of Mr. Tu and the Principal Shareholders. Further, exercise of voting rights attached to the Shares held by the Controlling Shareholders has not been entrusted to the Principal Shareholders and remains at the sole decision of Mr. Tu. As such, the Principal Shareholders are not considered as members of the group of Controlling Shareholders. As at the Latest Practicable Date, none of the Principal Shareholders had any businesses which compete or are likely to compete with our Group’s business pursuant to Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after Listing.

#### Operational Independence

Our Company makes business decisions independently. We have established our own organizational structure with independent departments, and each department is assigned to specific areas of responsibilities. We maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. We have independent access to suppliers and customers and are not dependent on our Controlling Shareholders and their respective close associates with respect to supplies for our business operations. We are also in possession of all relevant licenses necessary to carry out and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently.

Although during the Track Record Period, there had been transactions between us and our related parties, details of which are set out in Note 38 in the Accountants’ Report, our Directors have confirmed that these related party transactions, if trade related, were conducted on normal commercial terms or better to us. Save as disclosed in the section headed “Connected Transactions” of this prospectus, none of the historical related party transactions with the connected persons as defined in the Listing Rules are expected to continue after the Listing.

Accordingly, our Directors are satisfied that we will be able to function and operate independently from our Controlling Shareholders and their respective close associates.

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

### Management Independence

The Board comprises one executive Director, five non-executive Directors and three independent non-executive Directors. See the section headed “Directors and Senior Management” in this prospectus for more details of our Directors. Mr. Tu, our Chairman, the executive Director and the chief executive officer, is our Controlling Shareholder and Mr. Liu Kanghua, a non-executive Director is the brother-in-law of Mr. Tu. All the other Directors and other members of our senior management are independent from our Controlling Shareholders. The daily operation of our Group is carried out by our experienced management team, and we have the capabilities and personnel to perform all essential administrative functions, including finance, accounting, human resources and business management on a standalone basis.

Each Director is aware of his or her fiduciary duties as a Director, which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests. Further, we believe our independent non-executive Directors have the depth and breadth of experience which will enable them to bring independent judgment to the decision-making process of our Board. Our independent non-executive Directors have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum.

Based on the above, our Directors are satisfied that the Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

### Financial Independence

Our Group has established an independent financial department with a team of independent financial staff, as well as a sound and independent financial system and makes financial decisions according to our Group’s own business needs. Our Group has adequate capital to operate our business independently, and has sufficient internal resources to support our daily operations.

During the Track Record Period, our Group had certain non-trade related amounts due from Mr. Tu. Please see Note 38 to the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. As of the Latest Practicable Date, all such amounts have been fully repaid by Mr. Tu.

Save as disclosed herein, as of the Latest Practicable Date, there were no other outstanding loans, advances or non-trade balances due to or from our Controlling Shareholders or their close associates, nor were there any other outstanding pledges or guarantees provided for our benefit by our Controlling Shareholders or their respective close associates.

Our Group has sufficient capital to operate its business independently, and has adequate internal resources and a strong credit profile to support its daily operations. There will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders or their respective close associates in favor of our Group or vice versa upon the Listing. We have engaged an

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

independent internal control consultant to assist us in putting in place controls in relation to transactions with connected persons and their respective associates to ensure that any advances to or from such persons are in compliance with the Listing Rules.

Having considered that our future operations are not expected to be financed by our Controlling Shareholders or their respective close associates, we believe our Group is financially independent from our Controlling Shareholders and their respective close associates.

### CORPORATE GOVERNANCE

Our Directors recognize the importance of good corporate governance to protect the interest of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and the Controlling Shareholders and/or Directors:

- (i) where a Shareholders' meeting is held for considering proposed transaction in which our Controlling Shareholders has a material interest, the Controlling Shareholders shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;
- (ii) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;
- (iii) any transaction between (or proposed to be made between) our Group and the connected persons will be subject to the requirements under Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review, circular (including independent financial advice) and independent Shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with relevant requirements under the Listing Rules.
- (iv) in the event that our independent non-executive Directors are requested to review any conflict of interests between our Group and the Controlling Shareholders and/or Directors, the Controlling Shareholders and/or Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in its annual report or by way of announcements to the public.
- (v) our Company has appointed Guotai Junan Capital Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders and/or Directors to protect the minority Shareholders' rights after Listing.



---

## CONNECTED TRANSACTIONS

---

We have entered into certain agreements and arrangements with certain individual and entities that will, upon Listing, become our connected persons (as defined under Chapter 14A of the Listing Rules). Following the Listing, the transactions contemplated under such agreements will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

### CONNECTED PERSONS

The table below sets forth certain parties who will become our connected persons upon Listing and the nature of their relationship with our Group:

Connected Person	Connected Relationship
Yan Jun . . . . .	a director of Guangdong Gushengtang, an indirectly non-wholly owned subsidiary of our Company
Mr. Tu . . . . .	our executive Director and one of our Controlling Shareholders

### SUMMARY OF OUR CONTINUING CONNECTED TRANSACTION

Continuing connected transaction	Applicable Listing Rules	Waiver sought
<b>Non-exempt Continuing Connected Transaction</b>		
Contractual Arrangements . . . . .	Rule 14A.35-36 Rule 14A.49 Rule 14A.52-59 Rule 14A.76 Rule 14A.105	Announcement, circular, independent Shareholders' approval, annual caps and terms of agreements not exceeding three years

### 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 our Consolidated Affiliated Entities to prevent leakages of equity and values to the relevant Registered Shareholders of our Consolidated Affiliated Entities, except for our Group, and to obtain the maximum economic benefits from our 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 our Consolidated Affiliated Entities and the Registered Shareholders of our Consolidated Affiliated Entities. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by the WFOEs to the Consolidated Affiliated Entities; (ii) exercise effective control over our 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.

See the section headed "Contractual Arrangements" in this prospectus for details of the key terms of the Contractual Arrangements.

---

## CONNECTED TRANSACTIONS

---

### Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our 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 our Company.

The highest applicable percentage ratio (other than the profit ratio) under the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements is expected to be, on an annual basis, more than 5%. As such, these transactions will be subject to the reporting, annual review, announcement, circular, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Our Directors (including the independent non-executive Directors) are of the view that (i) the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the legal structure and business of our Group; and (ii) such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements related thereto or renewal of existing transactions, contracts and agreements to be entered into by, among others, our Consolidated Affiliated Entities and any member of our Group (the “**New Intergroup Agreements**”) technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules after the Listing, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholders' approval requirements.

### WAIVERS APPLICATIONS FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTION

#### Contractual Arrangements

In respect of the Contractual Arrangements, we have applied for, and the Stock Exchange has granted, a waiver 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 for setting an annual cap for the transactions under the Contractual Arrangement under Rule 14A.53 of the Listing Rules, and (iii) the requirement for limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange, subject however to the following conditions.

(a) *No change without independent non-executive Directors' approval*

Save as described below, no change to any of the agreements constituting the Contractual Arrangements will be made without the approval of our independent non-executive Directors.

---

## CONNECTED TRANSACTIONS

---

*(b) No change without independent Shareholders' approval*

Save as described below, no change to any of the agreements constituting the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will, however, continue to be applicable.

*(c) Economic benefits and flexibility*

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests in the Consolidated Affiliated Entities at the minimum amount of consideration permitted by applicable PRC laws, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by our Consolidated Affiliated Entities under the Contractual Arrangements, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities held by Registered Shareholders.

*(d) Renewal and reproduction*

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and our subsidiaries in which our Company has direct shareholding, on one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant PRC laws, regulations and approvals.

*(e) Ongoing reporting and approvals*

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;

---

## CONNECTED TRANSACTIONS

---

- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report that for the relevant year (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole;
- our Company's reporting auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have been approved by our Board, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," our Consolidated Affiliated Entities will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities themselves), and therefore transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- our Consolidated Affiliated Entities will, for so long as our Shares are listed on the Stock Exchange, provide our Group's management and our Company's auditors with full access to their relevant records for the purpose of reporting on the connected transactions.

In addition, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent Shareholders' approval in respect of the transactions contemplated under any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules, (ii) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of any New Intergroup Agreements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange. The waiver is subject to the conditions that the Contractual Arrangements subsist and Consolidated Affiliated Entities will continue to be treated as our subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding for this purpose, Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, Consolidated Affiliated Entities), other than those under the Contractual Arrangements and the New Intergroup Agreements, will be subject to requirements under Chapter 14A of the Listing Rules.

---

## CONNECTED TRANSACTIONS

---

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

### **DIRECTORS' CONFIRMATION**

Our Directors (including independent non-executive Directors) are of the view that the Contractual Arrangements, and for which waivers have been sought, have been entered into and will continue to be carried out in the ordinary and usual course of business of our Group and on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors are of the view that with respect to the terms of the relevant agreements underlying the Contractual Arrangements, which are of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration to ensure that (i) the financial and operational policies of our Consolidated Affiliated Entities can be effectively controlled by our Company indirectly; (ii) our Company can indirectly obtain the economic benefits derived from our Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented, on an uninterrupted basis.

### **JOINT SPONSORS' CONFIRMATION**

Having (i) reviewed the relevant documents and information provided by the Company in relation to the above Contractual Arrangements, (ii) obtained necessary representations and confirmations from the Company and the Directors, (iii) participated in the due diligence and discussions with the management of our Group and our PRC Legal Advisors, and (iv) reviewed the legal opinion of our PRC Legal Advisors on the Contractual Arrangements, the Joint Sponsors consider that the Contractual Arrangements (i) are fundamental to our Group's legal structure and business operations and (ii) have been entered into and will continue to be carried out in the ordinary and usual course of business of our Group and on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) the financials and operation of our Consolidated Affiliated Entities can be effectively controlled by Our Company indirectly, (ii) our Company can indirectly obtain the economic benefits derived from our Consolidated Affiliated Entities, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entities can be prevented on an uninterrupted basis.

## SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering assuming all Preferred Shares are converted into Shares based on their respective conversion terms as disclosed in this Prospectus.

<u>Authorized Share Capital</u>		<u>Aggregate par value</u>	
264,430,287 . . . . .	Shares of US\$0.0001 each	<u>US\$26,443.0287</u>	
<u>Issued and to be issued, fully paid or credited as fully paid</u>		<u>Aggregate par value</u>	<u>% of the issued share capital</u>
202,518,458 . . . . .	Shares in issue as of the date of this prospectus	US\$20,251.8458	87.90%
27,878,000 . . . . .	Shares to be issued pursuant to the Global Offering	US\$2,787.8	12.10%
<b>230,396,458 . . . . .</b>	<b>Total</b>	<b><u>US\$23,039.6458</u></b>	<b><u>100%</u></b>

### ASSUMPTION

The above table assumes that the Global Offering has become unconditional. It takes no account of any Shares (a) which may be issued pursuant to the exercise of the Over-allotment Option; (b) which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below or otherwise; or (c) the exercise of any outstanding options granted pursuant to the Pre-IPO Share Option Plan.

### RANKING

The Shares are ordinary shares in the share capital of our Company and rank *pari passu* in all respects with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus.

### PRE-IPO SHARE OPTION PLAN

On March 31, 2021, we adopted a Pre-IPO Share Option Plan. Please see the section headed “Statutory and General Information—D. Pre-IPO Share Option Plan” in Appendix IV to this prospectus for further details.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Act and the terms of the Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may reduce or redeem its share capital by special shareholders’ resolution. For more details, see the section headed “Summary of the Constitution of the Company and Cayman Companies Act” in Appendix III to this prospectus.



---

## SHARE CAPITAL

---

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Plan).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or any scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders.

This mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please see the section headed “Statutory and General Information—A. Further information about our Company and our Subsidiaries—3. Resolutions in writing of all our Shareholders passed on November 16, 2021” in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of our share capital in issue immediately following the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Plan).

This mandate relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information—A. Further information about our Company and our Subsidiaries—3. Resolutions in writing of all our Shareholders passed on November 16, 2021” in Appendix IV to this prospectus.

---

## SHARE CAPITAL

---

This general mandate to repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please see the section headed “Statutory and General Information—A. Further information about our Company and our Subsidiaries—3. Resolutions in writing of all our Shareholders passed on November 16, 2021” in Appendix IV to this prospectus.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), the following persons are expected to have an interest and/or short positions in the Shares or the underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Number of Shares held immediately following the completion of the Global Offering	Approximate percentage of shareholding in our Company immediately following the completion of the Global Offering <sup>(1)</sup>
Mr. Tu <sup>(2)(3)(4)</sup> .....	Interest in controlled corporations	30,043,777	13.04%
	Interest of a party to an agreement regarding interest in the Company	34,872,955	15.14%
	Protector and power holder of a discretionary trust	18,733,795	8.13%
Wumianshan Ltd. <sup>(2)</sup> .....	Interest in controlled corporations	30,043,777	13.04%
Action Thrive <sup>(2)</sup> .....	Beneficial interest	26,832,533	11.65%
Dream True <sup>(4)</sup> .....	Beneficial interest	18,733,795	8.13%
Tu Family Holdings Limited <sup>(4)</sup> ..	Interest in a controlled corporation	18,733,795	8.13%
Frاندor Limited <sup>(4)</sup> .....	Interest in a controlled corporation	18,733,795	8.13%
Trident Trust <sup>(4)</sup> .....	Interest in a controlled corporation	18,733,795	8.13%
Gushengtang Ltd. ....	Beneficial interest	15,921,267	6.91%
Sarr International <sup>(5)</sup> .....	Beneficial interest	18,204,009	7.90%
Sarr International Company, Inc. <sup>(5)</sup> .....	Interest in controlled corporations	18,204,009	7.90%
Sarr International Foundation <sup>(5)</sup> ..	Interest in controlled corporations	18,204,009	7.90%
Asia Ventures III <sup>(6)</sup> .....	Beneficial interest	17,374,533	7.54%
Asia Partners III L.P. <sup>(6)</sup> .....	Interest in controlled corporations	17,374,533	7.54%
Eight Roads GP <sup>(6)</sup> .....	Interest in controlled corporations	18,506,005	8.03%
Eight Roads Investments <sup>(7)</sup> .....	Interest in controlled corporations	26,437,151	11.47%
Impresa Fund III Limited Partnership <sup>(7)</sup> .....	Interest in controlled corporations	26,437,151	11.47%
Eight Roads Holdings Limited <sup>(7)</sup> ..	Interest in controlled corporations	26,437,151	11.47%
Eight Roads Shareholdings Limited <sup>(7)</sup> .....	Interest in controlled corporations	26,437,151	11.47%
Pandanus Partners L.P. <sup>(7)</sup> .....	Interest in controlled corporations	26,437,151	11.47%

## SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Number of Shares held immediately following the completion of the Global Offering	Approximate percentage of shareholding in our Company immediately following the completion of the Global Offering <sup>(1)</sup>
Pandanus Associates Inc. <sup>(7)</sup> . . . . .	Interest in controlled corporations	26,437,151	11.47%
Impresa Management LLC <sup>(8)</sup> . . . . .	Interest in controlled corporations	26,437,151	11.47%
Abigail P. Johnson <sup>(8)</sup> . . . . .	Interest in a controlled corporation	26,437,151	11.47%
Edward C. Johnson IV <sup>(8)</sup> . . . . .	Interest in a controlled corporation	26,437,151	11.47%
FMR LLC <sup>(8)</sup> . . . . .	Interest in a controlled corporation	26,437,151	11.47%
NEA <sup>(9)</sup> . . . . .	Beneficial interest	17,878,548	7.76%
NEA Partners 14, L.P. <sup>(9)</sup> . . . . .	Interest in controlled corporations	17,878,548	7.76%
NEA 14 GP, LTD <sup>(9)</sup> . . . . .	Interest in controlled corporations	17,878,548	7.76%
Mr. Jiang Xiaodong (蒋晓冬) <sup>(10)</sup> . . . . .	Interest in controlled corporations	13,231,505	5.74%

*Notes:*

- (1) The calculation is based on the total number of 230,396,458 Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan).
- (2) Each of Action Thrive and Celestial City is wholly owned by Wumianshan Ltd., which is wholly owned by Mr. Tu. Therefore, each of Mr. Tu and Wumianshan Ltd. 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. For details, see the section headed “History, Reorganization and Corporate Structure—Voting Arrangements.”
- (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, which is the trustee of the TZL Family Trust, of which Mr. Tu is the protector and the power holder. As such, each of Mr. Tu, Tu Family Holdings Limited, Frandor Limited, and Trident Trust is deemed to be interested in our Shares held by Dream True.
- (5) Starr International 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.
- (6) The general partner of Asia Ventures III is Asia Partners III L.P., whose general partner is Eight Roads GP. Further, the general partner of ERVC Healthcare is ERVC Healthcare Advisors IV, LP, whose general partner is 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, and Eight Roads GP is deemed to be interested in the 18,506,005 Shares held by Asia Ventures III and ERVC Healthcare.
- (7) Each of Eight Roads Investments and Impresa Fund III Limited Partnership has more than one-third interest in each of Asia Ventures III, ERVC Healthcare and F-Prime Capital as a limited partner. Eight Roads Holdings Limited is the sole shareholder of Eight Roads GP, 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. As such, under the SFO, each of Eight Roads Investments, Impresa Fund III Limited Partnership, Eight Roads Holdings Limited, Eight Roads Shareholdings 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, ERVC Healthcare and F-Prime Capital.
- (8) The general partner of F-Prime Capital 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, ERVC Healthcare and F-Prime Capital.

---

## SUBSTANTIAL SHAREHOLDERS

---

- (9) NEA 14 GP, LTD has an indirect ownership interest in the Shares held by NEA as the fact that it is the sole general partner of NEA Partners 14, L.P., which is the sole general partner of NEA.  
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 NEA.
- (10) The general partner of both of Long Hill Capital Plus and Long Hill Capital GST 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 is Long Hill Capital Venture Partners GP 1, L.P., whose general partner is Long Hill Capital Venture Partners GP 1, Ltd. Jiang Xiaodong (蒋晓冬) ultimately controls both of Long Hill Capital Venture Partners GP 1 Plus, Ltd. and Long Hill Capital Venture Partners GP 1, Ltd.  
As such, Jiang Xiaodong (蒋晓冬) is deemed to be interested in the 13,231,505 Shares held by Long Hill Capital Plus, Long Hill Capital GST and Long Hill Capital.

Save as disclosed above and in the section headed “Statutory and General Information—C. Further Information about our Directors and Substantial Shareholders” in Appendix IV to this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan), have an interest or short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

---

## FINANCIAL INFORMATION

---

*You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 included in the Accountants' Report set out in Appendix I to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with HKFRS.*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the sections headed "Risk Factors" and "Business" in this prospectus.*

### OVERVIEW

We are a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, we provide customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs. We ranked eighth among all private TCM healthcare service providers in China in terms of total revenue generated from providing healthcare solutions in 2020, according to Frost & Sullivan. Focusing on primary care, we have 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.

During the Track Record Period, we generated revenue primarily from (i) providing healthcare solutions; and (ii) sale of healthcare products. Our revenue generated from providing healthcare solutions is primarily affected by the scale of offline and online medical service network we operate, the number of our customers and our customers' spending in the relevant years or periods. Our revenue derived from sale of healthcare products primarily include valuable medicinal (貴細藥材) and nourishment fluctuated primarily attributable to the volume and type of valuable medicinal and nourishment sold in that year, the unit price of which may vary significantly. Generally, when the sales volume of valuable medicinal and nourishment with high unit price increased, we generated more revenue from sale of healthcare products. For example, we generated relatively high revenue from sale of valuable medicinal including donkey-hide gelatin, cordyceps sinensis, bird's nest, dendrobium nobile and American ginseng and nourishment such as compound donkey-hide gelatin syrup, donkey-hide gelatin cake, honey, healthy tea, ready-to-eat fish maws and ready-to-eat bird's nest during the Track Record Period. Meanwhile, the sales volume of our healthcare products may, from time to time, affected by promotion activities. For example, we recorded more revenue from sale of healthcare products in 2018 compared with that of 2019 due to more group purchase promotion and promotion activities for selected products.

We had achieved significant growth during the Track Record Period. We recorded revenue of RMB726.2 million, RMB896.2 million and RMB925.4 million, respectively, for the years ended December 31, 2018, 2019 and 2020, representing a CAGR of 12.9%. Our revenue increased by 78.1% from RMB335.9 million for the six months ended June 30, 2020 to RMB598.2 million for the six months ended June 30, 2021.



---

## FINANCIAL INFORMATION

---

### BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on May 8, 2014. Our Company, as the holding company of our business, directly and indirectly owns all of our subsidiaries of our current business. See “History, Reorganization and Corporate Structure.” Pursuant to the reorganization, as more fully explained in the paragraph headed “Corporate Reorganization” in the section headed “History, Reorganization and Corporate Structure” in the prospectus, our Company became the holding company of the companies now comprising the Group on August 21, 2014. The aforesaid reorganization included restructuring of structured contracts and deregistration and disposal of certain subsidiaries with no actual business operations. Except for the deregistration and disposal of those subsidiaries, which are accounted for when they were incurred, the reorganization results in no change in subsidiaries or businesses being consolidated during the Track Record Period.

Our historical financial information has been prepared in accordance with HKFRS (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. All HKFRS effective for the accounting period commencing from January 1, 2020, together with the relevant transitional provisions, have been early adopted by us in the preparation of the historical financial information throughout the Track Record Period. The historical financial information has been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value at the end of each year during the Track Record Period.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe our results of operations and financial condition are affected by the following factors:

#### Growth of Grand TCM Healthcare Industry in China

Our financial results are driven primarily by the growth demand for the grand TCM healthcare services and products in China, which is in turn driven by the following factors: (i) chronic diseases become more common; (ii) significant increase in sub-healthy population; (iii) growing health awareness; (iv) increasing diseases with complicated symptoms; and (v) increasing acceptance and popularity of TCM healthcare and deepening recognition of TCM culture. According to Frost & Sullivan, the market size of grand TCM healthcare industry in China grow at a CAGR of 11.3% from 2019 to 2030 and is expected to further increase to RMB2,973 billion in 2030, which is at a faster pace than the overall healthcare industry in China over the same period. See “Industry Overview—The Grand TCM Healthcare Industry in China—Market Size of the Grand TCM Healthcare Industry in China.” Unfavorable changes in the general industry conditions could negatively affect the demand for TCM healthcare solutions and products provided by us, and in turn, our results of operations.

In addition, we are affected by government policies and regulations that address all aspects of our operations, including qualifications and licensing requirements for providing TCM healthcare services and products. See “Business—Licenses, Permits and Certificates” for details of the licenses, permits and certificates we hold.

### **Our Ability to Expand Our Offline and Online Business and Achieve Profitability**

We have significantly expanded our business, including both offline and online operations in recent years through organic growth and strategic acquisitions. We will continue to expand our offline and online operations in the future. Generally, according to our past experience, the establishment of a new medical institution generally takes three to six months to complete. In addition, it may take a period of time for a new medical institution to ramp up, during which its operating efficiency may be lower than that of existing medical institutions and after which its operating efficiency is expected to be significantly improved. We also incur substantial expenses before the medical institutions commence operations, including renovation costs as well as equipment costs, which could have a short-term negative impact on our liquidity and profitability. Monthly breakeven of a new medical institution is reached when it begins to record monthly net profit. The breakeven periods may be affected by the specific characteristics of a medical institution, such as its size, initial investment, the coverage of its service and product offering, demographic factors and brand awareness in certain areas, as well as the competitive landscape. Our progress in opening new medical institutions from period to period may also occur at an uneven rate. In addition, the acquisition of new or expansion of the existing online platform may also take certain time period for us to complete the integration. Moreover, the acquisition of online healthcare platform also involves significant expenditures to invest in our IT system, and to attract website traffic through collaboration with third parties and online promotions. As a result, our profitability may fluctuate from period to period.

### **Our Ability to Attract and Retain Customers**

During the Track Record Period, our revenue was primarily affected by the number of our customer visit as well as their visits and spending. For the years ended December 31, 2018, 2019 and 2020, the number of our customer visits was approximately 1,440,000, 1,740,000 and 1,787,000, respectively, and the average spending per customer visit was approximately RMB504, RMB515 and RMB518, respectively. For the six months ended June 30, 2021, the number of our customer visits was approximately 1,181,000, and the average spending per customer visit was approximately RMB507.

During the Track Record Period, the number of our customer visits increased mainly due to (i) expanded service capacity in line with the increased number of our medical institutions as a result of organic growth and strategic acquisitions; and (ii) the expansion of our online healthcare platforms.

The spending per customer visit primarily depends on (i) different symptoms of customers, and different diagnosis and treatment plans; (ii) pharmaceuticals prescribed at different pricing levels; and (iii) consultation fees charged by different physicians. See “—Description of Key Consolidated Statement of Comprehensive Income Items—Revenue.” The prices of services, pharmaceuticals and medical consumables are also subject to government regulations, including those applicable to Designated Medical Institutions. See “Business—Pricing.”

### **Our Ability to Manage Our Healthcare Solution Offerings**

Historically, the vast majority of our revenue was generated from providing healthcare solutions. Therefore, our results of operations are largely affected by the results of healthcare solutions we offer. In addition, our gross profit margin during the Track Record Period recorded continuously increase, primarily due to the increase of our gross profit margin of providing healthcare solutions, which is in turn dependent on a number of factors, including among others, our ability to

## FINANCIAL INFORMATION

manage cost of materials. In addition, we believe that comprehensive and diversified healthcare solutions enable us to attract more customers thus enhancing our revenue source, improving our pricing level and profitability. Therefore, our ability to manage our healthcare solution offerings would have a major impact on our results of operations and financial results.

### Our Ability to Control Our Costs

During the Track Record Period, human resources costs and cost of materials represented major components of our cost of sales. Our human resources costs amounted to RMB210.0 million, RMB250.4 million, RMB263.0 million, RMB93.3 million and RMB177.2 million in 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021, respectively, representing 48.5%, 49.6%, 53.9%, 51.6% and 53.7% of our cost of sales, respectively. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our cost of materials amounted to RMB219.2 million, RMB247.5 million and RMB216.7 million, RMB85.1 million and RMB146.3 million, respectively, representing 50.6%, 49.0%, 44.4%, 47.1% and 44.3% of our cost of sales, respectively, for the same periods.

In order to assess the hypothetical financial impacts of human resources costs, the following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in human resources costs on our gross profit for the years/periods indicated.

		Year ended December 31,						Six months ended June 30,			
		2018		2019		2020		2020		2021	
		Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit
(RMB'000, except percentages)											
(Unaudited)											
+5% . . . . .	(10,499)	-6.0%	(12,519)	-8.5%	(13,149)	-5.1%	(4,664)	-2.6%	(8,861)	-2.5%	
-5% . . . . .	10,499	6.0%	12,519	8.5%	13,149	5.1%	4,664	2.6%	8,861	2.5%	
+10% . . . . .	(20,997)	-12.1%	(25,039)	-16.9%	(26,297)	-10.3%	(9,327)	-5.2%	(17,722)	-5.1%	
-10% . . . . .	20,997	12.1%	25,039	16.9%	26,297	10.3%	9,327	5.2%	17,722	5.1%	

In order to assess the hypothetical financial impacts of cost of materials, the following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in cost of materials on our gross profit for the years/periods indicated.

		Year ended December 31,						Six months ended June 30,			
		2018		2019		2020		2020		2021	
		Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit	Change in gross profit	% change in gross profit
(RMB'000, except percentages)											
(Unaudited)											
+5% . . . . .	(10,958)	-6.3%	(12,377)	-8.4%	(10,836)	-4.2%	(4,255)	-2.4%	(7,316)	-2.1%	
-5% . . . . .	10,958	6.3%	12,377	8.4%	10,836	4.2%	4,255	2.4%	7,316	2.1%	
+10% . . . . .	(21,917)	-12.6%	(24,754)	-16.7%	(21,672)	-8.5%	(8,510)	-4.8%	(14,631)	-4.2%	
-10% . . . . .	21,917	12.6%	24,754	16.7%	21,672	8.5%	8,510	4.8%	14,631	4.2%	

---

## FINANCIAL INFORMATION

---

We expect that human resources costs and cost of materials to continue to be our most significant costs going forward, and our ability to control such costs may significantly affect our profitability.

### **Our Ability to Promote Our Brand Effectively and Efficiently to Physicians and Customers**

We believe our branding is crucial to our operations. According to Frost & Sullivan, Chinese consumers approach medical institutions in a less impulsive way and tend to remain loyal to the platforms and brands that they trust. As we operate in intensely competitive markets, we need to attract customers and enhance our brand awareness through including, not limited to engaging reputable physicians, providing quality healthcare services and expanding service portfolio offered. Our selling and distribution expenses primarily consist of (i) employee benefits expenses; (ii) depreciation of right-of-use assets and rental expenses in connection with the lease of our medical institutions; (iii) office expenses; (iv) marketing expenses paid to third parties; (v) other depreciation amortization expenses, and (vi) others. In 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021, our selling and distribution expenses accounted for 38.7%, 30.2%, 28.1%, 33.7% and 32.6% of our total revenue, respectively. We expect our selling and distribution expenses to remain substantial in absolute amounts while we further expand our business.

### **Seasonality**

In line with the healthcare industry in the PRC, we typically generate more revenue in the second half of the year, during which customers in certain geographic regions tend to seek healthcare services and purchase healthcare products to promote well-being with the weather getting cold. Additionally, customers usually avoid visiting medical institutions during the Chinese New Year. As a result of the foregoing, our revenue was slightly lower in the first half of each financial year during the Track Record Period. Nevertheless, we were not subject to significant seasonality during the Track Record Period. See “Business—Seasonality.”

### **The Outbreak of COVID-19**

During the outbreak of COVID-19 in 2020, our business operations and financial conditions, especially our offline business, had been and may continue to be affected by the pandemic. As result of the temporary suspension of our medical institutions due to the lockdown decision made by the PRC government caused by the outbreak and spread of COVID-19, our revenue increased by 3.3% from 2019 to 2020, which is lower than the increase from 2018 to 2019. Recently in late May 2021, Guangdong reported certain confirmed local COVID-19 cases, including certain imported infections. In response to the regional outbreak, the local government imposed restriction on the localized movement and gathering in parts of Guangzhou immediately and locked down certain designated communities. As a result, the number of customer visits to our medical institutions in Guangzhou experienced a decrease in May and June 2021 thus our revenue generated from our medical institutions in Guangzhou decreased during such time period, as compared to revenue generated during the same period last year. Although there were slight suspension and delay in the domestic supply chain due to the lockdown decision, we have not encountered any shortage of our supplies and inventories during the outbreak of COVID-19. In addition, we also incurred additional expenses in connection with the prevention of COVID-19. Up to the Latest Practicable Date, we had incurred approximately RMB3.0 million in respect of these measures in order to prevent the transmission of COVID-19.

---

## FINANCIAL INFORMATION

---

On the other hand, the outbreak of COVID-19 has promoted certain government policies to encourage online healthcare services and the growing health awareness. See “Industry Overview—Impact of COVID-19 on the Grand TCM Healthcare Market in China.” We believe we would be able to be benefited from such factors and further expand our business.

### **Convertible Redeemable Preferred Shares**

In order to further develop our business and benefit from the institutional investors’ industry knowledge and experience, we introduced several Pre-IPO Investors. See “History, Reorganization and Corporate Structure—Pre-IPO Investments.” We designate the preferred shares as financial liabilities at fair value through profit or loss. 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. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded fair value loss of RMB35.8 million, RMB191.1 million, RMB319.8 million, RMB198.4 million and RMB330.7 million, respectively, due to the fair value changes in our convertible redeemable preferred shares.

### **CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS**

We have identified certain accounting policies that we believe are most significant to the preparation of our combined financial statements. Some of our critical accounting policies involve subjective assumption and estimates, as well as complex judgments by our management relating to accounting items. For details of our significant accounting policies, see Note 2.4 to the Accountants’ Report set out in Appendix I to this prospectus.

The estimates and associated assumptions are based on our historical experience and various other relevant factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. When reviewing our financial results, you should consider: (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The determination of these items requires management judgments based on information and financial data that may change in the future periods, and as a result, actual results could differ from those estimates.

### **Revenue Recognition**

#### ***Revenue from Contracts with Customers***

We recognize revenue from contracts with customers when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect 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 we 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 recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

---

## FINANCIAL INFORMATION

---

### *Healthcare solutions*

Healthcare solutions comprise consultation and diagnosis service, prescription service, decoction service, medication and physiotherapy, which constitute three performance obligations: (i) consultation, diagnosis and prescription, (ii) decoction and medication, and (iii) physiotherapy. Our 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 healthcare products to customer. Revenue from consultation, diagnosis and prescription is recognized when such services are completed. Revenue from decoction and medication is recognized when such healthcare products are delivered to customer. Revenue from physiotherapy is recognized evenly upon each of the services completed. Our customers generally settle the payments by national reimbursement programs, commercial insurance, or directly by cash, bank cards, or online payments via third-party payment platforms.

### *Sale of healthcare products*

Sale of healthcare products includes sale of valuable medicinal and nourishment. Revenue from the sale of healthcare products is recognized at the point in time when control of the asset is transferred to the customer. Our customers generally settle the payments by national reimbursement programs, commercial insurance, or directly by cash, bank cards, or online payments via third-party payment platforms.

### *Revenue from other sources*

Rental income is recognized on a time proportion basis over the lease terms.

## **Other Income**

We recognize interest income 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.

## **Contract Liabilities**

We recognize contract liabilities when we receive a payment or a payment is due (whichever is earlier) from a customer before we deliver the related goods or services. We subsequently recognize contract liabilities as revenue when we perform our obligations under the contract (i.e., transfer control of the related goods or services to the customer).

## **Share-based Payments**

### *Equity-settled transactions*

We operate a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees (including Directors) receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (the “**equity-settled transactions**”).



---

## FINANCIAL INFORMATION

---

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 set out in Note 30 to the Accountants' Report included in Appendix I to this prospectus.

The cost of equity-settled transactions is recognized 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 recognized 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 our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized 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 our 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 recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized 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 canceled, it is treated as if it had vested on the date of cancelation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either us or the employee are not met. However, if a new award is substituted for the canceled award, and is designated as a replacement award on the date that it is granted, the canceled 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 cashflow method, taking into account the terms and conditions upon which the instruments were granted. See Note 30 to the Accountants' Report in Appendix I to this prospectus for details. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognized for cash-settled transactions at the end of

---

## FINANCIAL INFORMATION

---

each reporting period until the vesting date reflects the extent to which the vesting period has expired and our 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 recognized in profit or loss.

### **Business Combinations and Goodwill**

Our business combinations are accounted for using the acquisition method. We measure the consideration transferred at the fair value as of the acquisition date, which equals to the sum of the fair values of assets transferred by us as of the acquisition date, liabilities assumed by us to the former owners of the acquiree and the equity interests issued by us in exchange for control of the acquiree. For each business combination, we elect whether to measure the non-controlling interest in the acquiree that are present ownership interest 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 interest are measured at fair value. Acquisition-related costs are expensed as incurred.

We determine that our Group 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 we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstance and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree. If our business combination is achieved in stages, we re-measure the equity interest previously held at its fair value as of acquisition date and recognize any gain or loss in profit or loss resulted from the acquisition.

We recognize any contingent consideration to be transferred by the acquirer at fair value as of the acquisition date. We measure contingent consideration classified as an asset or liability at fair value with changes in fair value recognized in profit or loss. We accounted for the subsequent settlement of the contingent consideration that is classified as equity within equity.

### ***Goodwill***

We measure goodwill initially at cost, being the excess of the sum of the consideration transferred, the amount recognized for non-controlling interest and any fair value of our equity interest in the acquiree previously held 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, we recognize the difference in profit or loss as a gain on bargain purchase after reassessment.

After initial recognition, we measure goodwill at cost less any accumulated impairment losses. We test goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of the goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of our cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units.

---

## FINANCIAL INFORMATION

---

We determine the impairment 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 recognized. We do not reverse an impairment loss recognized for goodwill in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) (the “**CGU**”) 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.

Goodwill acquired through business combinations is allocated to the following CGUs by areas as below 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**”).

The recoverable amount of the CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by our senior management covering a five-year period. The growth rate beyond the five-year period had been projected as 3.0%.

Our Directors adopted the following procedures to review the impairment assessment of goodwill:

- reviewed the allocation of goodwill to CGU;
- engaged an Independent Third Party valuer and provided them with the necessary financial and non-financial information to perform goodwill impairment assessment procedures;
- reviewed the impairment working papers prepared and results reached by the independent-third-party valuer with respect to the recoverable amount of each CGU to which goodwill is allocated;
- calculated the headroom based on the results reached by the external valuer and performed a sensitivity analysis; and
- properly disclosed goodwill impairment test in the financial statements, including the methodology, the key assumptions used and the sensitivity analysis (if any).

## FINANCIAL INFORMATION

The following table sets forth the respective recoverable amount and the carrying value of the CGUs as of the dates indicated:

	As of December 31,									As of June 30,		
	2018			2019			2020			2021		
	Carrying value including goodwill and allocated corporate assets			Carrying value including goodwill and allocated corporate assets			Carrying value including goodwill and allocated corporate assets			Carrying value including goodwill and allocated corporate assets		
	Recoverable amount	Head-room		Recoverable amount	Head-room		Recoverable amount	Head-room		Recoverable amount	Head-room	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Guangzhou and Foshan CGU .	284,418	143,933	140,485	350,635	140,535	210,100	441,920	150,814	291,106	486,052	165,892	320,160
Shenzhen CGU .	393,430	23,825	369,605	546,732	24,865	521,867	717,469	35,718	681,751	810,952	63,644	747,308
Suzhou and Wuxi CGU . .	134,566	78,765	55,801	194,253	77,473	116,780	332,626	112,365	220,261	348,097	124,406	223,691
Ningbo CGU . .	104,215	92,686	11,529	152,973	92,118	60,855	223,840	98,158	125,682	277,868	113,602	164,266
Nanjing CGU . .	51,002	40,937	10,065	85,888	40,111	45,777	128,878	41,638	87,240	147,069	45,552	101,517
Shanghai CGU .	223,092	68,569	154,523	446,189	82,631	363,558	725,861	98,262	627,599	861,759	123,134	738,625
Fuzhou CGU . .	65,395	33,804	31,591	99,906	33,218	66,688	135,492	35,008	100,484	200,422	58,641	141,781
Beijing CGU . .	—	—	—	—	—	—	—	—	—	285,272	85,342	199,930
	1,256,118	482,519	773,599	1,876,576	490,951	1,385,625	2,706,086	571,963	2,134,123	3,417,491	780,213	2,637,278

The following tables set forth the pre-tax discount rates applied to the cash flow projections, the forecasted compounded revenue growth rate and gross profit margin used to extrapolate cash flow projections and terminal growth rates for the years/periods indicated:

### Guangzhou and Foshan CGU

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	2.8%	6.0%	16.2%	15.7%
Gross profit margin . . . . .	49.4%-51.9%	50.9%-51.9%	50.9%-51.9%	48.5%-51.9%
Pre-tax discount rate . . . . .	16.6%	15.2%	14.6%	13.7%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

### Shenzhen CGU

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	20.1%	19.6%	24.2%	24.2%
Gross profit margin . . . . .	48.0%-49.9%	48.6%-50.4%	48.9%-50.9%	48.2%-50.9%
Pre-tax discount rate . . . . .	16.5%	15.1%	14.4%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

## FINANCIAL INFORMATION

### *Suzhou and Wuxi CGU*

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	16.2%	17.6%	27.3%	26.1%
Gross profit margin . . . . .	39.1%-42.4%	39.8%-42.9%	40.9%-42.9%	41.5%-42.9%
Pre-tax discount rate. . . . .	16.3%	15.0%	14.5%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

### *Ningbo CGU*

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	12.3%	17.3%	22.8%	24.8%
Gross profit margin . . . . .	37.3%-43.9%	42.0%-44.4%	42.9%-44.9%	43.4%-45.3%
Pre-tax discount rate. . . . .	16.3%	15.0%	14.4%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

### *Nanjing CGU*

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	22.3%	25.3%	27.5%	27.5%
Gross profit margin . . . . .	33.8%-41.9%	35.6%-42.9%	39.9%-43.9%	40.9%-43.9%
Pre-tax discount rate. . . . .	16.0%	14.9%	14.3%	13.5%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

### *Shanghai CGU*

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	33.9%	32.2%	31.3%	32.1%
Gross profit margin . . . . .	41.5%-49.9%	47.6%-50.4%	48.9%-50.9%	49.4%-50.9%
Pre-tax discount rate. . . . .	16.1%	14.9%	14.4%	13.5%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

## FINANCIAL INFORMATION

### *Fuzhou CGU*

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	19.5%	21.5%	27.6%	24.8%
Gross profit margin . . . . .	39.2%-44.7%	42.1%-44.9%	44.0%-44.9%	43.4%-45.3%
Pre-tax discount rate. . . . .	16.1%	14.9%	14.4%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

### *Beijing CGU*

	For the year ended December 31,			For the six months ended June 30,
	2018	2019	2020	2021
Compounded revenue growth rates (during the five-year period) . . . . .	—	—	—	14.5%
Gross profit margin . . . . .	—	—	—	35.7%-44.9%
Pre-tax discount rate. . . . .	—	—	—	13.6%
Terminal growth rate . . . . .	—	—	—	3.0%

Certain assumptions were used in the value in use calculation of the cash-generating units for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021. The following sets out the key assumptions based on the cash flow projections, which we used to undertake impairment testing of goodwill:

- *Compound revenue growth rate:* The compound revenue growth rate is estimated based on the historical sales data and market outlook perceived by management;
- *Budgeted gross margins:* The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development; and
- *Before-tax discount rates:* The before-tax discount rates reflect specific risks relating to the relevant units.

According to the sensitivity analysis of the key assumptions on which the management of the Group has based to undertake impairment testing of goodwill, our Directors believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

For details of such assumptions used on each CGU, see Note 16 to the Accountants' Report included in Appendix I to this prospectus.



### **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), we estimate the asset's recoverable amount, which is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and determine 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 we determine the recoverable amount for the cash-generating unit to which the asset belongs.

We recognize an impairment loss 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.

We make assessment at the end of each of the Track Record Period as to whether there is an indication that impairment losses previously recognized may no longer exist or may have decreased. If such an indication exists, we estimate the recoverable amount. We reverse the impairment loss of an asset previously recognized other than goodwill only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized 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.

### **Intangible Assets (other than goodwill)**

We measure intangible assets acquired separately 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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. We review the amortization period and the amortization method for an intangible asset with a finite useful life at least at the end of each of the financial year/period.

We state software and online platform at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful life of five to ten years.

### **Convertible Redeemable Preferred Shares**

In order to further develop our business and benefit from the institutional investors' industry knowledge and experience, we introduced several Pre-IPO Investors. See "History, Reorganization and Corporate Structure—Pre-IPO Investments." The Series A, B, C, D and E preferred shares issued by the Company, details of which are set out in the Note 26 to the Accountants' Report included in Appendix I to this prospectus, 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 dividend on preferred shares is discretionary. 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).

---

## FINANCIAL INFORMATION

---

We designate the preferred shares as financial liabilities at fair value through profit or loss. The preferred shares are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to our credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to our credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Changes in fair value of our preferred shares relating to market risk are recognized in profit or loss.

The preferred shares are classified as non-current liabilities unless the preferred shares holders can demand us to redeem the preferred shares within 12 months after the end of the reporting period.

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 Model and equity allocation model.

### **Inventories**

We state inventories at the lower of cost and net realizable value. We determine cost on the weighted average basis and net realizable value based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Government Grants**

Government grants are recognized 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 recognized as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

### **Fair Value of financial assets and liabilities**

In respect of the valuation of the financial assets and liabilities, with reference to the guidance under the “Guidance Note on Directors’ Duties in the Context of Valuations in Corporate Transactions” issued by the SFC in May 2017 (the “**Guidance**”) applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) reviewed the terms of the relevant derivative financial assets, the convertible bonds and the preferred shares; (ii) engaged independent valuer, provided necessary financial and non-financial information to the valuer for the valuer to perform the valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as fair value of the ordinary shares of our Company, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable and our financial statements are properly prepared.

The details on the fair value measurement of the financial assets and liabilities at fair value through financial assets at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in Note 2.4 and Note 41 in Appendix I to this

## FINANCIAL INFORMATION

prospectus. The Reporting Accountants performed their works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole and their opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on page I-1 to I-3 of Appendix I to this prospectus. The Reporting Accountants also carried out audit procedures with respect to the fair value measurement of the financial assets and liabilities of our Group in accordance with the “Hong Kong Standard on Auditing 500 – Auditing Evidence,” “Hong Kong Standard on Auditing 540 – (Revised) Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” and “Hong Kong Standard on Auditing 620 – (Clarified) Using the Work of an Auditor’s Expert” issued by the Hong Kong Institute of Certified Public Accountants.

In relation to the valuation analysis performed by valuer on the financial assets and liabilities, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) review of relevant notes in the Accountants’ Report as contained in Appendix I and the valuation reports provided by valuer; (ii) discussed with our Company and the valuer in respect of the approach and methodology used, the information and factors considered, and the key bases and assumptions adopted for the valuation of the financial assets and liabilities; (iii) discussed with the Reporting Accountants about the audit procedures in relation to the fair value measurement of our Group’s financial assets and liabilities; and (iv) assessed the independence, credentials and qualification of the valuer. Having considered the work done by our Directors and the Reporting Accountants and the relevant due diligence done as stated above, nothing has come to the Joint Sponsors’ attention that would cause the Joint Sponsors to question the valuation performed by the valuer on the financial assets and liabilities.

### DESCRIPTION OF KEY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

The following table sets forth key consolidated statement of comprehensive income items for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
				(Unaudited)	
Revenue . . . . .	726,245	896,156	925,366	335,924	598,189
Cost of sales . . . . .	(433,291)	(504,899)	(487,876)	(180,617)	(330,113)
<b>Gross profit . . . . .</b>	<b>292,954</b>	<b>391,257</b>	<b>437,490</b>	<b>155,307</b>	<b>268,076</b>
Other income and gains . . . . .	5,784	12,270	11,506	6,930	10,347
Selling and distribution expenses . . . . .	(280,897)	(270,331)	(259,704)	(113,121)	(195,190)
Administrative expenses . . . . .	(68,533)	(57,763)	(70,386)	(20,348)	(60,171)
Fair value changes of convertible redeemable preferred share and convertible bonds . . . . .	(102,566)	(215,292)	(316,194)	(189,980)	(340,681)
Other expenses . . . . .	(14,137)	(8,631)	(11,136)	(1,747)	(13,733)
Finance costs . . . . .	(9,839)	(10,337)	(33,511)	(12,871)	(17,518)
Share of profit of an associate . . . . .	—	—	172	—	571

## FINANCIAL INFORMATION

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
				(Unaudited)	
<b>Loss before tax</b> .....	<b>(177,234)</b>	<b>(158,827)</b>	<b>(241,763)</b>	<b>(175,830)</b>	<b>(348,299)</b>
Income tax credit/(expense) .....	3,424	10,807	(13,565)	(3,205)	(1,435)
<b>Loss for the year/period</b> .....	<b>(173,810)</b>	<b>(148,020)</b>	<b>(255,328)</b>	<b>(179,035)</b>	<b>(349,734)</b>
<b>Income/(loss) attributable to:</b>					
Owners of the Company .....	(172,981)	(147,883)	(255,749)	(178,883)	(349,808)
Non-controlling interests .....	(829)	(137)	421	(152)	74
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company .....	(210,549)	(162,109)	(176,981)	(194,191)	(320,147)
Non-controlling interests .....	(829)	(137)	421	(152)	74
	<b>(211,378)</b>	<b>(162,246)</b>	<b>(176,560)</b>	<b>(194,343)</b>	<b>(320,073)</b>

### NON-HKFRS MEASURE

To supplement our historical financial information which are presented in accordance with HKFRS, we also use adjusted net loss or profit (*Non-HKFRS measure*) as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparison of operating performance from period to period by eliminating potential impacts of items that our management does not consider to be recurring in nature and indicative of our operating performance. We believe that this measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management. However, our presentation of adjusted net loss or profit (*Non-HKFRS measure*) 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 you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net loss or profit (*Non-HKFRS measure*) as loss for the period adjusted by adding back fair value change on financial liabilities through profit or loss in connection with our convertible redeemable preferred shares and convertible bonds, equity settled share-based payment, and listing expenses. We eliminate the potential impacts of these items that our management does not consider to be indicative of our core operating performance, as they are either non-operating or non-recurring expenses in accordance with Guidance Letter HKEX-GL103-19 issued by the Stock Exchange in April 2019. Our convertible redeemable preferred shares represent convertible redeemable preferred shares issued by us arising from several rounds of pre-IPO financing which will be converted into our Shares upon Listing and we do not expect to recognize any further loss on fair value changes of convertible redeemable preferred shares thereafter. Our convertible bonds represent convertible bonds, issued by us arising from Series D pre-IPO financing. All of our convertible bonds were either converted to Series D Preferred Shares or reclassified as bonds payable. Fair value loss on financial liabilities at fair value through profit or loss in connection with our convertible redeemable preferred shares and convertible bonds are not costs directly relating to the generation of revenue or normal expenses incurred in ordinary business or recurring operating expense. In addition, the amount of fair value loss/(gain) on financial liabilities at fair value through profit or loss in

## FINANCIAL INFORMATION

connection with our convertible redeemable preferred shares and convertible bonds was determined based on valuations with many underlying assumptions which would change based on factors beyond our control, varying over time and may include modifications that may not occur on a predictable cycle, neither of which is necessarily indicative of our ongoing business performance. Equity settled share-based payment is non-cash expense arising from vesting share options to selected executives, employees and consultants, the amount of which may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities. In addition, share-based compensation expenses are based on valuations with many underlying assumptions beyond our control, varying over time and may include modifications that may not occur on a predictable cycle, neither of which is necessarily indicative of our ongoing business performance. Further, we also eliminated the potential impact of the one-off listing expenses that our management do not consider to be indicative of our operating performance.

The table below reconciles our adjusted net loss or profit (*Non-HKFRS measure*) for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
	(Unaudited)				
<b>Reconciliation of net loss to adjusted net (loss)/profit (<i>Non-HKFRS measure</i>)</b>					
Net loss for the year	(173,810)	(148,020)	(255,328)	(179,035)	(349,734)
<b>Add:</b>					
Fair value loss on financial liabilities at fair value through profit or loss—convertible redeemable preferred shares	35,757	191,120	319,844	198,380	330,744
Fair value loss/(gain) on financial liabilities at fair value through profit or loss—convertible bonds	66,808	24,172	(3,650)	(8,400)	9,937
Equity settled share-based payment	3,313	9,243	15,361	3,290	43,748
Listing expenses	—	—	8,482	—	11,216
<b>Adjusted net (loss)/profit (<i>Non-HKFRS measure</i>) (unaudited)</b>	<b>(67,932)</b>	<b>76,515</b>	<b>84,709</b>	<b>14,235</b>	<b>45,911</b>

### Revenue

During the Track Record Period, we generated revenue primarily from (i) providing healthcare solutions to customers; and (ii) sale of healthcare products. See “Business—Our Business Model.”

## FINANCIAL INFORMATION

### *Revenue Breakdown by Business Segment*

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

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000, except percentages)						(Unaudited)			
Healthcare solutions <sup>(1)</sup> . . .	668,135	92.0%	865,862	96.6%	891,797	96.4%	326,960	97.3%	588,872	98.4%
Sale of healthcare products . . . . .	58,110	8.0%	30,294	3.4%	33,569	3.6%	8,964	2.7%	9,317	1.6%
<b>Total . . . . .</b>	<b>726,245</b>	<b>100.0%</b>	<b>896,156</b>	<b>100.0%</b>	<b>925,366</b>	<b>100.0%</b>	<b>335,924</b>	<b>100.0%</b>	<b>598,189</b>	<b>100.0%</b>

*Note:*

(1) Including insignificant amount of revenue generated from providing third-party management services to small- and medium-sized TCM clinics, all of which were Independent Third Parties. For details, see "Business—Our Business Model."

### *Healthcare Solutions*

During the Track Record Period, the vast majority of our healthcare solutions were provided to our individual customers. We provide comprehensive healthcare solutions, including among others, customer outreach and acquisition, pre-consultation preparation, consultation and diagnosis, physiotherapy and medication, follow-up services and healthcare management, throughout the whole process of disease diagnosis and treatment and healthcare management to address their diverse needs. Our revenue generated from providing healthcare solutions is primarily affected by the scale of offline and online medical service network we operate, the number of our customers and our customers' spending in the relevant years or periods. See "Business—Our Services and Products—Healthcare Solutions" for details.

During the Track Record Period, our revenue derived from providing healthcare solutions generally increased primarily attributable to expanded service capacity in line with the increased scale offline and online medical service network we operate.

We expect providing healthcare solutions to continue to contribute the vast majority of our revenue in the future.

### *Sale of Healthcare Products*

We also sell healthcare products which primarily include valuable medicinal (貴細藥材), such as donkey-hide gelatin (阿膠), cordyceps sinensis (冬蟲夏草), bird's nest (燕窩), dendrobium nobile (石斛) and American ginseng (西洋參); and nourishment, such as compound donkey-hide gelatin syrup (複方阿膠漿), donkey-hide gelatin cake (阿膠糕), honey (蜂蜜), healthy tea (養生茶), ready-to-eat fish maws (即食花膠) and ready-to-eat bird's nest (即食燕窩). See "Business—Our Services and Products—Sale of Healthcare Products" for details.

During the Track Record Period, our revenue derived from sale of healthcare products fluctuated, primarily due to fluctuated sales volume and different types of valuable medicinal and nourishment sold in that year.



## FINANCIAL INFORMATION

### Operational Data

The following table sets forth the number of customer visits and average spending per customer visit in connection with providing healthcare solutions and sale of healthcare products for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
Customer visits (thousands) . . . . .	1,440	1,740	1,787	647	1,181
Average spending per customer visit (RMB) . . . . .	504	515	518	519	507 <sup>(1)</sup>

*Note:*

(1) The average spending per customer visit decreased from RMB518 for the year ended December 31, 2020 to RMB507 for the six months ended June 30, 2021, as we recorded more online customer visits in the six months ended June 30, 2021 following the launch of our newly acquired online medical platforms starting in 2020, on which the customer spending was generally lower than that of offline medical institutions where diversified healthcare solutions can be provided, while only diagnosis-related services are provided through online medical platforms.

### Cost of Sales

#### *Cost of Sales Breakdown by Business Segment*

The following table sets forth a breakdown of our cost of sales by business segment for the years/periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000, except percentages)									
	(Unaudited)									
Healthcare solutions . . . .	396,600	91.5%	491,325	97.3%	467,891	95.9%	175,959	97.4%	325,132	98.5%
Sale of healthcare products . . . . .	36,691	8.5%	13,574	2.7%	19,985	4.1%	4,658	2.6%	4,981	1.5%
<b>Total . . . . .</b>	<b>433,291</b>	<b>100.0%</b>	<b>504,899</b>	<b>100.0%</b>	<b>487,876</b>	<b>100.0%</b>	<b>180,617</b>	<b>100.0%</b>	<b>330,113</b>	<b>100.0%</b>

During the Track Record Period, the fluctuation of our cost of sales was primarily caused by the fluctuation in the cost of sales of providing healthcare solutions.

#### *Cost of Sales Breakdown by Nature*

Our cost of sales primarily consists of (i) human resources costs, consisting of salaries, bonuses, share-based payments, pension and other social security, welfare of physicians employed by us, and service fees for our network physicians; and (ii) cost of materials, representing the costs to procure pharmaceuticals for our healthcare solutions and products; and (iii) others.

## FINANCIAL INFORMATION

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

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000, except percentages)									
	(Unaudited)									
Human resources costs . .	209,972	48.5%	250,388	49.6%	262,973	53.9%	93,274	51.6%	177,217	53.7%
Cost of materials . . . . .	219,166	50.6%	247,542	49.0%	216,723	44.4%	85,101	47.1%	146,311	44.3%
Others <sup>(1)</sup> . . . . .	4,153	0.9%	6,969	1.4%	8,180	1.7%	2,242	1.3%	6,585	2.0%
<b>Total . . . . .</b>	<b>433,291</b>	<b>100.0%</b>	<b>504,899</b>	<b>100.0%</b>	<b>487,876</b>	<b>100.0%</b>	<b>180,617</b>	<b>100.0%</b>	<b>330,113</b>	<b>100.0%</b>

*Note:*

(1) Primarily include decoction service and packaging expenses, outsourced examination and inspection service expenses, cleaning expenses, logistics expenses for delivery of pharmaceuticals and medical consumables.

The continuous increase in human resources costs during the Track Record Period was primarily caused by our expanding physician base and enlarged business scale.

Our cost of materials increased from RMB85.1 million for the six months ended June 30, 2020 to RMB146.3 million for the six months ended June 30, 2021 in line with the expansion of our business scale. The decrease in our cost of materials in 2020 was primarily caused by the adoption of centralized procurement scheme for our operations in eastern China in late 2019. The increase in our cost of materials in 2019 was primarily caused by more customers served in 2019. The increase of cost of materials in 2019 was slower than that of the revenue in 2019 which was primarily due to the adoption of centralized procurement scheme for our operations in southern China in late 2018.

### Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our gross profit amounted to RMB293.0 million, RMB391.3 million, RMB437.5 million, RMB155.3 million and RMB268.1 million, respectively, and our gross profit margin was 40.3%, 43.7%, 47.3%, 46.2% and 44.8% for the same periods, respectively.

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

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	<b>Gross Profit</b>	<b>Gross Profit Margin</b>	<b>Gross Profit</b>	<b>Gross Profit Margin</b>	<b>Gross Profit</b>	<b>Gross Profit Margin</b>	<b>Gross Profit</b>	<b>Gross Profit Margin</b>	<b>Gross Profit</b>	<b>Gross Profit Margin</b>
	<i>(RMB'000, except percentages)</i>						<i>(Unaudited)</i>			
Healthcare solutions . . . .	271,535	40.6%	374,537	43.3%	423,906	47.5%	151,001	46.2%	263,740	44.8%
Sale of healthcare products . . . . .	21,419	36.9%	16,720	55.2%	13,584	40.5%	4,306	48.0%	4,336	46.5%
<b>Total . . . . .</b>	<b>292,954</b>	<b>40.3%</b>	<b>391,257</b>	<b>43.7%</b>	<b>437,490</b>	<b>47.3%</b>	<b>155,307</b>	<b>46.2%</b>	<b>268,076</b>	<b>44.8%</b>

## FINANCIAL INFORMATION

During the Track Record Period, our gross profit increased primarily due to the increase in the gross profit we generated from providing healthcare solutions, which was generally in line with the increased revenue generated from providing healthcare solutions. For the years ended December 31, 2018, 2019 and 2020, our gross profit margin increased, primarily due to an increase in the gross profit margin for providing healthcare solutions, mainly as a result of the adoption of centralized procurement scheme for our operations in southern China in late 2018 and eastern China in late 2019. Our gross profit margin slightly decreased from 46.2% for the six months ended June 30, 2020 to 44.8% for the six months ended June 30, 2021, primarily due to a decrease in the gross profit margin for providing healthcare solutions, which was primarily attributable to our expanding online operations and the high human resources costs of our online healthcare platforms, as we offered competitive compensation to physicians served at our online healthcare platform to attract and retain more physician resources. For details, see “—Year to Year/Period to Period Comparison of Results of Operations.”

### Other Income and Gains

Our other income and gains primarily consist of (i) COVID-19-related rent concessions from lessors, representing the rent concessions granted by our lessors according to relevant government policy and guidance due to the COVID-19 pandemic; (ii) interest income primarily from loans to a Director and current bank deposit; (iii) net fair value gains on financial assets at fair value through profit or loss, representing gains from changes in fair value of assets management products we purchased; (iv) government grant by local government which is generally non-recurring; (v) fair value change of derivative financial instruments, representing the changes in the fair value of derivative financial instrument derived from the contingent consideration for the acquisition of Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (寧波江北文教固生堂中醫門診部有限公司). For details, see Note 21 to the Accountants’ Report included in Appendix I to this prospectus; (vi) rental income, representing the income we generated from sub-leasing certain properties we lease for business purpose; and (vii) net foreign exchange differences, representing the gains from changes in exchange rate between our denominated currency and other currency.

The following table sets forth a breakdown of our other income and gains for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
				(Unaudited)	
COVID-19-related rent concessions from lessors . . . . .	—	—	3,487	3,036	—
Interest income . . . . .	1,576	3,207	3,246	1,858	1,760
Fair value gains on financial assets at fair value through profit or loss, net . . . . .	1,617	693	1,961	1,081	503
Government grant . . . . .	693	6,162	1,493	436	314
Fair value change of derivative financial instruments . . . . .	978	—	—	—	—
Rental income . . . . .	338	1,305	1,125	489	857
Foreign exchange differences, net . . . . .	—	—	—	—	6,486
Others <sup>(1)</sup> . . . . .	582	903	194	30	427
<b>Total</b> . . . . .	<b>5,784</b>	<b>12,270</b>	<b>11,506</b>	<b>6,930</b>	<b>10,347</b>

Note:

(1) Primarily include insurance claim compensation, sponsorship income and gain from voluntary closure of medical institutions and disposal of waste materials.

## FINANCIAL INFORMATION

The fluctuation in our other income and gains from 2018 to 2020 was primarily due to the fluctuation in various government grant by local government which is generally non-recurring. The decrease in our other income and gains in 2020 was partially offset by the rent concessions from lessors in relation to COVID-19. Our other income and gains increased from RMB6.9 million for the six months ended June 30, 2020 to RMB10.3 million for the six months ended June 30, 2021 primarily due to the recognition of foreign exchange differences of RMB6.5 million for the six months ended June 30, 2021. For details, see “—Year to Year/Period to Period Comparison of Results of Operations.”

### Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) employee benefit expenses, comprising the salaries, bonuses, pension and other social security and welfare paid to non-physician staff worked at our medical institutions and our sales and marketing staff; (ii) depreciation of right-of-use assets and rental expenses, consisting of depreciation of right-of-use assets, rental expenses and utilities fees for our leased properties used for medical institutions; (iii) office expenses, comprising office expenses, travel expenses and communication expenses; (iv) marketing expenses, representing fees paid to third parties in connection with promoting our healthcare solutions and products, and providing pro bono medical consultations as part of our social responsibility efforts; and (v) other depreciation and amortization expenses, comprising depreciation expenses incurred for renovation of our medical institutions.

The following table sets forth a breakdown of our selling and distribution expenses for the years/periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	(RMB'000, except percentages)						(Unaudited)			
Employee benefits expenses . . . . .	121,147	43.1%	120,678	44.6%	113,373	43.7%	48,628	43.0%	104,737	53.7%
Depreciation of right-of-use assets and rental expenses . . .	54,744	19.5%	53,948	20.0%	54,457	21.0%	28,252	25.0%	32,135	16.5%
Office expenses . . . . .	40,540	14.4%	34,950	12.9%	37,508	14.4%	13,693	12.1%	27,680	14.2%
Marketing expenses . . . .	27,304	9.7%	29,563	10.9%	24,496	9.4%	10,211	9.0%	13,841	7.1%
Other depreciation and amortization expenses . . . . .	25,625	9.1%	22,563	8.3%	21,716	8.4%	11,437	10.1%	11,700	6.0%
Others <sup>(1)</sup> . . . . .	11,537	4.2%	8,629	3.3%	8,154	3.1%	900	0.8%	5,097	2.5%
<b>Total . . . . .</b>	<b>280,897</b>	<b>100.0%</b>	<b>270,331</b>	<b>100.0%</b>	<b>259,704</b>	<b>100.0%</b>	<b>113,121</b>	<b>100.0%</b>	<b>195,190</b>	<b>100.0%</b>

Note:

(1) Include third-party consultation expenses, insurance expenses, and repairs and maintenance expenses.

Our selling and distribution expenses increased from RMB113.1 million for the six months ended June 30, 2020 to RMB195.2 million for the six months ended June 30, 2021 primarily due to the increase in employee benefit expenses resulting from (i) an increase in the number of staff recruited for our newly acquired online healthcare platforms and offline medical institutions; (ii) an increase in performance-based compensation to our staff; and (iii) equity-settled share-base payment

## FINANCIAL INFORMATION

expense in relation to the grant of ordinary shares to certain employees at a discounted subscription price. Our selling and distribution expenses decreased in 2020, primarily due to decreased employee benefit expenses resulting from exemption of our social insurance contribution as the employer by the local government to relieve the financial burden on enterprises during the COVID-19 pandemic. In 2019, our selling and distribution expenses decreased primarily due to the decrease in office expenses resulting from cost control of our office expenses in 2019 to improve cost-efficiency and the decrease in other depreciation and amortization expenses as certain of our fixed assets of our medical institutions fully depreciated in 2018, partially offset by increases in marketing expenses as a result of our continuing efforts in marketing and promoting our healthcare solutions and products.

### Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses, mainly comprising the salaries, bonuses, pension, share-based payments and other social security and welfare paid to our administrative staff; (ii) office expenses, comprising business entertainment expenses, office expenses and travel expenses incurred in connection with our administrative activities; (iii) professional fees, comprising fees we paid to third-party consultancy agencies to improve our managerial skills and corporate governance capabilities or for the purpose of our acquisitions; (iv) depreciation of right-of-use assets and rental expenses, consisting of rental expenses, depreciation of right-of-use assets and relevant utilities fees for our leased properties used for administrative office purpose; (v) other depreciation and amortization expenses, comprising depreciation of expenses incurred for renovation of our office premises; and (vi) research and development expenses, mainly comprising the expenses of development of our information technology system.

The following table sets forth a breakdown of our administrative expenses for the years/periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
(RMB'000, except percentages)										
							(Unaudited)			
Employee benefit expenses .	32,022	46.7%	34,020	58.9%	40,905	58.1%	9,950	48.9%	35,620	59.2%
Office expenses . . . . .	18,286	26.7%	11,985	20.8%	16,466	23.4%	5,659	27.8%	9,810	16.3%
Professional fees . . . . .	10,459	15.3%	3,841	6.6%	5,925	8.4%	1,022	5.0%	9,936	16.5%
Depreciation of right-of-use assets and rental expenses . . . .	3,101	4.5%	3,319	5.8%	2,331	3.3%	1,346	6.6%	935	1.6%
Other depreciation and amortization expenses . . . . .	1,146	1.7%	1,288	2.2%	1,663	2.4%	584	2.9%	663	1.1%
Research and development expenses . . . . .	3,044	4.4%	3,207	5.5%	3,037	4.3%	1,787	8.8%	1,350	2.2%
Others . . . . .	475	0.7%	103	0.2%	59	0.1%	—	—	1,857	3.1%
<b>Total . . . . .</b>	<b>68,533</b>	<b>100.0%</b>	<b>57,763</b>	<b>100.0%</b>	<b>70,386</b>	<b>100.0%</b>	<b>20,348</b>	<b>100.0%</b>	<b>60,171</b>	<b>100.0%</b>

---

## FINANCIAL INFORMATION

---

Our administrative expenses significantly increased by 195.7% from RMB20.3 million for the six months ended June 30, 2020 to RMB60.2 million for the six months ended June 30, 2021 primarily due to the significant increase in employee benefit expenses as a result of equity-settled share-based payment expense in relation to the grant of ordinary shares to certain employees at a discounted subscription price. Our administrative expenses increased in 2020 primarily due to an increase in employee benefit expenses as a result of the share-based payments paid to our management team. Our administrative expenses decreased in 2019 primarily attributable to a decrease in office expenses as a result of our cost control of our administrative expenses in 2019 to improve cost-efficiency, such as reducing business entertainment expenses, as well as a decrease in professional fees as a result of reduced consultancy activities from third-party consultancy agencies. For details, see “—Year to Year/Period to Period Comparison of Results of Operations.”

### **Fair value changes of convertible redeemable preferred share and convertible bonds**

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

### **Other Expenses**

Our other expenses primarily consist of (i) listing expenses, representing costs and expenses we incurred in connection with the Global Offering; (ii) impairment of non-financial assets, representing assets impairment losses of our non-current assets due to our voluntary closure of certain medical institutions which was recorded at the time when we decided to close such medical institutions and also estimated there would be impairment on such assets upon our closure; (iii) donation, representing our charity donations, scholarship and facility donation to universities; (iv) impairment of financial assets, representing impairment of trade and other receivables; (v) impairment of goodwill, representing impairment losses of goodwills due to our voluntary closure of certain medical institutions; (vi) loss on disposal and closing down of subsidiaries, representing the expenses incurred for disposal and closure of certain medical institutions, such as legal and professional fees and contract losses; (vii) loss on early termination of lease, representing our payment of contractual loss incurred in connection with our early termination of lease due to termination of idle office premise; and (viii) fixed assets disposal loss, representing loss incurred arising from disposal of idle fixed assets and equipment.



## FINANCIAL INFORMATION

The following table sets forth a breakdown of our other expenses for the years/periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2018		2019		2020		2020		2021	
	<i>(RMB'000, except percentages)</i>						<i>(Unaudited)</i>			
Listing expenses . . . . .	—	—	—	—	8,482	76.2%	—	—	11,216	81.7%
Impairment of non-financial assets . . . . .	7,181	50.8%	—	—	892	8.0%	892	51.1%	627	4.6%
Donation . . . . .	1,125	8.0%	2,536	29.4%	640	5.7%	619	35.4%	1,201	8.7%
Impairment of financial assets . . . . .	1,216	8.6%	554	6.4%	622	5.6%	104	6.0%	555	4.0%
Impairment of goodwill . . .	—	—	2,550	29.5%	—	—	—	—	—	—
Loss on disposal and closing down of subsidiaries . . . .	2,826	20.0%	1,352	15.7%	—	—	—	—	—	—
Loss on early termination of lease . . . . .	—	—	910	10.5%	112	1.0%	—	—	—	—
Fixed assets disposal loss . .	402	2.8%	—	—	—	—	—	—	—	—
Others . . . . .	1,387	9.8%	729	8.5%	388	3.5%	132	7.5%	134	1.0%
<b>Total . . . . .</b>	<b>14,137</b>	<b>100.0%</b>	<b>8,631</b>	<b>100.0%</b>	<b>11,136</b>	<b>100.0%</b>	<b>1,747</b>	<b>100.0%</b>	<b>13,733</b>	<b>100.0%</b>

We recorded other expenses of RMB13.7 million for the six months ended June 30, 2021, as compared to RMB1.7 million for the six months ended June 30, 2020, primarily due to our listing expenses incurred in 2021. Our other expenses increased in 2020 primarily due to our listing expenses incurred. Our other expenses decreased in 2019 primarily attributable to the decreased impairment of non-financial assets as we decided in 2018 to voluntarily close four medical institutions in 2018 and cease two medical institutions in the next year. The impairment in relation to the closure of the six medical institutions was all recorded in 2018 when the decision was made. The decrease in 2019 was partially offset by an increase in the impairment of goodwill, primarily due to our voluntary cease of two medical institutions. In 2020, we terminated operations of one medical institution due to the expiration of the lease agreement and voluntarily closed another medical institution. Our businesses of such two medical institutions were merged into our other medical institutions. For historical closure of our medical institutions, see “Business—Our Services and Products—Healthcare Solutions—Cornerstones of Healthcare Solutions—Offline and Online Medical Service Network—Medical Institutions.” We will continue to monitor the performance of our medical institutions closely.

### Finance Costs

Our finance costs primarily consist of (i) interest on interest-bearing bank loans and other borrowings; (ii) interest on bonds payable; and (iii) interest on lease liabilities, representing interest recognized in accordance with HKFRS 16 in association with our lease liabilities.

## FINANCIAL INFORMATION

The following table sets forth a breakdown of our finance costs for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(Unaudited)	
Interest on interest-bearing bank loans and other borrowings . . . . .	2,337	2,233	2,361	673	4,964
Interest on bonds payable . . . . .	144	248	22,077	7,558	7,101
Interest on lease liabilities . . . . .	7,358	7,856	9,073	4,640	5,453
<b>Total . . . . .</b>	<b>9,839</b>	<b>10,337</b>	<b>33,511</b>	<b>12,871</b>	<b>17,518</b>

Our finance costs increased by 36.1% in the six months ended June 30, 2021, as compared to that in the same time period of 2020, primarily due to the increased interest on interest-bearing bank loans and other borrowings, which was in line with the increase in the balance of our interest-bearing bank loans and other borrowings. The continued increase in our finance costs from 2018 to 2020 was primarily due to increased interest on bonds payable. For details of our bonds payable, see “—Discussion of Certain Key Consolidated Statements of Financial Position—Convertible Bonds” and “—Discussion of Certain Key Consolidated Statements of Financial Position—Bonds Payable.” In 2020, other than Chongqing Jinpu and an individual holder, all holders of our convertible bonds elected not to exercise their option to convert the convertible bonds they hold to our Shares, and such convertible bonds were reclassified as bonds payable since then. As a result, the interest on such bonds is recorded as finance costs.

### Income Tax Credit/(Expense)

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which our subsidiaries are domiciled and operate. The following summarizes the major factors affecting our applicable tax rates in Cayman Islands, mainland China and Hong Kong.

#### *Cayman Islands*

Pursuant to the rules and regulations of the Cayman Islands, we are 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 relevant regulations, our subsidiaries which operate in mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Our certain subsidiaries incorporated in the PRC were subject to a preferential income tax rate ranging from 5% to 10% during the Track Record Period as small and micro enterprises (小微企业). For details of our preferential tax treatment, see “Risk Factors—Risks Relating to Our Business and Industry—Certain benefits and obligations are applicable to us under PRC tax laws, regulations and policies. Changes to such benefits or failure to fulfill such obligations may have an adverse effect on our financial condition and results of operations.”

#### *Hong Kong*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods. 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 Relevant Periods.

## FINANCIAL INFORMATION

Our income tax credit amounted to RMB3.4 million and RMB10.8 million for the years ended December 31, 2018 and 2019, respectively. We recorded income tax expense of RMB13.6 million, RMB3.2 million and RMB1.4 million for the year ended December 31, 2020 and the six months ended June 30, 2020 and 2021, respectively. The fluctuation in our income tax credit or expenses during the Track Record Period was primarily in line with the fluctuation in taxable profit, tax losses utilized from the previous periods, tax losses not recognized as deferred tax assets for current year/period, and tax losses recognized as deferred tax assets from previous periods.

The following table sets forth a breakdown of our current tax expenses and deferred tax (credit)/expenses for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)			(RMB'000)	
				(Unaudited)	
Current .....	4,445	2,721	6,465	4,954	8,590
Deferred .....	(7,869)	(13,528)	7,100	(1,749)	(7,155)
<b>Total</b> .....	<b>(3,424)</b>	<b>(10,807)</b>	<b>13,565</b>	<b>3,205</b>	<b>1,435</b>

The following tables set forth a reconciliation of the tax expenses/(credit) applicable to loss or profit before tax at the statutory rate to the tax expenses/(credit) at the effective tax rate for the years/periods indicated:

### *Year ended December 31, 2018*

	Mainland China		Elsewhere		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Loss before tax</b> .....	<b>(71,208)</b>		<b>(106,026)</b>		<b>(177,234)</b>	
Tax at the statutory tax rate.....	(17,802)	25.0	—	—	(17,802)	10.0
Lower tax rate for specific provinces or enacted by local authority.....	(145)	0.2	—	—	(145)	0.1
Expenses not deductible for tax .....	7,479	(10.5)	—	—	7,479	(4.2)
Tax losses utilized from previous periods .....	(2,388)	3.4	—	—	(2,388)	1.3
Tax losses not recognized .....	12,586	(17.7)	—	—	12,586	(7.1)
Tax losses recognized from previous periods .....	(3,154)	4.4	—	—	(3,154)	1.8
<b>Tax credit at our Group's effective rate</b> .....	<b>(3,424)</b>	<b>4.8</b>	<b>—</b>	<b>—</b>	<b>(3,424)</b>	<b>1.9</b>

## FINANCIAL INFORMATION

*Year ended December 31, 2019*

	Mainland China		Elsewhere		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Profit/(loss) before tax</b> . . . . .	<b>65,017</b>		<b>(223,844)</b>		<b>(158,827)</b>	
Tax at the statutory tax rate . . . . .	16,254	25.0	—	—	16,254	(10.2)
Lower tax rate for specific provinces or enacted by local authority . . . . .	(262)	(0.4)	—	—	(262)	0.2
Tax incentive on eligible expenses . . . . .	(601)	(0.9)	—	—	(601)	0.4
Expenses not deductible for tax . . . . .	6,413	9.9	—	—	6,413	(4.0)
Tax losses utilized from previous periods . . . . .	(28,161)	(43.4)	—	—	(28,161)	17.6
Tax losses not recognized . . . . .	8,160	12.6	—	—	8,160	(5.1)
Tax losses recognized from previous periods . . . . .	(12,610)	(19.4)	—	—	(12,610)	7.9
<b>Tax credit at our Group's effective rate</b> . . . . .	<b>(10,807)</b>	<b>(16.6)</b>	<b>—</b>	<b>—</b>	<b>(10,807)</b>	<b>6.8</b>

*Year ended December 31, 2020*

	Mainland China		Elsewhere		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Profit/(loss) before tax</b> . . . . .	<b>117,441</b>		<b>(359,204)</b>		<b>(241,763)</b>	
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 utilized from previous periods . . . . .	(22,490)	(19.1)	—	—	(22,490)	9.4
Tax losses not recognized . . . . .	3,515	3.0	—	—	3,515	(1.5)
Tax losses recognized from previous periods . . . . .	(339)	(0.3)	—	—	(339)	0.1
<b>Tax charge at our Group's effective rate</b> . . . . .	<b>13,565</b>	<b>11.6</b>	<b>—</b>	<b>—</b>	<b>13,565</b>	<b>(5.6)</b>

## FINANCIAL INFORMATION

*Six months ended June 30, 2020 (Unaudited)*

	Mainland China		Elsewhere		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Profit/(loss) before tax</b> . . . . .	<b>25,106</b>		<b>(200,936)</b>		<b>(175,830)</b>	
Tax at the statutory tax rate . . . . .	6,277	25.0	—	—	6,277	(3.6)
Lower tax rate for specific provinces or enacted by local authority . . . . .	(510)	(2.0)	—	—	(510)	0.3
Tax incentive on eligible expenses . . . .	(335)	(1.3)	—	—	(335)	0.2
Expenses not deductible for tax . . . . .	2,502	10.0	—	—	2,502	(1.4)
Tax losses utilized from previous periods . . . . .	(10,366)	(41.2)	—	—	(10,366)	5.9
Tax losses not recognized . . . . .	5,976	23.8	—	—	5,976	(3.4)
Tax losses recognized from previous periods . . . . .	(339)	(1.4)	—	—	(339)	0.2
<b>Tax charge at our Group's effective rate</b> . . . . .	<b>3,205</b>	<b>12.9</b>	<b>—</b>	<b>—</b>	<b>3,205</b>	<b>(1.8)</b>

*Six months ended June 30, 2021*

	Mainland China		Elsewhere		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Loss before tax</b> . . . . .	<b>(103,999)</b>		<b>(244,300)</b>		<b>(348,299)</b>	
Tax at the statutory tax rate . . . . .	(26,000)	25.0	—	—	(26,000)	7.5
Lower tax rate for specific provinces or enacted by local authority . . . . .	(4,184)	4.0	—	—	(4,184)	1.2
Tax incentive on eligible expenses . . . .	(253)	0.2	—	—	(253)	0.1
Expenses not deductible for tax . . . . .	3,800	(3.7)	—	—	3,800	(1.1)
Tax losses utilized from previous periods . . . . .	(3,658)	3.6	—	—	(3,658)	1.0
Tax losses not recognized . . . . .	31,730	(30.5)	—	—	31,730	(9.1)
<b>Tax charge at our Group's effective rate</b> . . . . .	<b>1,435</b>	<b>(1.4)</b>	<b>—</b>	<b>—</b>	<b>1,435</b>	<b>(0.4)</b>

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our effective tax rate was 1.9%, 6.8%, (5.6)%, (1.8)% and (0.4)%, respectively. The fluctuation in our effective tax rate was in line with the fluctuation in taxable profit, tax losses utilized from the previous periods, tax losses not recognized as deferred tax assets for current year/period, and tax losses recognized as deferred tax assets from previous periods.

In particular, our operations in the PRC recorded significant loss before tax of RMB104.0 million for the six months ended June 30, 2021 primarily due to the non-recurring expense of share-based payment expense of RMB43.7 million, interest on bonds payable charged to the PRC of RMB106.7 million and the listing expenses charged to the PRC of RMB4.6 million.

**Loss for the Year/Period**

During the Track Record Period, our financial performance fluctuated and recorded loss for the year/period of RMB173.8 million, RMB148.0 million, RMB255.3 million, RMB179.0 million and RMB349.7 million for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. The fluctuation was primarily due to the impact of fair value loss on convertible redeemable preferred shares and convertible bonds, equity-settled share-based payment and listing expenses.

We carried accumulated losses of RMB668.4 million as of January 1, 2018. The accumulated losses as of 1 January 2018 of RMB668.4 million comprised (i) RMB361.7 million in aggregate due to the fair value change of preferred shares and convertible bonds, and expenses related to share-based payment arrangements; and (ii) RMB306.7 million accumulated loss from our operations before year 2018 primarily caused by our rapid expansion in our offline network of medical institutions to lay foundation for our future sustainable growth which required time to be integrated, and achieve operating leverage and improve profitability, as well as increased operating expenses in line with our expanded business scale, and development of our cloud-based HIS system by our in-house research and development team in 2017. We recorded adjusted net loss (*Non-HKFRS measure*) of RMB67.9 million in 2018, primarily as (i) our newly established or acquired medical institutions ramped up since commencement of operations but still had relatively low income in 2018; and (ii) some of our then existing medical institutions had relatively low income and cannot cover their operating expenses in the same year. In order to turn around our financial performance to achieve profitability, we have implemented various measures since late 2018, including: (i) our continuous expansion through organic growth and acquisition in Guangzhou and Shanghai, respectively, to achieve scale effect in such core cities for our strategic expansion, as a result of which, we recorded increased revenue and gross profit from our newly established or acquired medical institutions; (ii) voluntary disposal or closure of several medical institutions with operation constraints, in order to optimize resource allocation and improve our overall operating efficiency, as a result of which we reduced our costs and expenses arising from such loss-making medical institutions; (iii) commencement of centralized our procurement in late 2018 to enhance our bargaining power with selected suppliers to ensure quality supplies at relatively low cost, which improved our gross profit margin; and (iv) implementation of strengthened budget control through timely cost budgeting, reporting and constrain, which decelerated the growth of our administrative expenses and decreased our selling and distribution expenses. We had a turnaround in 2019 in terms of adjusted net profit (*Non-HKFRS measure*) primarily attributable to the improvement of our profitability because (i) all of our medical institutions newly established or acquired in 2018 except one achieved break-even and became profitable in 2019; (ii) the operating and financial results of most of our existing medical institutions had been improved attributable to the increase in customer visits as a result of our established market brand awareness in tier one cities and a significant expansion of our network physicians who provide TCM healthcare services at our medical institutions; and (iii) we adopted a centralized procurement scheme for our operations since late 2018 to improve our cost efficiency. As a result, our business scale expanded and our gross profit margin increased, thus we started to record adjusted net profit (*Non-HKFRS measure*) in 2019, and our adjusted net profit (*Non-HKFRS measure*) experienced a continued increase since then.



---

## FINANCIAL INFORMATION

---

### **Non-HKFRS Measure**

Should we exclude the impact brought by fair value change on financial liabilities through profit or loss in connection with our convertible redeemable preferred shares and convertible bonds, equity settled share-based payment, and listing expenses, we would have recorded adjusted net loss (*Non-HKFRS measure*) of RMB67.9 million for the year ended December 31, 2018 and adjusted net profit (*Non-HKFRS measure*) of RMB76.5 million, RMB84.7 million, RMB14.2 million and RMB45.9 million for the years ended December 31, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. For details, see “—Non-HKFRS Measure.”

### **YEAR TO YEAR/PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS**

#### **Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020**

##### ***Revenue***

Our revenue increased by 78.1% from RMB335.9 million for the six months ended June 30, 2020 to RMB598.2 million for the six months ended June 30, 2021, primarily attributable to the increase in revenue generated from healthcare solutions.

Our revenue generated from healthcare solutions increased by 80.1% to RMB588.9 million for the six months ended June 30, 2021 from RMB327.0 million for the six months ended June 30, 2020, primarily due to (i) continuous growth of existing medical institutions, expanding membership program as well as business recovery from COVID-19; and (ii) revenue generated from our newly acquired online healthcare platforms and offline medical institutions.

Our revenue generated from sale of healthcare products remained relatively stable at RMB9.0 million and RMB9.3 million for the six months ended June 30, 2020 and 2021, respectively.

##### ***Cost of Sales***

Our cost of sales increased by 82.8% to RMB330.1 million for the six months ended June 30, 2021 from RMB180.6 million for the six months ended June 30, 2020, primarily attributable to: (i) an increase of RMB83.9 million in human resources costs as a result of our expanding physician resources and enlarged business scale; and (ii) an increase of RMB61.2 million in cost of materials in line with the expansion of our business scale.

##### ***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our gross profit increased by 72.6% to RMB268.1 million for the six months ended June 30, 2021 from RMB155.3 million for the six months ended June 30, 2020. However, our gross profit margin slightly decreased to 44.8% for the six months ended June 30, 2021 from 46.2% for the six months ended June 30, 2020, primarily due to the decrease in gross profit margin for both providing healthcare solutions and sale of healthcare products. Our gross profit margin for providing healthcare solutions slightly decreased from 46.2% for the six months ended June 30, 2020 to 44.8% for the six months ended June 30, 2021, primarily attributable to our expanding online operations and the higher human resources costs of our online healthcare platforms, as we offered competitive compensation to physicians served at our online healthcare platforms to attract and retain more physician resources in light of the competition from other online healthcare platforms. Our gross profit margin for sale of healthcare products slightly decreased from 48.0% for

---

## FINANCIAL INFORMATION

---

the six months ended June 30, 2020 to 46.5% for the six months ended June 30, 2021, primarily due to more sales through our online e-commerce platforms at lower selling price than that at our medical institutions and pharmacies in light of the fierce competition landscape of online e-commerce platforms.

### ***Other Income and Gains***

Our other income and gains increased by 49.3% to RMB10.3 million for the six months ended June 30, 2021 from RMB6.9 million for the six months ended June 30, 2020, primarily attributable to the recognition of foreign exchange differences of RMB6.5 million for the six months ended June 30, 2021 as a result of exchange gains derived from intra-group fund transferred from the Group's subsidiaries in Hong Kong to the Group's subsidiaries in Mainland China, which was partly offset by a decrease of RMB3.0 million in COVID-19-related rent concessions granted by our lessors, which was an one-off concession in the six months ended June 30, 2020.

### ***Selling and Distribution Expenses***

Our selling and distribution expenses increased by 72.5% to RMB195.2 million for the six months ended June 30, 2021 from RMB113.1 million for the six months ended June 30, 2020, primarily attributable to (i) an increase of RMB56.1 million in employee benefits expenses as a result of (a) the increased number of staff for newly acquired medical institutions and online healthcare platforms; (b) an increase in performance-based compensation to our staff; and (c) equity-settled share-base payment expense in relation to the grant of ordinary shares to certain employees at a discounted subscription price; and (ii) an increase of RMB14.0 million in office expenses as a result of the increased travel and meetings amid recovery from COVID-19.

### ***Administrative Expenses***

Our administrative expenses increased by 195.7% to RMB60.2 million for the six months ended June 30, 2021 from RMB20.3 million for the six months ended June 30, 2020, primarily attributable to: (i) an increase in employee benefits expenses of RMB25.7 million 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; (ii) an increase in professional fees of RMB8.9 million as a result of fees paid to the third-party consultancy agencies to improve our managerial skills and corporate governance capabilities or for the purpose of our acquisitions; and (iii) an increase in office expenses of RMB4.2 million, which was in line with our business expansion.

### ***Fair value changes of convertible redeemable preferred share and convertible bonds***

Our fair value changes of convertible redeemable preferred share and convertible bonds increased by 79.3% to RMB340.7 million for the six months ended June 30, 2021 from RMB190.0 million for the six months ended June 30, 2020, primarily due to an increase in the fair value of our shares and embedded derivatives in line with our improved financial performance after non-HKFRS adjustments.

---

## FINANCIAL INFORMATION

---

### ***Other Expenses***

Our other expenses significantly increased by 686.1% to RMB13.7 million for the six months ended June 30, 2021 from RMB1.7 million for the six months ended June 30, 2020, primarily attributable to an increase of RMB11.2 million in listing expenses incurred in connection with the Global Offering.

### ***Finance Costs***

Our finance costs increased by 36.1% to RMB17.5 million for the six months ended June 30, 2021 from RMB12.9 million for the six months ended June 30, 2020, primarily attributable to an increase in interests on bank loans and other borrowings of RMB4.3 million, which is line with the increase in the balance of our interest-bearing bank loans and other borrowings.

### ***Income Tax Expense***

Our income tax expense decreased from RMB3.2 million for the six months ended June 30, 2020 to RMB1.4 million for the six months ended June 30, 2021, primarily due to the fact that more deferred tax assets with respect to tax losses available for offsetting against future taxable profit was recognized, which was in line with the optimization of business operation result.

### ***Loss for the Period***

As a result of the foregoing, our loss for the period increased to RMB349.7 million for the six months ended June 30, 2021 from RMB179.0 million for the six months ended June 30, 2020.

## **Year Ended December 31, 2020 Compared to Year Ended December 31, 2019**

### ***Revenue***

Our revenue increased by 3.3% to RMB925.4 million for the year ended December 31, 2020 from RMB896.2 million for the year ended December 31, 2019, primarily attributable to increases in revenue generated both from providing healthcare solutions and sale of healthcare products for the same year. Our revenue increased by 3.3% from 2019 to 2020, which is lower than the increase from 2018 to 2019, primarily due to the temporary suspension of our medical institutions according to the lockdown decision made by the PRC government caused by the outbreak and spread of COVID-19.

Our revenue from providing healthcare solutions increased by 3.0% to RMB891.8 million for the year ended December 31, 2020 from RMB865.9 million for the year ended December 31, 2019, primarily due to (i) expanded service capacity resulting from both of our organic growth and acquisition of medical institutions in 2020, such as Shanghai Zhongyida TCM Out-patient Department Co., Ltd. (上海眾益達中醫門診部有限公司) and Suzhou Tongan; and (ii) our acquisition of Bailu, a proprietary online healthcare platform, in 2020.

Our revenue from sale of healthcare products increased by 10.8% to RMB33.6 million for the year ended December 31, 2020 from RMB30.3 million for the year ended December 31, 2019, primarily due to the increase in the sale of healthcare products by Blue Ocean to institution customers, including third-party medical institutions and pharmacies.

---

## FINANCIAL INFORMATION

---

### ***Cost of Sales***

Our cost of sales decreased by 3.4% to RMB487.9 million for the year ended December 31, 2020 from RMB504.9 million for the year ended December 31, 2019, primarily attributable to the decrease in cost of materials as a result of the adoption of our centralized procurement scheme for our operations in eastern China in late 2019.

### ***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our gross profit increased by 11.8% to RMB437.5 million for the year ended December 31, 2020 from RMB391.3 million for the year ended December 31, 2019. Our gross profit margin increased to 47.3% for the year ended December 31, 2020 from 43.7% the year ended December 31, 2019, primarily because our gross profit outpaced the increase in our revenue for the same year resulting from our cost control measures. Our gross profit margin for providing healthcare solutions increased from 43.3% for the year ended December 31, 2019 to 47.5% for the year ended December 31, 2020, primarily due to the adoption of a centralized procurement scheme for our operations in eastern China in late 2019. Our gross profit margin for sale of healthcare products decreased from 55.2% for the year ended December 31, 2019 to 40.5% for the year ended December 31, 2020, primarily due to more sale of healthcare products from Blue Ocean to institution customers, including third-party medical institutions and pharmacies which had lower profit margin than that of retail to individual customers.

### ***Other Income and Gains***

Our other income and gains decreased by 6.2% to RMB11.5 million for the year ended December 31, 2020 from RMB12.3 million for the year ended December 31, 2019, primarily attributable to a decrease of RMB4.7 million in government grant due to reduced subsidies received in 2020. The decrease was partially offset by an increase of RMB3.5 million in COVID-19-related rent concessions granted by our lessors according to relevant government policies and guidances due to the COVID-19 pandemic.

### ***Selling and Distribution Expenses***

Our selling and distribution expenses decreased by 3.9% to RMB259.7 million for the year ended December 31, 2020 from RMB270.3 million for the year ended December 31, 2019, primarily attributable to a decrease in employee benefit expenses of RMB7.3 million as a result of exemption of our social insurance contribution as the employer by the local government to relieve the financial burden on companies during the COVID-19 pandemic.

### ***Administrative Expenses***

Our administrative expenses increased by 21.9% to RMB70.4 million for the year ended December 31, 2020 from RMB57.8 million for the year ended December 31, 2019, primarily due to (i) an increase in employee benefit expenses of RMB6.9 million as a result of the share-based payments to our management despite the effect brought by the exemption of our social insurance contribution as the employer by the local government to relieve the financial burden on companies during the COVID-19 pandemic; and (ii) an increase in office expenses of RMB4.5 million in line with our business expansion.

---

## FINANCIAL INFORMATION

---

### ***Fair value changes of convertible redeemable preferred share and convertible bonds***

Our fair value losses of convertible redeemable preferred share and convertible bonds increased to RMB316.2 million for the year ended December 31, 2020 from RMB215.3 million for the year ended December 31, 2019, primarily due to an increase in the fair value valuation of our shares and embedded derivatives in line with our improved financial performance after non-HKFRS adjustments, and partially offset by a decrease in the fair value of convertible bonds due to holders of our convertible bonds elected, other than Chongqing Jinpu and an individual holder, not to exercise the option to convert to our shares, and such convertible bonds were reclassified as bond payable.

### ***Other Expenses***

Our other expenses increased by 29.0% to RMB11.1 million for the year ended December 31, 2020 from RMB8.6 million for the year ended December 31, 2019, primarily due to an increase of RMB8.5 million in listing expenses incurred in connection with the Global Offering.

### ***Finance Costs***

Our finance costs increased by 224.2% to RMB33.5 million for the year ended December 31, 2020 from RMB10.3 million for the year ended December 31, 2019, primarily attributable to an increase in interest on bonds payable of RMB21.8 million. In 2020, other than Chongqing Jinpu and an individual holder, all holders of our convertible bonds elected not to exercise their option to convert the bonds they hold to our Shares and these convertible bonds were reclassified as bonds payable. Therefore, the interest on such bonds was recorded as finance costs.

### ***Income Tax Credit/(Expense)***

We recorded income tax expense of RMB13.6 million for the year ended December 31, 2020 and income tax credit of RMB10.8 million for the year ended December 31, 2019, respectively, primarily due to the tax credit at the statutory tax rate in line with the loss before tax and tax losses utilized from previous years.

### ***Loss for the Year***

As a result of the foregoing, our loss for the year increased to RMB255.3 million for the year ended December 31, 2020 from RMB148.0 million for the year ended December 31, 2019.

## **Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

### ***Revenue***

Our revenue increased by 23.4% to RMB896.2 million for the year ended December 31, 2019 from RMB726.2 million for the year ended December 31, 2018, primarily attributable to an increase in revenue generated from providing healthcare solutions, partially offset by a decrease in revenue generated from sale of healthcare products.

---

## FINANCIAL INFORMATION

---

Our revenue from providing healthcare solutions increased by 29.6% to RMB865.9 million for the year ended December 31, 2019 from RMB668.1 million for the year ended December 31, 2018, primarily due to (i) expanded service capacity in line with the increased medical institutions newly established or acquired by us which commenced operations in 2019; and (ii) the new medical institutions established in 2018 recorded significant growth and the successful integration of newly acquired medical institutions.

Our revenue from sale of healthcare products decreased by 47.9% to RMB30.3 million for the year ended December 31, 2019 from RMB58.1 million for the year ended December 31, 2018, primarily due to higher sales recorded in 2018 as a result of certain group purchase promotions and promotion activities for selected products.

### ***Cost of Sales***

Our cost of sales increased by 16.5% to RMB504.9 million for the year ended December 31, 2019 from RMB433.3 million for the year ended December 31, 2018, primarily due to increased human resources costs, in line with our expanding physician resources and enlarged business scale. The increased cost of sales was also attributable to our cost of materials caused by more customers served in 2019. The increase of cost of materials in 2019 was slower than that of the revenue in 2019 which was primarily due to the adoption of centralized procurement scheme for our operations in southern China in late 2018.

### ***Gross Profit and Gross Profit Margin***

As a result of the foregoing, our gross profit increased by 33.6% to RMB391.3 million for the year ended December 31, 2019 from RMB293.0 million for the year ended December 31, 2018. Our gross profit margin increased to 43.7% for the year ended December 31, 2019 from 40.3% for the year ended December 31, 2018 as the increase in our gross profit outpaced the increase in our revenue resulting from the control of cost of sales.

Our gross profit margin for providing healthcare solutions increased from 40.6% for the year ended December 31, 2018 to 43.3% for the year ended December 31, 2019, primarily due to the adoption of our centralized procurement scheme for our operations in southern China in late 2018. Our gross profit margin for sale of healthcare products increased from 36.9% for the year ended December 31, 2018 to 55.2% for the year ended December 31, 2019, primarily due to more group purchase in 2018 which had relatively lower gross profit margin as compared with that of retail sales.

### ***Other Income and Gains***

Our other income and gains increased by 112.1% to RMB12.3 million for the year ended December 31, 2019 from RMB5.8 million for the year ended December 31, 2018, primarily attributable to an increase in government grant of RMB5.5 million mainly as a result of a grant awarded by local government in Guangzhou in 2019.



---

## FINANCIAL INFORMATION

---

### ***Selling and Distribution Expenses***

Our selling and distribution expenses decreased by 3.8% to RMB270.3 million for the year ended December 31, 2019 from RMB280.9 million for the year ended December 31, 2018, primarily attributable to a decrease in office expenses of RMB5.6 million resulting from our voluntary closure of certain medical institutions in 2018; partially offset by an increase in marketing expenses of RMB2.3 million mainly as a result of our efforts in marketing and promoting our healthcare solutions and products.

### ***Administrative Expenses***

Our administrative expenses decreased by 15.7% to RMB57.8 million for the year ended December 31, 2019 from RMB68.5 million for the year ended December 31, 2018, primarily attributable to (i) a decrease in professional fees of RMB6.6 million mainly as a result of the reduced consultancy fees we paid to third-party consultancy agencies and professionals as we had gradually completed our improvement of managerial skills and corporate governance capabilities in 2018 and less acquisition activities in 2019; and (ii) a decrease in office expenses of RMB6.3 million mainly as a result of reduced business entertainment activities under our cost control measures in 2019; partially offset by an increase in employee benefit expenses of RMB2.0 million mainly as a result of the expansion of our administrative team.

### ***Fair value changes of convertible redeemable preferred share and convertible bonds***

Our fair value losses of convertible redeemable preferred share and convertible bonds increased to RMB215.3 million for the year ended December 31, 2019 from RMB102.6 million for the year ended December 31, 2018, primarily due to an increase in the fair value valuation of our shares and embedded derivatives in line with our improved financial performance.

### ***Other Expenses***

Our other expenses decreased by 38.9% to RMB8.6 million for the year ended December 31, 2019 from RMB14.1 million for the year ended December 31, 2018, primarily due to the impairment of non-financial assets as we decided in 2018 to voluntarily close four medical institutions in 2018 and cease two medical institutions in the next year, and the impairment in relation to the closure of the six medical institutions was all recorded in 2018 when the decision was made. The decrease in 2019 was partially offset by an increase in the impairment of goodwill, primarily due to our voluntary cease of two medical institutions.

### ***Finance Costs***

Our finance costs remained relatively stable at RMB9.8 million and RMB10.3 million for the years ended December 31, 2018 and 2019, respectively.

### ***Income Tax Credit***

Our income tax credit increased to RMB10.8 million for the year ended December 31, 2019 from RMB3.4 million the year ended December 31, 2018, primarily due to a decrease in loss before tax and the unutilized tax losses.

### ***Loss for the Year***

As a result of the foregoing, our loss for the year was RMB173.8 million and RMB148.0 million for the year ended December 31, 2018 and 2019, respectively.

## FINANCIAL INFORMATION

### DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
<b>Non-current assets:</b>				
Property, plant and equipment .....	61,845	49,556	41,462	47,471
Other intangible assets .....	2,401	2,616	22,759	31,206
Right-of-use assets .....	154,488	166,528	184,171	222,348
Goodwill .....	449,341	462,633	545,110	688,615
Investment in an associate .....	—	—	6,172	8,224
Prepayments, other receivables and other assets .....	2,850	3,157	11,476	7,346
Deferred tax assets .....	17,428	30,956	23,376	30,249
<b>Total non-current assets .....</b>	<b>688,353</b>	<b>715,446</b>	<b>834,526</b>	<b>1,035,459</b>
<b>Current assets:</b>				
Inventories .....	57,746	45,097	57,743	69,149
Trade receivables .....	54,100	42,345	56,576	60,328
Prepayments, other receivables and other assets .....	102,304	108,713	132,180	104,132
Financial assets at fair value through profit or loss .....	51,300	52,300	114,425	8,993
Cash and cash equivalents .....	92,710	138,117	249,994	486,203
<b>Total current assets .....</b>	<b>358,160</b>	<b>386,572</b>	<b>610,918</b>	<b>728,805</b>
<b>Current liabilities:</b>				
Trade and bills payables .....	146,227	121,104	113,110	133,786
Other payables and accruals .....	165,496	167,643	258,664	265,550
Interest-bearing bank loans and other borrowings .....	14,459	16,090	83,879	95,663
Bonds payable .....	5,786	—	329,013	—
Convertible redeemable preferred shares .....	—	963,357	1,204,204	1,735,299
Lease liabilities .....	27,634	36,378	40,029	46,391
Provisions .....	12,783	1,161	121	121
Tax payable .....	5,226	5,091	9,064	11,957
<b>Total current liabilities .....</b>	<b>377,611</b>	<b>1,310,824</b>	<b>2,038,084</b>	<b>2,288,767</b>
<b>Net current liabilities .....</b>	<b>(19,451)</b>	<b>(924,252)</b>	<b>(1,427,166)</b>	<b>(1,559,962)</b>
<b>Non-current liabilities:</b>				
Interest-bearing bank loans and other borrowings .....	7,631	1,965	61,259	96,623
Convertible bonds .....	484,548	508,720	198,134	—
Convertible redeemable preferred shares .....	757,611	—	—	—
Lease liabilities .....	135,837	142,465	158,145	187,080
Other payables and accruals .....	100,383	108,232	118,807	32,808
Deferred tax liabilities .....	—	—	4,322	6,553
<b>Total non-current liabilities .....</b>	<b>1,486,010</b>	<b>761,382</b>	<b>540,667</b>	<b>323,064</b>
<b>Net liabilities .....</b>	<b>(817,108)</b>	<b>(970,188)</b>	<b>(1,133,307)</b>	<b>(847,567)</b>

## FINANCIAL INFORMATION

### Inventories

Our inventories primarily consist of pharmaceuticals, consumables and packing materials. As of December 31, 2018, 2019 and 2020 and June 30, 2021, our inventories amounted to RMB57.7 million, RMB45.1 million, RMB57.7 million and RMB69.1 million, respectively. As of June 30, 2021, none of our inventories was pledged.

Our inventories increased by 19.8% to RMB69.1 million as of June 30, 2021 from RMB57.7 million as of December 31, 2020, primarily due to our increased inventory level attributable to our acquisition of medical institutions and online healthcare platform in the six months ended June 30, 2021 and our expanded business scale.

Our inventories increased by 28.0% to RMB57.7 million as of December 31, 2020 from RMB45.1 million as of December 31, 2019, primarily attributable to our increased procurement of pharmaceuticals in line with our acquisition of Bailu, and more medical institutions opened in 2020.

Our inventories decreased by 21.9% to RMB45.1 million as of December 31, 2019 from RMB57.7 million as of December 31, 2018, primarily due to procurement of more pharmaceuticals in 2018 in line with more medical institutions commenced operations in that year, and the general consumption of inventories in 2019.

We have a strict inventory management and control system that monitors each stage of the warehousing process, including procurement, storage, distribution, exchange, return, and disposal. Our warehousing personnel are responsible for the inspection, storage and distribution of inventories. Our warehousing personnel carry out regular check to ensure consistency among inventories and records. For details of our inventory management policies, see “Business— Inventory Management.”

We follow stringent pharmaceutical storage requirements and periodically assess the impairment on our inventories. We review our inventories as of the end of each accounting period and record impairment losses on inventories that we estimate could not be utilized before the end of validity period of such inventory. Besides, in line with the industry norm, the validity period of most TCM decocting pieces is long. As a result, we did not record any impairment losses on our inventories during the Track Record Period.

The following table sets forth the number of our inventory turnover days for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Inventory turnover days <sup>(1)</sup> .....	105	75	85	78

*Note:*

(1) Inventory turnover days for the year equals the average of the opening and closing inventory balances of the year divided by cost of materials for the relevant year, and multiplied by 360 days. Inventory turnover days for the six-month period equals the average of the opening and closing inventory balances of the period divided by the cost of materials for that period, and multiplied by 180 days.

## FINANCIAL INFORMATION

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our inventory turnover days were 105 days, 75 days, 85 days and 78 days, respectively. The decrease in our inventory turnover days from 2018 to 2019 was primarily attributable to improved management and control of inventory level after the adoption of centralized procurement scheme. The increase in our inventory turnover days from 2019 to 2020 was primarily due to our increased procurement of pharmaceuticals in line with our acquisition of Bailu and more medical institutions opened in 2020. The decrease in our inventory turnover days to 78 days for the six months ended June 30, 2021 was primarily attributable to the growth rate of our inventory balance was lower than that of our cost of materials resulting from the improved management and control of inventory level after the outbreak of COVID-19.

As of September 30, 2021, approximately RMB55.4 million, or 80.0% of our inventories as of June 30, 2021 had been sold or utilized.

### Trade Receivables

Our trade receivables mainly represent the balances due from national reimbursement programs, corporate customers and third-party platforms which we cooperate with. The third-party platforms, mainly consisting of third-party online platforms, through which our customers make appointment with physicians at our medical institutions, receive the registration fees from our customers then settle with us on a monthly basis after deducting their commission. For details, see “Business—Our Services and Products—Healthcare Solutions—Comprehensive Healthcare Solutions—Consultation and Diagnosis—Diversified Consultation and Diagnosis Options.” The following table sets forth the breakdown of our trade receivables by types of customers as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
National reimbursement programs.....	46,661	37,913	49,072	51,879
Corporate customers .....	6,343	3,361	5,962	7,242
Third-party platforms .....	1,096	1,071	1,542	1,207
<b>Total.....</b>	<b>54,100</b>	<b>42,345</b>	<b>56,576</b>	<b>60,328</b>

Depending on the terms of our contracts with customers, we grant a credit period of 30 to 90 days to our corporate customers and third-party platforms.

The following table sets forth the trade receivables and impairment amount as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
Trade receivables .....	54,488	42,895	57,459	61,109
Less:				
Allowance for ECLs.....	(388)	(550)	(883)	(781)
<b>Total.....</b>	<b>54,100</b>	<b>42,345</b>	<b>56,576</b>	<b>60,328</b>

## FINANCIAL INFORMATION

Our trade receivables increased by 6.6% to RMB60.3 million as of June 30, 2021 from RMB56.6 million as of December 31, 2020, primarily due to: (i) an increase of RMB2.8 million in trade receivables due from the national reimbursement programs; and (ii) an increase of RMB1.3 million in trade receivables due from corporate customers, which was in line with the increase in revenue generated during the same period. Our trade receivables increased by 33.6% to RMB56.6 million as of December 31, 2020 from RMB42.3 million as of December 31, 2019, primarily due to a RMB11.2 million increase in trade receivables due from the national reimbursement programs, which is in line with more revenue generated from the national reimbursement programs during the same year. Our trade receivables decreased by 21.7% to RMB42.3 million as of December 31, 2019 from RMB54.1 million as of December 31, 2018 primarily due to quicker settlement by the national reimbursement programs in 2019.

We perform an impairment analysis 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., customer type). 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, our trade receivables are written off if past due for more than one year and are not subject to enforcement action. We recorded allowance for impairment loss on trade receivables of RMB0.4 million, RMB0.6 million, RMB0.9 million and RMB0.8 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively.

Our individual customers usually settle payments by cash, bank cards, online payments via third-party payment platforms or national reimbursement programs. For bank card payments, banks will normally settle the amounts the next business day after the transaction date. Corporate customers and third-party platforms normally settle with us on a monthly basis. Payments through national reimbursement programs will normally be settled by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for customers who are covered by national reimbursement programs ranging from 30 to 180 days from the transaction date.

The following table sets forth aging analysis of trade receivables, based on invoice date and net of loss allowance, as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
				2021
	(RMB'000)			
Within three months .....	48,121	33,046	51,042	56,590
Three months to one year .....	5,706	9,139	5,369	3,738
Over one year .....	273	160	165	—
<b>Total</b> .....	<b>54,100</b>	<b>42,345</b>	<b>56,576</b>	<b>60,328</b>

## FINANCIAL INFORMATION

The following table sets forth our trade receivables turnover days during the Track Record Period:

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Trade receivables turnover days <sup>(1)</sup> .....	42	19	19	18

*Note:*

(1) Trade receivables turnover days for the year equals the average of the opening and closing balances of trade receivables of the year divided by revenue for the relevant year, and multiplied by 360 days. Trade receivable turnover days for the six-month period equals to the average of the opening and closing balances of trade receivables of the period divided by revenue for the relevant period, and multiplied by 180 days.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our trade receivables turnover days were 42 days, 19 days, 19 days and 18 days, respectively. The decrease in our trade receivables turnover days from 2018 to 2019 was primarily attributable to quicker settlement by the national reimbursement programs in 2019. The trade receivables turnover days remained relatively stable at 19 days and 18 days in 2020 and for the six months ended June 30, 2021.

As of September 30, 2021, approximately RMB54.8 million, or 90.8% of our trade receivables as of June 30, 2021 had been settled.

### Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets mainly consist of (i) prepayments, representing prepaid rent and other expenses, prepayments for acquisitions and the amount we prepaid for procurement of pharmaceuticals and consumables and for the renovation works for certain of our medical institutions; (ii) deposits and other receivables, mainly representing deposits we paid for our leased properties, other balances with third parties in the ordinary course of business and petty cash advance to our employees for business purpose; (iii) amount due from a director, representing loans granted to our Director, which is unsecured, interest-bearing and repayable on demand; and (iv) amount due from employees, representing loans granted to our employees primarily for personal use under stipulated conditions and procedures.

The following table sets forth the breakdown of our prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
Prepayments .....	41,561	40,376	55,293	64,327
Deposits and other receivables .....	37,193	26,438	44,262	44,536
Amount due from a director .....	21,150	32,308	34,268	—
Amount due from employees .....	5,250	12,748	9,833	2,615
<b>Total</b> .....	<b>105,154</b>	<b>111,870</b>	<b>143,656</b>	<b>111,478</b>



---

## FINANCIAL INFORMATION

---

Our prepayments, other receivables and other assets decreased by 22.4% to RMB111.5 million as of June 30, 2021 from RMB143.7 million as of December 31, 2020, primarily due to (i) an decrease in amount due from a director of RMB34.3 million as a result of the settlement of the outstanding balance by Mr. Tu; and (ii) a decrease in amount due from employees of RMB7.2 million upon their settlement of the outstanding balance, partially offset by an increase in prepayments of RMB9.0 million for pharmaceuticals, IT and consultancy to meet the needs of business expansion.

Our prepayments, other receivables and other assets increased by 28.4% to RMB143.7 million as of December 31, 2020 from RMB111.9 million as of December 31, 2019, primarily due to (i) an increase in prepayments of RMB14.9 million as a result of increased prepayment for acquisitions, such as the acquisition of Shanghai Shenhua and increased prepayment for the renovation works for certain of our medical institutions; and (ii) an increase in deposits and other receivables of RMB17.8 million as a result of the increased deposit paid for our leased properties and petty cash advanced to our employees for business purpose.

Our prepayments, other receivables and other assets increased by 6.4% to RMB111.9 million as of December 31, 2019 from RMB105.2 million as of December 31, 2018, primarily due to (i) an increase in amount due from a director of RMB11.2 million mainly following the drawdown under the credit facilities of no more than USD6.0 million provided to our Director, Mr. TU in January 2016. For details, see “—Material Related Party Transactions”; and (ii) an increase in amount due from employees of RMB7.5 million as a result of staff loans provided to our employees for personal purpose.

As part of our employee care scheme, we provide our employees with loans when they encounter temporary financial difficulties, such as purchase of real estates or treatment of critical illness of their close family members. As of December 31, 2018, 2019 and 2020 and June 30, 2021, the outstanding balance of our staff loan amounted to RMB5.3 million, RMB12.7 million, RMB9.8 million and RMB2.6 million, respectively. To streamline our management of staff loans, we have established internal policy to regulate. Under our internal policy, only full-time employees with us for over one year are entitled to apply for the staff loans, which have a limit ranging from RMB4.0 million to RMB10.0 million depending on the position of such employee applicant, and a term of not more than three years. The employee must apply in writing and provide proof for the purpose of the loan. Employees are prohibited to use the staff loan for any other purpose such as investment. The staff loan application will be reviewed and approved by the human resources department. We provide no more than RMB20.0 million staff loan per year. We also have stringent requirement on the loan repayment and will closely monitor the employees’ repayment. As advised by the internal control advisor we engaged to review our internal controls based on agreed scope, our Directors are satisfied that there are no material deficiencies in the internal control of staff loan management. Historically, we did not experience any default in the repayment of staff loans. As of the Latest Practicable Date, nothing has come to the attention of our Directors that there is any material default risk in connection with the outstanding staff loans. During the Track Record Period, we did not record any provision for or impairment loss on the outstanding balance of our staff loans.

## FINANCIAL INFORMATION

### Financial Assets at Fair Value Through Profit or Loss

Our financial assets at fair value through profit or loss mainly consist of wealth management products we purchased. As part of our treasury management, we purchased and held several wealth management products issued by major PRC commercial banks during the Track Record Period. Such wealth management products are generally redeemable on demand and non-principal-guaranteed. We managed and evaluated the performance of investments on a fair value basis in accordance with our risk management and investment strategies. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level one of the fair value hierarchy. For details of fair value measurement, see Note 2.4 and Note 41 to the Accountants' Report to Appendix I to this prospectus. In addition, our financial assets at fair value through profit or loss also included contingent consideration which we expect to receive from acquirees but has not been fully settled as of the reporting date, which will be fully settled by January 2023.

Our contingent consideration as of June 30, 2021 represented the fair value of the contingent consideration to be paid to us by the original shareholders of Nanjing Baihui Yunyi Technology Co., Ltd. (南京百會雲醫科技有限公司), Nanjing Huajian Chinese Medicine Co., Ltd. (南京華健中醫藥有限公司), Ningbo Haishu Gushengtang Liuting TCM Out-patient Co., Ltd. (寧波海曙固生堂柳汀中醫門診部有限公司), Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司), Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司), and Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司), which had not been settled as of June 30, 2021. See Note 21 to the Accountants' Report to Appendix I included in this prospectus for details.

The following tables sets forth our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
Wealth management products.....	51,300	52,300	107,340	—
Contingent consideration .....	—	—	7,085	8,993
<b>Total.....</b>	<b>51,300</b>	<b>52,300</b>	<b>114,425</b>	<b>8,993</b>

Our financial assets at fair value through profit or loss decreased by 92.1% to RMB9.0 million as of June 30, 2021 from RMB114.4 million as of December 31, 2020, primarily because we redeemed all of our wealth management products during the six months ended June 30, 2021. Our financial assets at fair value through profit or loss increased by 118.8% to RMB114.4 million as of December 31, 2020 from RMB52.3 million as of December 31, 2019, primarily due to more wealth management products we purchased in November and December 2020, to better utilize our spare cash, considering more cash and cash equivalents we generated from our business operation in 2020.

Our financial assets at fair value through profit or loss remained relatively stable as of December 31, 2018 and 2019, being RMB51.3 million and RMB52.3 million, respectively.

---

## FINANCIAL INFORMATION

---

We have established criteria and internal policies in assessing, purchasing and managing the wealth management products, including, but not limited to: (i) the wealth management products should be issued by reputable financial institutions with good credit status, solid financial position, and optimal profitability; (ii) our Financial Department (財務部) is responsible to conduct risk evaluation and feasibility analysis of the proposed investment, which shall be approved by the Board's meeting or the Shareholders' meeting depending on the total investment amount; and (iii) our Internal Audit Department (審計監察部) supervises the investment, and we will disclose the same in periodic reports. Under our investment policy, we are prohibited from investing in high-risk products and the proposed investment must not interfere with our business operation or capital expenditure. As of the Latest Practicable Date, our investment decisions did not deviate from our investment policies.

We believe that our internal control policies and the related risk management mechanism are adequate. We may invest in wealth management products and time deposits in consistent with our investment policy, after consultation with and approval by our Board where we believe it is prudent to do so after the Listing.

### ***Cash and Cash Equivalents***

Our cash and cash equivalents primarily represent cash and short term time deposits we maintained.

The short term time deposits are made for varying periods of between one day and three months depending on our immediate cash requirements, and earn interest at the respective short term time deposit rates. During the Track Record Period, we did not have any restricted cash deposits. See Note 22 to the Accountants' Report included in Appendix I to this prospectus for details.

Our cash and cash equivalents increased by 94.5% to RMB486.2 million as of June 30, 2021 from RMB250.0 million as of December 31, 2020, primarily due to more cash generated from our operating activities and financing activities.

Our cash and cash equivalents increased by 81.0% to RMB250.0 million as of December 31, 2020 from RMB138.1 million as of December 31, 2019, primarily due to the increased cash and bank balances as a result of more cash generated from our operating activities and financing activities.

Our cash and cash equivalents increased by 49.0% to RMB138.1 million as of December 31, 2019 from RMB92.7 million as of December 31, 2018, primarily due to the increased cash and bank balances as a result of more cash generated from our operating activities.

### **Property, Plant and Equipment**

Our property, plant and equipment consist of medical equipment, furniture and fixtures, leasehold improvements and motor vehicles.

Our property, plant and equipment decreased by 19.9% from RMB61.8 million as of December 31, 2018 to RMB49.6 million as of December 31, 2019, and further decreased by 16.3% to RMB41.5 million as of December 31, 2020, primarily due to their continued depreciation. Our property, plant and equipment increased by 14.5% from RMB41.5 million as of December 31, 2020 to RMB47.5 million as of June 30, 2021, primarily due to an increase in the cost of leasehold improvements resulting from the renovation of our medical institutions.

### Other Intangible Assets

The following table sets forth the net carry amount of our other intangible assets as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
Online platform . . . . .	—	—	18,729	27,651
Software . . . . .	2,401	2,616	4,030	3,555
<b>Total . . . . .</b>	<b>2,401</b>	<b>2,616</b>	<b>22,759</b>	<b>31,206</b>

## Right-of-use Assets

Our right-of-use assets increased by 7.8% from RMB154.5 million as of December 31, 2018 to RMB166.5 million as of December 31, 2019, and further increased by 10.6% to RMB184.2 million as of December 31, 2020, primarily due to the increased current lease extended to, or new lease with a term of more than 12 months. Our right-of-use assets increased by 20.7% from RMB184.2 million as of December 31, 2020 to RMB222.3 million as of June 30, 2021, primarily due to new leases with a term of more than 12 months for newly acquired medical institutions.

See Note 15 to the Accountants' Report included in Appendix I to this prospectus for more details.

## Goodwill

394

## FINANCIAL INFORMATION

As of June 30, 2021, the carrying value of our goodwill increased to RMB688.6 million, primarily attributable to our acquisition of Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司), Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司), Lianjiang Xiulichun and Shanghai Wanlian in 2021. As of December 31, 2020, the carrying value of our goodwill increased to RMB545.1 million, primarily attributable to our acquisition of Bailu and Suzhou Tongan in 2020. As of December 31, 2019, the carrying value of our goodwill increased to RMB462.6 million, primarily attributable to our acquisition of Shanghai Zhenantang TCM Out-patient Department (上海真安堂中醫門診部) in 2019. As of December 31, 2018, the carrying value of our goodwill increased to RMB449.3 million, primarily attributable to our acquisition of Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (寧波江北文教固生堂中醫門診部有限公司), Shanghai Jinyue Out-patient Department Co., Ltd. (上海金悅門診部有限公司) and Shanghai Duzhuang Out-patient Co., Ltd. (上海都莊門診有限公司) in 2018.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the impairment loss on our goodwill was nil, RMB2.6 million, nil and nil. For details of key assumptions used on impairment testing of our goodwill, see “—Critical Accounting Policies, Estimates and Judgements—Business Combinations and Goodwill—Goodwill” and Note 16 to the Accountants’ Report included in Appendix I to this prospectus.

### Trade and Bills Payables

Our trade and bills payables primarily represents outstanding amounts due to our suppliers of pharmaceuticals and medical consumables. We are typically given credit terms ranging from one to three months, and as the case may be.

Our trade and bills payables decreased by 17.2% to RMB121.1 million as of December 31, 2019 from RMB146.2 million as of December 31, 2018, and further decreased by 6.6% to RMB113.1 million as of December 31, 2020, primarily due to our quicker settlement. Our trade and bills payables increased by 18.3% to RMB133.8 million as of June 30, 2021 from RMB113.1 million as of December 31, 2020, which was in line with the increase in our cost of sales.

The following table sets forth an aging analysis of our trade and bills payables, based on the invoice date, as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
				2021
	(RMB'000)			
Within three months . . . . .	67,035	60,411	84,065	101,018
Three months to one year . . . . .	55,668	19,455	11,097	16,872
Over one year . . . . .	23,524	41,238	17,948	15,896
<b>Total . . . . .</b>	<b>146,227</b>	<b>121,104</b>	<b>113,110</b>	<b>133,786</b>

The increase in our trade and bills payables for over one year as of December 31, 2019 was primarily due to longer time taken for our internal procedures to confirm trade and bills payables with certain suppliers separately by certain of our subsidiaries before their full implementation of our centralized procurement scheme.

## FINANCIAL INFORMATION

The following table sets forth our trade and bills payables turnover days for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
Trade and bills payables turnover days <sup>(1)</sup> . . . . .	141	95	86	67

*Note:*

(1) Trade and bills payables turnover days for the year equals the average of the opening and closing balances of trade and bills payables of the year divided by cost of sales for the relevant year, and multiplied by 360 days. Trade and bills payables turnover days for the six-month period equals the average of the opening and closing balances of trade and bills payables of the period divided by cost of sales for the relevant period, and multiplied by 180 days.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our trade and bills payables turnover days were 141 days, 95 days, 86 days and 67 days respectively. The decrease in our trade and bills payables turnover days for the years ended December 31, 2018, 2019 and 2020 was primarily due to decreased balance of trade and bills payables as a result of quicker settlement, as well as the adoption of our centralized procurement scheme. Our trade and bills payables turnover days decreased to 67 days for the six months ended June 30, 2021, primarily because we accelerated our payment to trade and bills payables.

As of September 30, 2021, approximately RMB93.8 million, or 70.1% of our trade and bills payables as of June 30, 2021 had been settled.

Our Directors confirm that we had no material defaults in our trade and bills payables during the Track Record Period and up to the Latest Practicable Date.

### ***Other Payables and Accruals***

Other payables and accruals represent (i) other payables; (ii) payable for incentive arrangement; (iii) salary and welfare payable; (iv) contract liabilities; (v) accruals, representing accrued legal and professional fees and other daily operation expenses; and (vi) other tax payable, representing payables for withholding tax, VAT and surcharges. The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
Other payables . . . . .	155,566	136,737	212,667	133,150
Salary and welfare payable . . . . .	72,229	81,746	88,191	92,809
Payable for incentive arrangement . . . . .	12,813	24,851	32,106	32,808
Contract liabilities . . . . .	8,132	16,852	24,429	20,171
Accruals . . . . .	15,720	12,717	13,483	16,379
Other tax payable . . . . .	1,419	2,972	6,595	3,041
<b>Total . . . . .</b>	<b>265,879</b>	<b>275,875</b>	<b>377,471</b>	<b>298,358</b>



---

## FINANCIAL INFORMATION

---

### *Other payables*

Our other payables mainly represent the consideration payable for the acquisition of shares of third-party companies and advance payment by certain investors and eligible participants of 2015 Equity Incentive Plan. Our other payables decreased by 12.1% to RMB136.7 million as of December 31, 2019 from RMB155.6 million as of December 31, 2018, primarily due to fewer acquisitions we completed in 2019. Our other payables increased by 55.5% to RMB212.7 million as of December 31, 2020 from RMB136.7 million as of December 31, 2019, primarily due to the increased consideration payable with respect to several acquisitions we completed in 2020. Our other payables decreased by 37.4% to RMB133.2 million as of June 30, 2021 from RMB212.7 million as of December 31, 2020, primarily because the funds received in advance from certain investors and pursuant to 2015 Equity Incentive Plan was settled through issuing our ordinary shares in 2021.

### *Salary and welfare payable*

Our salary and welfare payable mainly represent the salaries, bonuses, pension and other social security and welfare payable to our employees, as well as the provision made for our insufficient contribution to social insurance and housing provident fund. For details, see “Business—Employees.” Our salary and welfare payable increased by 13.2% to RMB81.7 million as of December 31, 2019 from RMB72.2 million as of December 31, 2018, and further increased by 7.9% to RMB88.2 million as of December 31, 2020, primarily due to the increased number of our staff and their remuneration and bonus. Our salary and welfare payable increased by 5.2% to RMB92.8 million as of June 30, 2021 from RMB88.2 million as of December 31, 2020, primarily due to the increase in the number of staff and their increased salaries and pensions.

### *Payable for incentive arrangement*

Our payable for incentive arrangement primarily represent the virtual stock option our subsidiaries issued to eligible physicians and employees as an incentive plan under specified conditions. See Note 30 to the Accountants’ Report included in Appendix I to this prospectus. Our payable for incentive arrangement increased by 94.0% from RMB12.8 million as of December 31, 2018 to RMB24.9 million as of December 31, 2019, and further by 29.2% to RMB32.1 million as of December 31, 2020, primarily due to more issuance to eligible physicians and employees and our improved financial performance. Our payable for incentive arrangement remained relatively stable at RMB32.8 million as of June 30, 2021.

### *Contract liabilities*

Our contract liabilities mainly consist of prepayments made by our members when purchasing prepaid membership packages for future redemption of healthcare solutions and/or products. In addition, our contract liabilities also included the registration fees received from third-party platforms which were paid by our customers who had not received our medical services yet, and payments of prepaid membership packages made by us for our employees, as welfare benefit, for their future redemption of healthcare solutions and/or products. Our contract liabilities also included certain prepayments by corporate customers for their employees to redeem healthcare solutions and/or products in the future.

## FINANCIAL INFORMATION

Our contract liabilities increased by 107.2% from RMB8.1 million as of December 31, 2018 to RMB16.9 million as of December 31, 2019, and further by 45.0% to RMB24.4 million as of December 31, 2020. The continuous increase in our contract liabilities during the Track Record Period was primarily due to the increased prepayments made by our members enrolled in our membership program. See “Business—Our Customers—Payment Methods—National Reimbursement Programs” for details of our membership program. Our contract liabilities decreased by 17.4% to RMB20.2 million as of June 30, 2021 from RMB24.4 million as of December 31, 2020, primarily due to a decrease in payments of prepaid membership packages made by us for our employees.

### Interest-bearing Bank Loans and Other Borrowings

We have bank loans and other borrowings from independent financial institutions other than banks. As of June 30, 2021, we had unutilized credit facilities of RMB471.9 million. However, we obtained borrowings from an independent financial institution as it can provide us with offshore loans denominated in U.S. dollars at commercially reasonable terms and in an efficient manner compared to bank borrowings. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any difficulty in obtaining bank borrowings in the PRC. The following table sets forth our interest-bearing bank loans and other borrowings as of the dates indicated:

	As of December 31,									As of June 30,		
	2018			2019			2020			2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>												
Bank loans-secured <sup>(1)</sup> . . .	5.66	On demand	7,332	—	—	—	3.75-6.50	2021	11,740	3.85-6.50	2021-2022	939
Bank loans-secured <sup>(1)</sup> . . .	6.50	2019	7,127	6.50	2020	9,118	—	—	—	—	—	—
Bank loans-unsecured . . .	—	—	—	6.20	2020	6,972	3.75-5.60	2021	72,139	3.75-5.60	2021-2022	86,649
Other borrowing <sup>(2)</sup> . . . .	—	—	—	—	—	—	—	—	—	6.00	2021-2022	8,075
			<u>14,459</u>			<u>16,090</u>			<u>83,879</u>			<u>95,663</u>
<b>Non-Current</b>												
Bank loans-secured <sup>(1)</sup> . . .	6.50	2020-2021	7,631	6.50	2021-2022	1,965	4.25-6.50	2022-2023	194	—	—	—
Bank loans-unsecured . . .	—	—	—	—	—	—	5.60	2022-2023	61,065	4.20-5.60	2022-2023	44,135
Other borrowing <sup>(2)</sup> . . . .	—	—	—	—	—	—	—	—	—	6.00	2022-2029	52,488
			<u>7,631</u>			<u>1,965</u>			<u>61,259</u>			<u>96,623</u>
<b>Total</b> . . . . .			<u><u>22,090</u></u>			<u><u>18,055</u></u>			<u><u>145,138</u></u>			<u><u>192,286</u></u>

*Note:*

- (1) As of December 31, 2018, 2019 and 2020 and June 30, 2021, such bank loans was secured by our certain assets as securities of RMB79.7 million, RMB67.7 million, RMB76.6 million and RMB17.5 million, respectively. See Note 25 to the Accountants' Report included in Appendix I to this prospectus for details.
- (2) Other borrowing represents a secured loan of US\$25.0 million granted to our Company under a loan agreement entered into between our Company and R-Bridge Investment One Limited on February 3, 2021 and supplemented on March 16, 2021. Such loan was secured by Gushengtang Hong Kong, Wumianshan (Beijing), Guangdong Gushengtang, Guangzhou Guyi and Wumianshan Investment Holdings as guarantors. The secured loan bears an interest rate of 6.0% per annum. In addition, starting from 2024, we are obligated to pay an additional interest each year calculated based on our revenue of the preceding year, the draw-down amount and the amount of credit facilities granted, and where applicable, a guaranteed base or a cap may apply in the calculation, which were comparable to those offered by commercial banks under similar terms. This secured loan is repayable in installment semi-annually and our Company has an option at any time to make early repayment in whole or in part after 24 months since the draw-down date with 30 days' prior written notice. This secured loan granted by R-Bridge Investment One Limited are used for the repayment of our convertible bonds issued by us arising from Series D pre-IPO financing and listing expenses. As of the Latest Practicable Date, US\$9.4 million of the loan has been utilized. To the best of our knowledge, there are no present or past relationship among R-Bridge Investment One Limited, the Group, its subsidiaries, their shareholders, directors, senior management and any of their respective associates during the Track Record Period and up to the Latest Practicable Date.

## FINANCIAL INFORMATION

Save as other borrowings denominated in USD, all of our interest-bearing bank loans are denominated in RMB. Our bank facilities amounted to RMB75.6 million, RMB159.1 million, RMB534.1 million and RMB673.3 million, of which RMB46.3 million, RMB58.4 million, RMB164.8 million and RMB201.3 million had been utilized as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. As of December 31, 2018, 2019 and 2020 and June 30, 2021, the weighted average interest rate of our bank loans was 6.2%, 6.4%, 4.8% and 5.2%, respectively. The weighted average interest rates were calculated by dividing the valid outstanding bank loan balance by the total outstanding bank loans, multiplied by the effective interest rate. Our interest-bearing bank loans and other borrowings increased from RMB18.1 million as of December 31, 2019 to RMB145.1 million as of December 31, 2020 primarily as we obtained additional credit facilities in 2020 and we draw down more loans to maintain sufficient cash to satisfy the increased capital requirement in line with our business expansion, in preparation of the redemption and repayment of bonds payable if holders of our convertible bonds elect not to convert their bonds to our Shares, and for any possible contingency due to the COVID-19. Our Directors confirm that we primarily utilized such bank loans to pay the consideration of our acquisitions and for working capital purpose. Our interest-bearing bank loans and other borrowings further increased to RMB192.3 million as of June 30, 2021, primarily due to our increased capital requirement after the repayment of our convertible bonds in March 2021.

The following table sets forth a maturity analysis of our interest-bearing bank loans and other borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2018	2019	2020	2021
	(RMB'000)			
Within one year or on demand .....	14,459	16,090	83,879	95,663
In the second year .....	7,146	1,740	36,816	44,174
In the third year .....	485	225	24,443	16,111
More than three years .....	—	—	—	36,338
<b>Total</b> .....	<b>22,090</b>	<b>18,055</b>	<b>145,138</b>	<b>192,286</b>

### Convertible Bonds

Our convertible bonds represent convertible bonds, issued by us arising from Series D pre-IPO financing.

On March 22, 2021, the remaining balance of our convertible bonds of RMB208.1 million with principal of RMB150.0 million was converted to Series D Preferred Shares. As a result, we did not record any convertible bonds as of June 30, 2021. In 2020, holders of our convertible bonds with the principal amount of RMB240.0 million and carrying the book value of RMB306.9 million elected not to exercise their option to convert the bonds they hold to our Shares. Since then, the bonds not to convert were reclassified as bonds payable. As a result, our convertible bonds decreased to RMB198.1 million as of December 31, 2020 from RMB508.7 million as of December 31, 2019. Our convertible bonds remained relatively stable at RMB484.5 million and RMB508.7 million as of December 31, 2018 and 2019, respectively.

See Note 27 to the Accountants' Report in Appendix I to this prospectus for more details.

---

## FINANCIAL INFORMATION

---

### **Bonds Payable**

Our bonds payable are bonds with fixed interest rates, mainly representing the bonds after the holders of convertible bonds had elected not to convert to our Shares. In 2020, other than Chongqing Jinpu and an individual holder, all holders of our convertible bonds elected not to exercise their option to convert the bonds they hold to our Shares, and these convertible bonds were reclassified as bonds payable with fixed income since then. As a result, our bonds payable increased to RMB329.0 million as of December 31, 2020 from nil as of December 31, 2019.

As of June 30, 2021, all bonds payable as of December 31, 2020 had been fully repaid.

### **Convertible Redeemable Preferred Shares**

Our convertible redeemable preferred shares represent convertible redeemable preferred shares, including Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares, and Series E Preferred Shares issued by us arising from several rounds of pre-IPO financing. The redemption rights embedded in Series D Preferred Shares were automatically terminated, and the relevant Preferred Shares were transferred to equity upon the submission of Application Proof.

Our convertible redeemable preferred shares increased by 27.2% from RMB757.6 million as of December 31, 2018 to RMB963.4 million as of December 31, 2019, and further increased by 25.0% to RMB1,204.2 million as of December 31, 2020, primarily due to changes in the fair value of our convertible redeemable preferred shares. Our convertible redeemable preferred shares further increased by 44.1% from RMB1,204.2 million as of December 31, 2020 to RMB1,735.3 million as of June 30, 2021, primarily due to the issuance of Series E Preferred Shares and the increase in fair values of our convertible redeemable preferred shares. All the convertible redeemable preferred shares are unsecured and unguaranteed. For a detailed discussion of changes in the fair value of convertible redeemable preferred shares, see “—Description of Key Consolidated Statement of Comprehensive Income Items—Fair value changes of convertible redeemable preferred share and convertible bonds.”

Although our convertible redeemable preferred shares will be automatically converted to Shares upon Listing, to the extent we need to revalue the preferred shares prior to the Listing, any changes in fair value of these convertible redeemable preferred shares will affect our financial positions and results of operations. After the reclassification of our convertible redeemable preferred shares into the share capital upon Listing, we do not expect to recognize any further loss or gain on fair value changes from preferred shares in the future.

For key terms of our preferred shares, see Note 26 to the Accountants’ Report in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Lease Liabilities

Our lease liabilities mainly represent the amount to be paid for the leases of our medical institutions and offices. For further details, see Note 15 to the Accountants' Report included in Appendix I to this prospectus.

The following table sets forth the present value of our lease liabilities as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
				2021
	(RMB'000)			
Current .....	27,634	36,378	40,029	46,391
Non-current .....	135,837	142,465	158,145	187,080
<b>Total</b> .....	<b>163,471</b>	<b>178,843</b>	<b>198,174</b>	<b>233,471</b>

Our lease liabilities increased from RMB163.5 million as of December 31, 2018, to RMB178.8 million as of December 31, 2019, further to RMB198.2 million as of December 31, 2020, and further to RMB233.5 million as of June 30, 2021, primarily due to increased properties we leased for our medical institutions in line with our business expansion.

For a maturity analysis of our lease liabilities, see Note 42 to the Accountants' Report included in Appendix I to this prospectus.

Except as discussed above, as of June 30, 2021, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured.

### Provisions

Our provisions mainly represented probable losses, such as legal costs and contract loss. The outstanding balances of provision of RMB33.3 million and RMB12.8 million as of January 1, 2018 and December 31, 2018 mainly comprise probable losses in connection with a project for which we planned to terminate in 2018 before commencement of operations due to our failure to obtain the Medical Institution Practicing License as the leased property lacks ancillary services as required by the relevant government authorities. Our provisions decreased from RMB12.8 million as of December 31, 2018 to RMB1.2 million as of December 31, 2019, and further to RMB0.1 million as of December 2020, primarily due to our settlement made for the aforesaid project. Our provisions remained at RMB0.1 million as of June 30, 2021.

## FINANCIAL INFORMATION

### NET CURRENT LIABILITIES

The following table sets forth our net current liabilities as of the dates indicates:

	As of December 31,			As of	As of
	2018	2019	2020	June 30,	September 30,
	(RMB'000)			2021	2021
					(unaudited)
<b>Current assets:</b>					
Inventories . . . . .	57,746	45,097	57,743	69,149	71,585
Trade receivables . . . . .	54,100	42,345	56,576	60,328	52,128
Prepayments, other receivables and other assets. . . . .	102,304	108,713	132,180	104,132	146,931
Financial assets at fair value through profit or loss . . .	51,300	52,300	114,425	8,993	18,314
Cash and cash equivalents. . . . .	92,710	138,117	249,994	486,203	335,825
<b>Total current assets . . . . .</b>	<b>358,160</b>	<b>386,572</b>	<b>610,918</b>	<b>728,805</b>	<b>624,783</b>
<b>Current liabilities:</b>					
Trade and bills payables . . . . .	146,227	121,104	113,110	133,786	110,964
Other payables and accruals . . . . .	165,496	167,643	258,664	265,550	223,634
Interest-bearing bank loans and other borrowing . . . .	14,459	16,090	83,879	95,663	60,655
Bonds payable . . . . .	5,786	—	329,013	—	—
Convertible redeemable preferred shares . . . . .	—	963,357	1,204,204	1,735,299	1,826,670
Lease liabilities. . . . .	27,634	36,378	40,029	46,391	50,028
Provisions. . . . .	12,783	1,161	121	121	121
Tax payable . . . . .	5,226	5,091	9,064	11,957	23,792
<b>Total current liabilities . . . . .</b>	<b>377,611</b>	<b>1,310,824</b>	<b>2,038,084</b>	<b>2,288,767</b>	<b>2,295,864</b>
<b>Net current liabilities . . . . .</b>	<b>(19,451)</b>	<b>(924,252)</b>	<b>(1,427,166)</b>	<b>(1,559,962)</b>	<b>(1,671,081)</b>

We recorded net current liabilities of RMB1,671.1 million as of September 30, 2021, compared to net current liabilities of RMB1,560.0 million as of June 30, 2021, due to a decrease in current assets of RMB104.0 million and an increase in current liabilities of RMB7.1 million. The decrease in current assets was primarily due to a decrease in cash and cash equivalents of RMB150.4 million mainly as a result of payments of listing expenses and other professional fees, repayment of bank loans, settlement of trade and bills payables due and settlement of acquisition consideration due, partially offset by an increase in prepayments, other receivables and other assets of RMB42.8 million mainly caused by prepayments for procurement of raw material to ensure steady supply, listing expenses and other professional fees. The increase in current liabilities was primarily due to an increase in convertible redeemable preference shares of RMB91.4 million mainly caused by the increase in fair value of our convertible redeemable preferred shares, partially offset by a decrease in other payables and accruals of RMB41.9 million mainly as a result of settlement for acquisition consideration and settlement of payables arising from purchasing fixed assets and a decrease in interest-bearing bank and other borrowings of RMB35.0 million mainly as a result of repayment of bank loans.

We recorded net current liabilities of RMB1,560.0 million as of June 30, 2021, compared to net current liabilities of RMB1,427.2 million as of December 31, 2020, due to an increase in current liabilities of RMB250.7 million, partially offset by an increase in current assets of RMB117.9 million. The increase in current liabilities was primarily attributable to an increase in convertible redeemable preferred shares of RMB531.1 million mainly caused by the issuance of Series E Preferred Shares and the increase in fair value of our convertible redeemable preferred shares, partially offset by a decrease in bonds payable of RMB329.0 million upon repayment. The increase in current assets was primarily



---

## FINANCIAL INFORMATION

---

due to an increase in cash and cash equivalents of RMB236.2 million from our operating cashflow and financing activities, partially offset by a decrease in financial assets at fair value through profit or loss of RMB105.4 million upon redemption of wealth management products.

We recorded net current liabilities of RMB1,427.2 million as of December 31, 2020, compared to net current liabilities of RMB924.3 million as of December 31, 2019, due to an increase in current liabilities of RMB727.3 million, partially offset by an increase in current assets of RMB224.3 million. The increase in current liabilities was primarily attributable to (i) an increase in bonds payable of RMB329.0 million; (ii) an increase in convertible redeemable preferred shares of RMB240.8 million; (iii) an increase in other payables and accruals of RMB91.0 million; and (iv) an increase in interest-bearing bank loans of RMB67.8 million, partially offset by a decrease in trade and bills payables of RMB8.0 million. The increase in current assets was primarily due to (i) an increase in cash and cash equivalents of RMB111.9 million; (ii) an increase in financial assets at fair value through profit or loss of RMB62.1 million; and (iii) an increase in prepayments, other receivables and other assets of RMB23.5 million.

We recorded net current liabilities of RMB924.3 million as of December 31, 2019, compared to net current liabilities of RMB19.5 million as of December 31, 2018 due to an increase in current liabilities of RMB933.2 million, partially offset by an increase in current assets of RMB28.4 million. The increase in current liabilities was primarily attributable to an increase in convertible redeemable preferred shares of RMB963.4 million. The increase in current assets was primarily attributable to an increase in cash and equivalents of RMB45.4 million.

As of December 31, 2018, 2019 and 2020 and June 30, 2021, we recorded net current liabilities of RMB19.5 million, RMB924.3 million, RMB1,427.2 million and RMB1,560.0 million, respectively, and net liabilities of RMB817.1 million, RMB970.2 million, RMB1,133.3 million and RMB847.6 million, respectively. As of September 30, 2021, we also recorded net current liabilities of RMB1,671.1 million. The net current liabilities as of December 31, 2019 and 2020, June 30, 2021 and September 30, 2021 were primarily due to the current portion of convertible redeemable preferred shares of RMB963.4 million, RMB1,204.2 million, RMB1,735.3 million and RMB1,826.7 million, respectively. Our net liabilities position as of December 31, 2018, 2019 and 2020 and June 30, 2021 was also attributable to our convertible redeemable preferred shares, which amounted to RMB757.6 million, RMB963.4 million, RMB1,204.2 million and RMB1,735.3 million, respectively. See “Risk Factors—Risks Relating to Our Business and Industry—We recorded net current liabilities and net liabilities during the Track Record Period and we cannot assure you that we will not have net current liabilities in the future.” We expect to record net current assets and net assets after Listing as all of our convertible redeemable preferred shares will be converted into our Shares upon Listing.

## LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including cash and cash equivalents as well as other working capital requirements. Historically, we financed our capital expenditure and working capital requirements mainly through cash generated from operations, bank and other borrowing and Pre-IPO investments. Despite the net losses, net liabilities and net current liabilities throughout the Track Record Period, we had sufficient working capital primarily due to our positive operating cash flow and additional funds from financing activities including bank loans and other borrowings and Pre-IPO investments. For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, our net cash flows from operating activities amounted

## FINANCIAL INFORMATION

to RMB30.8 million, RMB132.3 million, RMB154.9 million and RMB64.3 million, respectively. Our net losses during the Track Record Period were primarily due to the impact of fair value loss on convertible redeemable preferred shares and convertible bonds, equity-settled share-based payment and listing expenses while our net liabilities and net current liabilities during the Track Record Period were primarily caused by our convertible redeemable preferred shares. As all of our convertible redeemable preferred shares will be converted into our Shares upon Listing and all of our bonds payable had been fully repaid, we do not expect our net loss, net liabilities and net current liabilities to materially and adversely affect our working capital sufficiency. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we had cash and cash equivalents of RMB92.7 million, RMB138.1 million, RMB250.0 million and RMB486.2 million, respectively.

### Cash Flows

The following table sets forth our cash flows for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	(RMB'000)				
	(Unaudited)				
Operating (loss)/profit before changes in working capital . . . . .	(801)	134,064	181,362	59,258	91,578
Changes in working capital. . . . .	30,307	(2,162)	(27,213)	(37,594)	(23,391)
Income tax paid . . . . .	(297)	(2,855)	(2,491)	(2,491)	(5,697)
Interest income . . . . .	1,576	3,207	3,246	1,858	1,760
Net cash flows from operating activities . . . . .	30,785	132,254	154,904	21,031	64,250
Net cash flows (used in)/from investing activities . . . . .	(26,887)	(35,376)	(117,471)	19,719	11,331
Net cash flows (used in)/from financing activities . . . . .	(27,520)	(51,794)	76,202	(37,705)	164,556
Net (decrease)/increase in cash and cash equivalents . . . . .	(23,622)	45,084	113,635	3,045	240,137
Cash and cash equivalents at the beginning of the year/period . . . . .	115,390	92,710	138,117	138,117	249,994
Effects of exchange rate changes on cash and cash equivalents . . . . .	942	323	(1,758)	(1,076)	(3,928)
Cash and cash equivalents at the end of year/period . . . . .	92,710	138,117	249,994	140,086	486,203

### Net Cash Flows from Operating Activities

Cash flows from operating activities consist of loss before income tax adjusted for certain non-cash or non-operating activities related items and changes in working capital.

Our net cash generated from operating activities was RMB64.3 million for the six months ended June 30, 2021, primarily attributable to (i) loss before tax of RMB348.3 million, as adjusted to mainly reflect non-cash items, which principally included fair value changes of convertible redeemable preferred share and convertible bonds of RMB340.7 million; (ii) equity-settled share option expense of RMB43.7 million; (iii) depreciation of right-of-use assets of RMB27.9 million; and

---

## FINANCIAL INFORMATION

---

(iv) finance costs of RMB17.5 million. Changes in the working capital mainly included (i) a decrease in other payables and accruals of RMB26.5 million mainly as a result of the decreased other payables attributable to settlement of investment by employees; (ii) an increase in trade receivables of RMB4.3 million mainly as a result of the increased trade receivables due from national reimbursement programs; (iii) an increase in trade and bills payables of RMB20.7 million mainly as a result of increased cost of sales; and (iv) an increase in inventories of RMB11.4 million as a result of acquisition of medical institutions and online healthcare platform in the six month ended June 30, 2021 and our expanded business scale.

Our net cash generated from operating activities was RMB154.9 million for the year ended December 31, 2020, primarily attributable to loss before tax of RMB241.8 million, as adjusted to mainly reflect non-cash items, which principally included fair value changes of convertible redeemable preferred share and convertible bonds of RMB316.2 million, depreciation of right-of-use assets of RMB42.3 million and finance costs of RMB33.5 million. Change in the working capital mainly included (i) increases in other payables and accruals of RMB27.3 million as a result of our expanded business scales, (ii) increases in trade receivables of RMB14.9 million mainly as a result of increased trade receivables due from national reimbursement programs; and (iii) increases in prepayments, other receivables and other assets of RMB18.0 million mainly as a result of increased deposits paid for our leased properties and petty cash advanced to our employees for business purpose.

Our net cash generated from operating activities was RMB132.3 million for the year ended December 31, 2019, primarily attributable to (i) loss before tax of RMB158.8 million, as adjusted to mainly reflect non-cash items, which principally included fair value changes of convertible redeemable preferred share and convertible bonds of RMB215.3 million, (ii) depreciation of right-of-use assets of RMB35.0 million, (iii) depreciation of property, plant and equipment of RMB23.2 million. Changes in the working capital mainly included (i) a decrease in trade and bills payables of RMB25.1 million mainly as a result of our quicker settlement after implementing centralized procurement scheme; (ii) a decrease in inventories of RMB12.6 million mainly as a result of the improved management and control of inventory level after the adoption of centralized procurement scheme; (iii) a decrease in provisions of RMB11.6 million mainly as a result of the settlement of the provisions in 2019, and (iv) a decrease in trade receivables of RMB11.2 million mainly as a result of quicker settlements by the national reimbursement programs.

Our net cash generated from operating activities was RMB30.8 million for the year ended December 31, 2018, primarily attributable to (i) loss before tax of RMB177.2 million, as adjusted to mainly reflect non-cash items, which principally included fair value changes of convertible redeemable preferred share and convertible bonds of RMB102.6 million, (ii) depreciation of right-of-use assets of RMB30.2 million, and (iii) depreciation of property, plant and equipment of RMB26.3 million. Changes in the working capital mainly included (i) a decrease in trade receivables of RMB60.1 million mainly as a result of quicker settlements by the national reimbursement programs; (ii) a decrease in trade and bills payables of RMB46.4 million mainly as a result of our quicker settlement; (iii) an increase in other payables and accruals of RMB38.1 million along with our business expansion.

---

## FINANCIAL INFORMATION

---

### Net Cash Flows (Used in)/from Investing Activities

Our cash used in investing activities reflects our cash used in purchase of property, plant and equipment, proceeds from disposal of items of property, plant and equipment, proceeds from disposal of intangible asset, additions to intangible assets, acquisition of subsidiaries, disposal of subsidiaries, purchase of a shareholding in an associate, purchase of financial assets at fair value through profit or loss, proceeds of disposal of financial assets at fair value through profit or loss and decrease in amount due from directors.

Our net cash generated from investing activities was RMB11.3 million for the six months ended June 30, 2021, primarily due to (i) repayment from a director of RMB34.3 million; and (ii) proceeds of redemption of financial assets at fair value through profit or loss of RMB338.8 million, partially offset by (i) purchase of financial assets at fair value through profit or loss of RMB231.0 million mainly as a result of wealth management products we purchased in the six months ended June 30, 2021; (ii) acquisition of subsidiaries of RMB108.6 million mainly as a result of acquisition of Shanghai Wanlian and Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司); and (iii) purchase of items of property, plant and equipment of RMB17.4 million.

Our net cash used in investing activities was RMB117.5 million for the year ended December 31, 2020, primarily due to (i) purchase of financial assets at fair value through profit or loss of RMB990.9 million mainly as a result of wealth management products we purchased in 2020; (ii) acquisition of subsidiaries of RMB38.8 million mainly as a result of acquisition of Bailu, partially offset by proceeds of disposal of financial assets at fair value through profit or loss of RMB937.8 million mainly resulting from our disposal of wealth management products purchased.

Our net cash used in investing activities was RMB35.4 million for the year ended December 31, 2019, primarily due to (i) purchase of financial assets at fair value through profit or loss of RMB217.5 million mainly as a result of wealth management products we purchased in 2019; (ii) acquisition of subsidiaries of RMB21.9 million mainly as a result of acquisitions of Shanghai Zhenantang TCM Out-patient Department (上海真安堂中醫門診部) in 2019; partially offset by proceeds of redemption of financial assets at fair value through profit or loss of RMB217.2 million mainly resulting from our disposal of wealth management products purchased.

Our net cash used in investing activities was RMB26.9 million for the year ended December 31, 2018, primarily due to (i) purchase of financial assets at fair value through profit or loss of RMB782.3 million mainly as a result of wealth management products we purchased in 2018; (ii) acquisition of subsidiaries of RMB50.0 million mainly as a result of acquisitions of Shanghai Duzhuang Out-patient Co., Ltd. (上海都莊門診有限公司), Shanghai Jinyue Out-patient Department Co., Ltd. (上海金悅門診部有限公司), 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), Suzhou Gushengtang Shilu Clinic Co., Ltd. (蘇州固生堂石路診所有限公司) and Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (寧波江北文教固生堂中醫門診部有限公司) in 2018; and (iii) purchase of items of property, plant and equipment of RMB21.8 million mainly as a result of renovation expenses for our leased properties used as our medical institutions in 2018, partially offset by proceeds of redemption of financial assets at fair value through profit or loss of RMB830.6 million mainly as a result of our disposal of wealth management products purchased.

---

## FINANCIAL INFORMATION

---

### Net Cash Flows (Used in)/from Financing Activities

Our cash used in financing activities reflects repayment of bank loans, principal portion of lease payments, interest paid, acquisition of non-controlling interests and repayment of advance from potential shareholder. Our cash generated from financing activities reflects new bank loans.

Our net cash generated from financing activities was RMB164.6 million for the six months ended June 30, 2021, primarily attributable to (i) issue of preferred shares of RMB243.7 million; (ii) issue of ordinary shares of RMB250.6 million; and (iii) new bank loans and other borrowings of RMB84.8 million, partially offset by (i) repayment of convertible bonds of RMB329.0 million; and (ii) repayment of bank loans and other borrowings of RMB37.6 million.

Our net cash generated from financing activities was RMB76.2 million for the year ended December 31, 2020, primarily attributable to (i) new bank loans and other borrowings of RMB146.6 million mainly as a result of loans granted by PRC commercial banks in 2020, partially offset by (i) principal portion of lease payments of RMB37.0 million mainly as a result of rental expenses paid for our medical institutions; (ii) repayment of bank loans and other borrowings of RMB19.5 million; and (iii) interest paid of RMB11.4 million.

Our net cash used in financing activities was RMB51.8 million for the year ended December 31, 2019, primarily due to (i) principal portion of lease payments of RMB31.6 million mainly as a result of rental expenses of our medical institutions we paid; (ii) repayment of bank loans and other borrowings of RMB16.2 million, partially offset by new bank loans and other borrowings of RMB12.1 million; and (iii) interest paid of RMB11.1 million.

Our net cash used in financing activities was RMB27.5 million for the year ended December 31, 2018, primarily due to (i) repayment of bank loans of RMB36.9 million; (ii) principal portion of lease payments of RMB27.2 million mainly as a result of rental expenses we paid for our medical institutions; and (iii) interest paid of RMB9.7 million, partially offset by new bank loans of RMB46.3 million.

### Working Capital Sufficiency

During the Track Record Period, we met our working capital requirements mainly from cash generated from operations, bank borrowing and Pre-IPO investments.

Taking into account the financial resources available to us, including cash flow from operating activities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Borrowing

During the Track Record Period, our borrowing mainly consisted of bank loans and other borrowing and our other borrowing represented borrowing obtained from independent financial institutions other than banks.

The following table sets forth a breakdown of our bank and other borrowing as of the dates indicated:

	As of December 31,			As of	As of
	2018	2019	2020	June 30,	September 30,
				2021	2021
	(RMB'000)				(unaudited)
<b>Included in current liabilities</b>					
Bank loans-secured .....	14,459	9,118	11,740	939	—
Bank loans-unsecured .....	—	6,972	72,139	86,649	52,548
Other borrowing .....	—	—	—	8,075	8,107
<b>Sub-total .....</b>	<b>14,459</b>	<b>16,090</b>	<b>83,879</b>	<b>95,663</b>	<b>60,655</b>
<b>Included in non-current liabilities</b>					
Bank loans-secured .....	7,631	1,965	194	—	—
Bank loans-unsecured .....	—	—	61,065	44,135	22,266
Other borrowing .....	—	—	—	52,488	52,694
<b>Sub-total .....</b>	<b>7,631</b>	<b>1,965</b>	<b>61,259</b>	<b>96,623</b>	<b>74,960</b>
<b>Total .....</b>	<b>22,090</b>	<b>18,055</b>	<b>145,138</b>	<b>192,286</b>	<b>135,615</b>

The following table sets forth the maturity profile of our bank and other borrowing as of the dates indicated:

	As of December 31,			As of	As of
	2018	2019	2020	June 30,	September 30,
				2021	2021
	(RMB'000)				(unaudited)
Within one year or on demand .....	14,459	16,090	83,879	95,663	60,655
In the second year .....	7,146	1,740	36,816	44,174	30,173
In the third year .....	485	225	24,443	16,111	8,307
More than three years .....	—	—	—	36,338	36,480
<b>Total .....</b>	<b>22,090</b>	<b>18,055</b>	<b>145,138</b>	<b>192,286</b>	<b>135,615</b>

#### Convertible Bonds

See “—Discussion of Certain Key Consolidated Statements of Financial Position—Convertible Bonds.” As of December 31, 2018, 2019 and 2020, June 30, 2021 and September 30, 2021, our convertible bonds amounted to RMB484.5 million, RMB508.7 million, RMB198.1 million, nil and nil, respectively.

#### Bonds Payable

See “—Discussion of Certain Key Consolidated Statements of Financial Position—Bonds Payable.” As of December 31, 2018, 2019 and 2020, June 30, 2021 and September 30, 2021, our bonds payable amounted to RMB5.8 million, nil, RMB329.0 million, nil and nil, respectively.



---

## FINANCIAL INFORMATION

---

### Lease Liabilities

See “—Discussion of Certain Key Consolidated Statements of Financial Position—Lease Liabilities.” As of December 31, 2018, 2019 and 2020, June 30, 2021 and September 30, 2021, our lease liabilities amounted to RMB163.5 million, RMB178.8 million, RMB198.2 million, RMB233.5 million and RMB241.3 million, respectively.

Our Directors confirm that there has been no material change in our indebtedness position on consolidated basis since September 30, 2021, being the latest practicable date for the purpose of the indebtedness statement.

As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of September 30, 2021, we had unutilized credit facilities of RMB734.9 million. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

### Convertible redeemable preferred shares

As of December 31, 2018, 2019 and 2020, June 30, 2021 and September 30, 2021, our convertible redeemable preferred shares had a fair value of RMB757.6 million, RMB963.4 million, RMB1,204.2 million, RMB1,735.3 million and RMB1,826.7 million, respectively. For further information regarding the convertible redeemable preferred shares, see Note 26 to the Accountants’ Report included in Appendix I to this prospectus. All the convertible redeemable preferred shares are unsecured and unguaranteed.

## CAPITAL COMMITMENTS

The following table sets forth our capital commitments as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30,
				2021
	(RMB’000)			
Contracted, but not provided for:				
Leasehold improvement and equipment .....	3,693	3,073	2,876	8,738
<b>Total</b> .....	<b>3,693</b>	<b>3,073</b>	<b>2,876</b>	<b>8,738</b>

Capital commitments that were contracted but not provided for represent commitments arising out of a contractual relationship where the relevant leasehold improvement and equipment were not provided as of the relevant dates.

## CONTINGENT LIABILITIES

Except as disclosed above, we did not have, as of September 30, 2021, any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or acceptance credits, or other similar indebtedness, leasing and financial leasing commitments, hire purchase commitments, guarantees or other material contingent liabilities.

---

## FINANCIAL INFORMATION

---

### CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of (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. The following table sets forth the breakdown of our capital expenditures incurred for the years/periods indicated:

	Year ended December 31,			Six months ended June 30,
	2018	2019	2020	2021
	(RMB'000)			
Transportation vehicles, clinics and office equipment .....	47,530	4,020	6,679	5,027
Renovation.....	21,848	7,739	8,166	11,533
Intangible assets .....	1,757	913	2,133	225
<b>Total .....</b>	<b>71,135</b>	<b>12,672</b>	<b>16,978</b>	<b>16,785</b>

We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering, cash generated from our operations, as well as cash from financing activities. See “Future Plans and Use of Proceeds.”

### OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet commitments or arrangements.

### MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time.

During the Track Record Period, we provided loans to a director, Mr. Tu, and recorded interest income from such loans. In January 2016, we entered into a credit facility agreement with Mr. Tu to grant him credit facilities of USD6.0 million for his personal use. Each loan drawn down has a term of no more than four years and repayable upon demand. Loans to Mr. Tu bear interest at a rate of 6.0% per annum. As of December 31, 2018, 2019 and 2020 and June 30, 2021, we had outstanding loans to Mr. Tu of RMB21.2 million, RMB32.3 million, RMB34.3 million and nil, respectively. We recorded interest income of RMB1.1 million, RMB1.7 million, RMB1.9 million and RMB0.5 million, from Mr. Tu, respectively.

We also provided loans to several key management personnel. The loans are unsecured, interest-free and repayable on demand. As of December 31, 2018, 2019 and 2020, we had outstanding loans to key management personnel of RMB3.3 million, RMB7.7 million and RMB6.2 million, respectively. As of June 30, 2021, all outstanding balance with key management personnel had been settled. All of our amounts due to/from related parties have been fully settled as of the date of this prospectus.

## FINANCIAL INFORMATION

Our Directors are of the view that each of the related party transactions set out in Note 38 to the Accountants' Report in Appendix I to this prospectus was conducted on an arm's length basis and would not distort our track record results or cause our historical results to become non-reflective of our future performance.

### KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the years/periods indicated:

	Year ended/as of December 31,			Six months ended/as of June 30,
	2018	2019	2020	2021
<b>Profitability ratios</b>				
Gross profit margin <sup>(1)</sup>	40.3%	43.7%	47.3%	44.8%
Return on equity <sup>(2)</sup>	N/A	N/A	N/A	N/A
Return on assets <sup>(3)</sup>	N/A	N/A	N/A	N/A
<b>Liquidity ratios</b>				
Current ratio <sup>(4)</sup>	0.9x	0.3x	0.3x	0.3x
Quick ratio <sup>(5)</sup>	0.8x	0.3x	0.3x	0.3x
<b>Capital adequacy ratio</b>				
Gearing ratio <sup>(6)</sup>	N/A	N/A	N/A	N/A

*Notes:*

- (1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.
- (2) Return on equity is calculated based on net profit attributable to owners of the company for the year/period divided by the arithmetic mean of the opening and closing balances of equity attributable to owners of the company of the same year/period and multiplied by 100%.
- (3) Return on assets is calculated based on profit for the year/period divided by the arithmetic mean of the opening and closing balances of total assets of the same year/period and multiplied by 100%.
- (4) Current ratio is calculated based on total current assets divided by total current liabilities as of the end of the corresponding year/period.
- (5) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as of the end of the corresponding year/period.
- (6) Gearing ratio is calculated based on our total interest-bearing borrowings as of the end of each year/period divided by our total equity as of the same date.

### Return on Equity and Return on Assets

During the Track Record Period, return on equity and return on assets are not meaningful, primarily as we recorded loss during the relevant years/periods.

### Current Ratio

Our current ratio remained stable at 0.3 times as of December 31, 2019 and 2020 and June 30, 2021.

Our current ratio decreased from 0.9 times as of December 31, 2018 to 0.3 times as of December 31, 2019, primarily due to an increase in our current liabilities caused by the reclassification of convertible redeemable preferred shares from non-current portion to current portion, as holders of all convertible redeemable preferred shares had the rights to redeem their shares at any time after April 30, 2020.

---

## FINANCIAL INFORMATION

---

### Quick Ratio

Our quick ratio remained stable at 0.3 times as of December 31, 2019 and 2020 and June 30, 2021.

Our quick ratio decreased from 0.8 times as of December 31, 2018 to 0.3 times as of December 31, 2019, primarily due to an increase in our current liabilities caused by the reclassification of convertible redeemable preferred shares from non-current portion to current portion, as holders of all convertible redeemable preferred shares had the rights to redeem their shares at any time after April 30, 2020.

### Gearing Ratio

As we recorded negative equity as of December 31, 2018, 2019 and 2020 and June 30, 2021, our gearing ratio as of such dates was not meaningful.

## FINANCIAL RISKS

We are exposed to a variety of financial risks, including interest risk, credit risk, liquidity risk and foreign currency risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider it necessary to hedge any of these risks.

### Interest Risk

We are exposed to the risk of changes in market interest rates relates primarily to our bank borrowing with a floating interest rate. For details of the sensitivity analysis, see Note 42 to the Accountants' Report set out in Appendix I to this prospectus.

### Credit Risk

Our credit risk is primarily attributable to cash and cash equivalents, term deposits, trade receivables and financial assets included in prepayments, other receivables and other assets. The carrying amount of each class of the abovementioned financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk arising from trade receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of our counterparties.

For details of the credit quality and the maximum exposure to credit risk based on our credit policy, see Note 42 to the Accountants' Report set out in Appendix I to this prospectus.

### Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of our business, we maintain flexibility in funding for business needs by generating sustainable cash flow. We also have alternative funding resources from equity and debt.

See Note 42 to the Accountants' Report set forth in Appendix I to this prospectus for more details about the analysis of our financial liabilities by relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

---

## FINANCIAL INFORMATION

---

### Foreign Currency Risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. We are exposed to foreign currency risk mainly arising from financial instruments held by operating units in currencies other than the unit's functional currency. We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider appropriate hedging measures in the future should the need arise. For further details, including relevant sensitivity analysis, see Note 42 to the Accountants' Report set out in Appendix I to this prospectus.

### DIVIDENDS

No dividend has been proposed, paid or declared by our Company or by any of the subsidiaries of our Group during the Track Record Period. We do not have a formal dividend policy or a fixed dividend payout ratio.

Subject to the Cayman Companies Act, through a general meeting, we 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 our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Our Board may also from time to time declare interim dividends as it deems fit. We cannot guarantee in what form dividends will be paid in the future.

We would distribute dividends to our shareholders, mainly through our share premium and retained profits, in the future. As we are a holding company, our ability to declare and pay dividends will also depend on the availability of funding received from group companies in the PRC and Hong Kong. We expect our main source of funding for dividend distribution in the future will be settlements from our group companies in the PRC and Hong Kong with respect to their outstanding balances due to our holding company. Alternatively, we might rely on any dividends distributed by our PRC subsidiaries to some extent. Any dividend distributions from our PRC subsidiaries to us 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 our 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 we or our subsidiaries may enter into in the future.

### LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, professional fees paid to legal advisers, the Reporting Accountants and other professional parties for their services rendered in relation to the Listing and the Global Offering. The estimated total listing expenses for the Global Offering are approximately HK\$100.7 million (RMB82.6 million) (comprising HK\$41.2 million underwriting-related expenses, HK\$28.4 million fees and expenses of legal advisors and accountants, HK\$4.7 million sponsor fees and HK\$26.4 million other fees and expenses), representing approximately 13.2% of the gross proceeds, based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised. During the Track Record Period, we incurred listing expenses in aggregate of HK\$32.3 million (RMB26.5 million), of

## FINANCIAL INFORMATION

which HK\$24.0 million (RMB19.7 million) was charged to the consolidated statements of profit or loss as other expenses and HK\$8.3 million (RMB6.8 million) was capitalized in the consolidated statements of financial position as of June 30, 2021 to be charged against equity upon successful Listing. We expect to incur additional listing expenses of approximately HK\$68.4 million (RMB56.1 million), of which approximately HK\$26.6 million (RMB21.8 million) is expected to be recognized as other expenses and approximately HK\$41.8 million (RMB34.3 million) is expected to be recognized as a deduction in equity directly upon Listing.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Group have been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to owners of our Company as of June 30, 2021 as if the Global Offering had taken place on June 30, 2021.

The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of June 30, 2021 or any future date.

	Consolidated net tangible liabilities attributable to the equity shareholders of our Company as June 30, 2021	Estimated net proceeds from the Global Offering	Estimated impact related to the changes of terms of convertible redeemable preferred shares upon Listing	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK\$
	(Note 1)	(Note 2)	(Note 3)		(Note 4)	(Note 5)
Based on an Offer Price of HK\$25.80 per Share . . . . .	(1,567,796)	509,663	1,735,299	677,166	2.94	3.58
Based on an Offer Price of HK\$27.40 per Share . . . . .	(1,567,796)	544,060	1,735,299	711,563	3.09	3.77
Based on an Offer Price of HK\$29.00 per Share . . . . .	(1,567,796)	578,457	1,735,299	745,960	3.24	3.95

**Notes:**

- (1) The consolidated net tangible liabilities of our Group attributable to equity holders of our Company as of June 30, 2021 was equal to the audited net liabilities attributable to owners of our Company as of June 30, 2021 of RMB847,975,000 after deducting of goodwill and intangible assets of RMB688,615,000 and RMB31,206,000 as of June 30, 2021 set out in the Accountants' Report in Appendix I to this prospectus, respectively.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$25.80, HK\$27.40 or HK\$29.00 per Share, after deduction of the underwriting fees and other related expenses payable by our Company and do not take into account any share which may be sold and offered upon exercise of the Over-allotment Option.



---

## FINANCIAL INFORMATION

---

- (3) For the purpose of the unaudited pro forma financial information, considering the estimated impact related to the changes of terms of convertible redeemable preferred shares upon Listing, the unaudited pro forma adjusted net tangible assets attributable to owners of the Company will be increased by RMB1,735,299,000, being the fair value convertible redeemable preferred shares as of June 30, 2021 set out in the Accountants' Report in Appendix I to this prospectus. Upon Listing and the completion of the Global Offering, all the convertible redeemable preferred shares will be automatically converted into the Shares, which will be reclassified from liabilities to equity. The amount that is reclassified from liabilities to equity will be the fair value of the convertible redeemable preferred shares on that date of the Global Offering.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 230,396,458 Share are in issue assuming the Global Offering has been completed on June 30, 2021. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to June 30, 2021.
- (5) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8204 to HK\$1.00.

## RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

### Recent Business Development

In late May 2021, Guangzhou reported the regional outbreak of COVID-19. As a result, the number of customer visits to our medical institutions in Guangzhou experienced a decrease during the two months ended July 31, 2021, thus we experienced a decrease of 21% in the customer visits to our medical institutions in Guangzhou in June and July 2021, as compared with that of the same time period of 2020. Our other medical institutions outside Guangzhou and online healthcare platforms have maintained normal operations during the two months ended July 31, 2021. Our Directors confirm that our business operation remained stable subsequent to June 30, 2021 and up to the date of this prospectus. In August 2021, Nanjing also reported certain Delta variant cases, which has spread to other locations, raising concerns over the country's vulnerability to the highly contagious Delta variant. In response to this new COVID-19 outbreak, the PRC government imposed travel restrictions. As a result, we experienced a decrease of approximately 45% in the customer visits to our medical institutions in Nanjing in August 2021, as compared with that of the same time period of 2020. We have been continuously paying close attention to further developments of COVID-19 and taking anti-transmission measures in our medical institutions in a timely manner.

Subsequent to June 30, 2021 and up to September 30, 2021, we recorded increased customer visits, revenue and gross profit from July to September 2021 as compared with the same time periods of 2020, while our gross profit margin remained relatively stable.

### Expected Net Losses for the Year Ending December 31, 2021

We expect to incur net loss for the year ending December 31, 2021 mainly due to (i) the expected fair value loss of convertible redeemable preferred shares, (ii) the equity settled share-based payment expenses with respect to the share options under the Pre-IPO Share Option Plan, (iii) the expected increase in selling and distribution expenses and administrative expenses due to the listing expenses incurred and to be incurred in the year ending December 31, 2021, and (iv) the expected decrease in the gross profit margin for healthcare solutions in the year ending December 31, 2021 mainly due to our expanding online operations and the higher human resources costs of our online healthcare platforms. Considering the Offer Price range, we expect the fair value of our convertible redeemable preferred shares may continue to increase, and thus we may continue to record fair value loss on our convertible redeemable preference shares. Our convertible redeemable preferred shares will be automatically converted into ordinary shares upon the Listing and we do not expect to recognize any further loss or gain on fair value changes from convertible redeemable preferred shares thereafter.

---

## FINANCIAL INFORMATION

---

### No Material Adverse Change

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, except for the above mentioned expected net loss for the year ending December 31, 2021, subsequent to the Track Record Period and up to the date of this prospectus, there were no material changes to our business model and the general economic and regulatory environment in which we operate, there has been no material adverse change in our financial or trading position or prospects since June 30, 2021, being the date of the latest audited consolidated financial position of our Group as set out in the Accountants' Report in Appendix I to this prospectus up to the date of this prospectus.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares in issue (including the shares on conversion of the Preferred Shares), to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued under the Pre-IPO Share Option Plan. Such application has been made on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2020, being RMB925.4 million (equivalent to HK\$1,127.9 million), which is over HK\$500 million and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

**THE CORNERSTONE PLACING**

We have entered into cornerstone investment agreements with the cornerstone investors (collectively the “**Cornerstone Investors**”, and each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe, or cause their designated entities to subscribe, at the Offer Price for a certain number of our Offer Shares (the “**Cornerstone Placing**”).

The Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest board lot of 100 Shares) that may be subscribed for at an aggregate amount of US\$42 million, or approximately HK\$326 million.

Based on the Offer Price of HK\$29.00 per Offer Share, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 11,241,300, representing approximately 40.32% of the Offer Shares and approximately 4.88% of total issued share capital immediately upon the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and no Share is issued under the Pre-IPO Share Option Plan).

Based on the Offer Price of HK\$27.40 per Offer Share, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 11,897,800, representing approximately 42.68% of the Offer Shares and approximately 5.16% of total issued share capital immediately upon the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and no Share is issued under the Pre-IPO Share Option Plan).

Based on the Offer Price of HK\$25.80 per Offer Share, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed for by the Cornerstone Investors would be 12,635,600, representing approximately 45.33% of the Offer Shares and approximately 5.48% of total issued share capital immediately upon the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and no Share is issued under the Pre-IPO Share Option Plan).

The Cornerstone Investors are reputable investors who are well-known by institutional and/or professional investors. Given the Cornerstone Investors are well-known investors, they would form part of a market-driven institutional shareholder base for us upon completion of the Global Offering, which would be beneficial to us. Our Company is also of the view that, leveraging on the Cornerstone Investors’ investment experience, in particular in the healthcare sector, the Cornerstone Placing will help to raise the profile of our Company and to signify that such investors have confidence in our business and prospect. We also believe that the Cornerstone Placing would also enhance our profile within investors. Our Company (i) became acquainted with each of the Cornerstone Investors through introduction from the Joint Global Coordinators and (ii) did not have any relationship with any of the Cornerstone Investors prior to the introduction made by the Joint Global Coordinators.

---

## CORNERSTONE INVESTORS

---

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue immediately following the completion of the Global Offering and to be listed on the Stock Exchange, and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to their respective cornerstone investment agreement. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any Board representation in our Company, nor will any of the Cornerstone Investors become a substantial Shareholder (as defined in the Listing Rules).

To the best knowledge of our Company, (i) each of the Cornerstone Investors is an Independent Third Party and is not our connected person (as defined in the Listing Rules) nor an existing Shareholder; (ii) none of the Cornerstone Investors is accustomed to take instructions from our Company, the Controlling Shareholders, the Directors, chief executive, substantial shareholders, existing Shareholders or any of its subsidiaries or their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Offer Shares; (iii) none of the subscription of the relevant Offer Shares by any of the Cornerstone Investors is financed by our Company, the Directors, chief executive, Controlling Shareholders, substantial shareholders, existing Shareholders or any of its subsidiaries or their respective close associates.

As confirmed by each of the Cornerstone Investors, their subscription under the Cornerstone Placing would be financed by their own internal resources or existing funds managed by it. There are no side agreements or arrangements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price. Each of the Cornerstone Investors has confirmed that all necessary approvals have been obtained with respect to the Cornerstone Placing and that no specific approval from any stock exchange (if relevant) or its shareholders is required for the relevant cornerstone investment as each of them has general authority to invest.

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering—Pricing and Allocation” in this prospectus. Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on or around December 9, 2021. Pursuant to the cornerstone investment agreements with the Cornerstone Investors, the Cornerstone Investors will make full payment of their respective investment amount before Listing, and there is no mechanism for the delayed settlement of the investment amounts or deferred delivery arrangement in respect of the shares to be subscribed by the Cornerstone Investors in the respective cornerstone investment agreements, and no Offer Shares will be borrowed by the Stabilizing Manager from the Cornerstone Investors to cover over-allocations in the International Offering.

## CORNERSTONE INVESTORS

### THE CORNERSTONE INVESTORS

The following tables set forth details of the Cornerstone Placing and approximate percentage of total number of Offer Shares and percentage of total issued share capital of our Company upon Listing, based on different Offer Price scenarios:

Based on Offer Price of HK\$29.00 (being the high-end of the indicative Offer Price range)						
Cornerstone Investor (each as defined below)	Investment Amount <sup>(note)</sup>	Number of Offer Shares to be subscribed (rounded down to nearest whole board lot of 100 Shares)	Approximate percentage of total number of Offer Shares		Approximate percentage of total issued share capital of our Company immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is fully exercised	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is fully exercised
Foresight Funds . . . . .	US\$15 million	4,014,800	14.40%	12.52%	1.74%	1.71%
Boyu . . . . .	US\$12 million	3,211,800	11.52%	10.02%	1.39%	1.37%
Sage Partners . . . . .	US\$10 million	2,676,500	9.60%	8.35%	1.16%	1.14%
UBS AM Singapore . .	US\$5 million	1,338,200	4.80%	4.17%	0.58%	0.57%
	<b>US\$42 million</b>	<b>11,241,300</b>	<b>40.32%</b>	<b>35.06%</b>	<b>4.88%</b>	<b>4.79%</b>

*Note:*

- (1) Calculated based on the exchange rate as disclosed in this prospectus. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate as provided in the relevant cornerstone investment agreement.

Based on Offer Price of HK\$27.40 (being the mid-point of the indicative Offer Price range)						
Cornerstone Investor (each as defined below)	Investment Amount <sup>(note)</sup>	Number of Offer Shares to be subscribed (rounded down to nearest whole board lot of 100 Shares)	Approximate percentage of total number of Offer Shares		Approximate percentage of total issued share capital of our Company immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is fully exercised	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is fully exercised
Foresight Funds . . . . .	US\$15 million	4,249,200	15.24%	13.25%	1.84%	1.81%
Boyu . . . . .	US\$12 million	3,399,400	12.19%	10.60%	1.48%	1.45%
Sage Partners . . . . .	US\$10 million	2,832,800	10.16%	8.84%	1.23%	1.21%
UBS AM Singapore . .	US\$5 million	1,416,400	5.08%	4.42%	0.61%	0.60%
	<b>US\$42 million</b>	<b>11,897,800</b>	<b>42.68%</b>	<b>37.11%</b>	<b>5.16%</b>	<b>5.07%</b>

*Note:*

- (1) Calculated based on the exchange rate as disclosed in this prospectus. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate as provided in the relevant cornerstone investment agreement.

## CORNERSTONE INVESTORS

Based on Offer Price of HK\$25.80  
(being the low-end of the indicative Offer Price range)

Cornerstone Investor	Investment Amount <sup>(note)</sup>	Number of Offer Shares to be subscribed (rounded down to nearest whole board lot of 100 Shares)	Approximate percentage of total number of Offer Shares		Approximate percentage of total issued share capital of our Company immediately following the completion of the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is fully exercised	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is fully exercised
Foresight Funds . . . . .	US\$15 million	4,512,700	16.19%	14.08%	1.96%	1.92%
Boyu . . . . .	US\$12 million	3,610,200	12.95%	11.26%	1.57%	1.54%
Sage Partners . . . . .	US\$10 million	3,008,500	10.79%	9.38%	1.31%	1.28%
UBS AM Singapore . .	US\$5 million	1,504,200	5.40%	4.69%	0.65%	0.64%
	<b>US\$42 million</b>	<b>12,635,600</b>	<b>45.33%</b>	<b>39.41%</b>	<b>5.48%</b>	<b>5.39%</b>

*Note:*

(1) Calculated based on the exchange rate as disclosed in this prospectus. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate as provided in the relevant cornerstone investment agreement.

The following information about the Cornerstone Investors was provided to our Company by the Cornerstone Investors in relation to the Cornerstone Placing.

### Foresight Funds

Foresight Orient Global Superior Choice SPC—Global Superior Choice Fund 1 SP (“**GSC Fund 1**”) and Foresight Orient Global Superior Choice SPC—Vision Fund 1 SP (“**Vision Fund 1**”, together with GSC Fund 1, the “**Foresight Funds**”) have agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$15 million at the Offer Price.

The Foresight Funds are both sub-funds of Foresight Orient Global Superior Choice SPC, which was incorporated in the Cayman Islands. The Foresight Funds are managed at full discretion by Orient Asset Management (Hong Kong) Limited, a subsidiary of Orient Securities International Financial Group Limited, and a corporation licensed to carry out Type 9 (asset management) regulated activities under the SFO. Orient Securities International Financial Group Limited is a subsidiary of Orient Finance Holdings (Hong Kong) Limited. The latter is a wholly-owned subsidiary of 東方證券股份有限公司 (“**DFZQ**”), which is listed on the Stock Exchange (Stock Code: 3958) and Shanghai Stock Exchange (Stock Code: 600958). Foresight Fund Management Co., Ltd. (“**Foresight**”) is the investment advisor of the Foresight Funds. Foresight is a Shanghai-based asset management company and was founded by Mr. Chen Guangming (陳光明).

### Boyu

Boyu Capital Opportunities Master Fund (“**Boyu**”), an exempted company with limited liability incorporated under the laws of the Cayman Islands, is an investment fund and managed by Boyu Capital Investment Management Co., Limited (“**BCIMCL**”). BCIMCL is a fund manager that focuses on investing in high quality business franchises with sustainable growth in the healthcare, consumer, Technology, Media and Telecommunications and financial sectors.



**Sage Partners**

Sage Partners Master Fund (“**Sage Partners**”) is an exempted company with limited liability incorporated in the Cayman Islands, and is managed by Sage Partners Limited, a Hong Kong incorporated SFC Type 9 licensed investment management company established in 2019. Sage Partners is a discretionary fund and it mainly focuses on investment opportunities in the healthcare sector by deploying a long-term fundamental-based approach.

**UBS AM Singapore**

UBS Asset Management (Singapore) Ltd. (“**UBS AM Singapore**”), a company incorporated in Singapore in December 1993, has entered into a cornerstone investment agreement with our Company and the Joint Sponsors, in its capacity as the investment advisor or as the delegate to the investment manager for and on behalf of Nineteen77 Global Multi-strategy Alpha Master Limited.

UBS AM Singapore is a wholly owned subsidiary of UBS Asset Management AG (“**UBS Asset Management**”), an investment management company, which is wholly ultimately owned by UBS Group AG, which is a company organized under Swiss law as a corporation that has issued shares of common stock to investors. UBS Group AG’s shares are listed on the SIX Swiss Exchange (stock code: UBSG) and the New York Stock Exchange (stock code: UBS). UBS Asset Management is a business division of UBS Group AG and is operated as a dedicated asset management business with independence in all investment decision making. UBS Asset Management is a global large-scale and diversified asset manager, with a presence in 23 markets. UBS Asset Management offers investment capabilities and styles across all major traditional and alternative asset classes as well as advisory support to institutions, wholesale intermediaries and its global wealth management clients. As at March 31, 2021, invested assets under management of UBS Asset Management globally totaled USD1.1 trillion. UBS AM Singapore’s shareholders’ and New York Stock Exchange’s approval are not required for UBS AM Singapore’s subscription for the Shares.

To the best of the knowledge, information and belief of our Company after making reasonable enquiries, none of the Cornerstone Investor is a listed company. While UBS AM Singapore is a subsidiary of, and the Foresight Funds are managed by, listed companies, to the best of the knowledge, information and belief of our Company after making reasonable enquiries, their respective parent company or manager do not require approval from their respective shareholders or approval from the relevant stock exchanges to make their investment in our Company pursuant to the terms and conditions of the relevant cornerstone investment agreements.

## **CONDITIONS PRECEDENT**

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;
- (b) the Offer Price having been agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the other underwriters of the Global Offering);
- (c) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Shares (including the Shares to be subscribed for by the Cornerstone Investors as well as other applicable waivers and approvals) and that such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or under the relevant cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the respective representations, warranties, undertakings, confirmations and acknowledgements of the Cornerstone Investor under the relevant cornerstone investment agreement are accurate and true in all respects and not misleading and that there is no breach of the relevant cornerstone investment agreement on the part of the Cornerstone Investor.

## **RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT**

Each of the Cornerstone Investors has agreed that without the prior written consent of each of our Company, the Joint Global Coordinators and the Joint Sponsors, it will not, whether directly or indirectly, at any time during the period of six (6) months from the Listing Date (the “**Lock-up Period**”), dispose of any of the relevant Offer Shares or any interest in any company or entity holding any of the relevant Offer Shares including any securities convertible into or exchangeable or exercisable for or that represent the right to receive any of the foregoing securities, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries or affiliates who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restrictions.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

### FUTURE PLANS

See the section headed “Business – Business Strategies” for a detailed description of our future plans.

### USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$27.40 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$663.1 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 69.8% (or HK\$462.6 million) will be used to expand our offline and online operations and enhance the integration between them, among which,
  - (i) approximately 50.5% (or HK\$334.7 million) will be used to expand our offline medical institutions, including:
    - (a) approximately 14.5% (or HK\$95.9 million) will be used to upgrade the renovation, facilities and equipment of our current medical institutions, estimated based on costs and expenses to renovate and upgrade our medical institutions in the past and the current market prices for renovation and decoration, air conditioning facilities, equipment, furniture, fire protection facilities and environmental protection assessment. We estimate to incur cost for upgrading of approximately 10 medical institutions per year from 2022 to 2023, covering the renovation, decoration and upgrade of equipment and fire safety facilities;
    - (b) approximately 36.0% (or HK\$238.8 million) will be used to expand our offline medical institution network through a combination of self-establishment and acquisition. In particular, (x) approximately 9.1% (or HK\$60.6 million) will be used to establish new medical institutions in Guangdong, Jiangsu, Shanghai and Zhejiang. We plan to establish two and four medical institutions in 2022 and 2023, respectively, which we expect to be fully financed by the proceeds from the Global Offering. The actual implementation will depend on a number of factors, including the local market demand and pace of implementation of our business expansion such as procuring suitable sites and entering into leases, completing renovation work and pre-opening preparation. We intend to enhance our presence in cities we have entered into, maintain our advantage of scale in local market, improve our market penetration and enhance our market position in such cities. Taking into account (i) the estimated capital expenditure of approximately RMB3.0 million to RMB5.0 million to establish a medical institution, including renovation and purchase of fixtures, facilities and equipment and depreciation of such capital expenditure, (ii) major costs in relation to provide medical services, such as human resources costs, costs to procure pharmaceuticals and medical consumables, (iii) other expenses such as

---

## FUTURE PLANS AND USE OF PROCEEDS

---

depreciation of right-of-use assets and rental expenses, and (iv) the estimated monthly revenue generated from the operating activities and the assumed revenue growth rate based on various factors such as environment, population density, local residents' spending power and level of competition, we estimate the payback period of a newly established medical institution with a GFA of approximately 1,000 sq.m. to be approximately 18 months. We estimate the newly established medical institution to achieve breakeven in three to six months after the commencement of operations; and (y) approximately 26.9% (or HK\$178.2 million) will be used to acquire medical institutions in Shanghai, Zhejiang, Jiangsu, Fujian, Beijing and Guangdong, when appropriate opportunities arise. We plan to acquire five and eight medical institutions in 2022 and 2023, respectively, half of which will be financed by the proceeds from the Global Offering, while the remaining will be financed by our operating cash flow and bank borrowings. The actual implementation will depend on a number of factors, including the local market demand, the availability of suitable acquisition opportunities, the business negotiation on terms acceptable to us, pace of the integration and ramp-up of newly acquired medical institutions, and our then business strategies. When evaluating potential acquisition targets, we will assess factors including but not limited to the location and size, medical professional resource, customer base, historical financial performance, as well as potential synergies with our existing medical service network. For details of our standards to select acquisition targets, see "Business—Our Future Expansion—Expansion of Medical Service Network—Acquisitions." Taking into account (i) the estimated consideration to be paid for the acquisition, (ii) major costs in relation to provide medical services, such as human resources costs, costs to procure pharmaceuticals and medical consumables, (iii) other expenses such as depreciation of right-of-use assets and rental expenses, and (iv) the estimated monthly revenue generated from the operating activities and the assumed revenue growth rate upon the integration into our medical service network based on various factors such as environment, population density, local residents' spending power and level of competition, we estimate the payback period of an acquired medical institution to be approximately three years. We intend to acquire those medical institutions that have already reached monthly breakeven before the acquisition. We operate in a fragmented industry and we are well positioned to consolidate TCM clinics that are similar in size to our existing medical institutions and meet our acquisition criteria. Considering that existing medical institutions as our potential acquisition targets tend to have the qualification as a Designated Medical Institution, more established physician resources, facilities and equipment as well as accumulated customer base, we may generally tend to devote more resources to identify suitable medical institutions for acquisitions over self-establishment when we formulate our future expansion plan. Apart from the above mentioned 19 medical institutions, from 2022 to 2025, we may, if suitable opportunities arise, acquire additional medical institutions, which will be fully financed by our operating cash flow and bank borrowings. Apart from enhancing our presence in cities we have entered into, we also plan to enter into new cities each year from 2022 to 2025. For

---

## FUTURE PLANS AND USE OF PROCEEDS

---

example, we plan to enter into Wenzhou and/or Xiamen in 2022. We will continue to explore opportunities in neighboring cities in the provinces where we already had presence thereafter.

We expect the depreciation and amortisation costs with respect to the non-current assets and subsequent renovation and upgrade cost of the above mentioned self-established and acquired medical institutions may adversely affect our net profit. In addition, the consideration we paid to acquire medical institutions in excess of the fair value of identifiable net assets and liabilities acquired would be accounted for as goodwill, which might also adversely affect our net profit and financial position if impaired. See “Risk Factors—Risks Relating to Our Business and Industry—We have recognized a large amount of goodwill. If our goodwill was determined to be impaired, it could adversely affect our results of operations and financial position” for further details;

- (ii) approximately 19.3% (or HK\$127.9 million) will be used to further digitalize our business, such as purchasing medical devices, upgrade of our cloud-based HIS and research and development of digital diagnosis process to strengthen our online capabilities.
- (a) We plan to use an aggregate of approximately HK\$106.6 million to upgrade our existing online healthcare platforms continuously, among which HK\$53.3 million (or 8.0% of the proceeds from the Global Offering) will be financed by proceeds from the Global Offering, while the remaining will be financed by our operating cash flow and bank borrowings. In particular, in order to enhance and upgrade our online healthcare platforms, we plan to continuously upgrade our proprietary mobile application (customer terminal), “Gushengtang App (固生堂 App),” which is expected to be launched in December 2021 and continuously upgrade two operation management systems, “Medical CRM Operation Management System (醫務CRM運營管理系統)” and “Digitalized Member CRM System (會員CRM數字化平台).” See “Business—Information Technology Systems” for details. We also plan to further develop our cloud-based HIS and supply chain management system.
- (b) We plan to use an aggregate of HK\$149.2 million to launch smart diagnosis and treatment functionality, among which HK\$74.6 million (or 11.3% of the proceeds from the Global Offering) will be financed by proceeds from the Global Offering, while the remaining will be financed by our operating cash flow and bank borrowings. In particular, in order to launch the smart diagnosis and treatment functionality, we plan to develop intelligent TCM diagnosis and treatment system and pulse-taking equipment in 2022, utilizing the technical support from TCM universities and our accumulated clinical data and medical experience of our physicians. We intend to expand our information technology research and development team to focus on the development and commercialization of smart devices, such as smart wristbands and four-examination instruments. We plan to recruit 25 and 30 new team members for our information technology research and development team in 2022 and 2023, respectively;

---

## FUTURE PLANS AND USE OF PROCEEDS

---

- approximately 9.6% (or HK\$64.0 million) will be used to enhance our research and development capabilities, including approximately 4.8% (or HK\$32.0 million) for in-hospital preparation and approximately 4.8% (or HK\$32.0 million) for TCM solution packages.
  - (i) We expect to use an aggregate of approximately HK\$106.6 million for the research and development of in-hospital preparation, among which HK\$32.0 million is expected to be financed by the proceeds from the Global Offering, while the remaining is expected to be financed by our operating cash flow and bank borrowings. In particular, we expect to use approximately HK\$62.0 million for establishing our in-hospital preparation center, including the costs and expenses for renovation, acquisition of facilities and equipment, professionals recruitment and procurement for daily operations, among which HK\$19.2 million (or 2.9% of the proceeds from the Global Offering) is expected to be financed by the proceeds from the Global Offering, while the remaining is expected to be financed by our operating cash flow and bank borrowings. For details of our plan to develop in-hospital preparation, see “Business—Our Future Expansion—Expansion of Product Offerings.” We plan to recruit 50 to 100 professionals, in the next a few years to engage in research and development on in-hospital preparations and standardized TCM solution packages to diversify our product offerings. In particular, we plan to recruit 10 and 15 professionals in 2022 and 2023, respectively, for the development of in-hospital preparations.
  - (ii) We expect to incur an aggregate of approximately HK\$106.6 million to develop standardized TCM solution packages, among which HK\$32.0 million is expected to be financed by the proceeds from the Global Offering, while the remaining is expected to be financed by our operating cash flow and bank borrowings. We intend to develop standardized TCM solution packages for multiple common diseases and chronic diseases or healthcare needs through collecting and analyzing accumulated healthcare data from our daily operations and testing different standardized healthcare solution models for common diseases, in order to optimise the standardization and efficiency of our healthcare services. In particular, we plan to launch several standardized TCM solution packages each year from 2022 to 2025.

The expenses for our research and development will be recorded as our administrative expense. As the development of information technology enables us to operate more efficiently and expand our service offerings, we expect to generate more revenue and enhance operational efficiency;



---

## FUTURE PLANS AND USE OF PROCEEDS

---

- approximately 9.6% (or HK\$64.0 million) will be used to strengthen our supply chain capability, including upgrading our existing decocting centers and establishing new decocting centers according to our business expansion plan, and setting up our own GMP facility in mid to long term based on business needs.
- (i) We intend to establish one decocting center in Beijing in 2022 and one decocting center in Jiangsu in 2023 to meet growing demand of customers in these regions. The actual implementation will depend on a number of factors, including the local market demand and our then business strategies. Based on the costs and expenses to establish and operate decocting centers we incurred in the past, we estimate to incur an aggregate of approximately HK\$64.0 million to establish such decocting centers, among which approximately HK\$19.2 million (or 2.9% of the proceeds from the Global Offering) will be financed by proceeds from the Global Offering, while the remaining will be financed by our operating cash flow or bank borrowings.
- (ii) In order to reduce our reliance on third-party suppliers of decocting pieces and enhance the quality of the decocting pieces we use in our daily operation, we also intend to establish a GMP facility to process TCM medicinal into decocting pieces in the medium term. We estimate to incur an aggregate of approximately HK\$149.2 million to establish such GMP facility of a GFA of approximately 20,000 sq.m., among which approximately HK\$44.8 million will be financed by proceeds from the Global Offering. In particular, we expect to spend approximately 1.9% of proceeds from the Global Offering (or HK\$12.8 million) for the purchase of a land plot or lease of premises, approximately 2.9% of proceeds from the Global Offering (or HK\$19.2 million) for construction and renovation of the manufacturing, testing and warehousing facilities and approximately 1.9% of proceeds from the Global Offering (or HK\$12.8 million) for the purchase of related equipment. The remaining expenses that are not covered by the net proceeds from the Global Offering will be financed by our operating cash flow and bank borrowings. These estimated amounts are based on the GFA and equipment and facilities as expected. We have conducted preliminary feasibility study on establishing this GMP facility and are in the process of identifying the suitable land parcel to acquire or premises to lease. Our preliminary feasibility study covers the regulatory environment, requirements to apply for the Drug Manufacturing License, requisite professionals, facility planning, expected costs and expenses and cost saving analysis. We expect to complete the planning for this GMP facility by the end of 2022 and commence construction by the end of 2023. The GMP facility is expected to commence operation by the end of 2025. We plan to recruit qualified workers with relevant working experience and professionals with expertise in management, daily operation, finance or quality control for the operation of this GMP facility. Given our preliminary feasibility study and planning, leveraging relevant knowledge accumulated during our selection of third-party decocting pieces suppliers, procurement from third-party decocting pieces suppliers and quality control of the procured decocting pieces, and expertise accumulated over years of operation in the TCM healthcare industry, and considering that decocting piece production mainly involves procurement of TCM medicinal (中藥材採購), cleaning (清洗), sorting (揀選), softening (軟化), slicing (切片), processing (炮製), air-curing (晾曬) and packaging (包裝), we believe our plan to establish our own GMP facility is feasible and we have sufficient expertise in operating this GMP facility. We do not foresee any material changes in the laws and regulations and licensing requirements

---

## FUTURE PLANS AND USE OF PROCEEDS

---

applicable to us, except for the requirement to obtain the Drug Manufacturing License. Although we do not foresee any material risks to establish the GMP facility, we may be subject to certain operational or financial risks in relation to our business expansion activities. For risks in relation to our business expansion, including the operation of GMP facilities, see “Risk Factors—Risks Relating to our Business and Industry—We may be unable to identify expansion opportunities or execute expansion plans, which may materially and adversely affect our business, results of operations, financial condition and prospects.” As of the Latest Practicable Date, we had not identified any suitable land parcel to acquire or premises to lease for the GMP facility.

Such expansion plan will affect our cost structure as expenses relating to establishment of GMP facilities will be recognized as administrative expenses. The costs of construction and equipment for GMP facilities will be capitalized and thus incur depreciation expenses afterwards. We expect to streamline our supply chain and enhance our procurement cost efficiency through establishing the GMP facility. The profit margin is expected to be improved as the marginal return resulting from the enhancement of cost efficiency would be sufficient to cover the additional depreciation and production overheads related to the GMP facility. Hence, the operating cash inflow would increase correspondingly. We expect that the depreciation expenses can be partially offset by cost savings from streamlining supply chain;

- approximately 4.9% (or HK\$32.8 million) will be used for marketing and branding activities, based on the general expenses for brand promotion activities. We intend to hire approximately 100 sales and marketing staff in the next few years to expand our marketing team and improve our marketing and branding capabilities on both physician-end and customer-end. We intend to carry out regular promotion activities to approach seasoned physicians and customers in need and improve our brand awareness among them. Furthermore, we plan to actively search for collaboration opportunities with more third-party online healthcare platforms. We expect to incur an aggregate of approximately HK\$170.6 million for marketing and branding activities, among which HK\$32.8 million is expected to be financed by the proceeds from the Global Offering, while the remaining is expected to be financed by our operating cash flow and bank borrowings;
- approximately 6.0% (or HK\$39.8 million) will be used for working capital and general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price Range or that the Over-allotment Option is exercised.

If the Offer Price is fixed at HK\$29.00 per Offer Share (being the high-end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, we will receive the net proceeds of approximately HK\$705.1 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

---

## **FUTURE PLANS AND USE OF PROCEEDS**

---

If the Offer Price is fixed at HK\$25.80 per Offer Share (being the low-end of the Offer Price range stated in this prospectus) and assuming the Over-allotment Option is not exercised, the net proceeds we will receive will be approximately HK\$621.2 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

In the event that the Over-allotment Option is exercised in full, we will receive additional net proceeds ranging from approximately HK\$101.4 million (assuming an Offer Price of HK\$25.80 per Share, being the low-end of the proposed Offer Price range) to HK\$114.0 million (assuming an Offer Price of HK\$29.00 per Share, being the high-end of the proposed Offer Price range), after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to apply the net proceeds into short-term demand deposits with authorized financial institutions or licensed banks. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

---

## UNDERWRITING

---

### HONG KONG UNDERWRITERS

Merrill Lynch (Asia Pacific) Limited

Haitong International Securities Company Limited

China International Capital Corporation Hong Kong Securities Limited

GF Securities (Hong Kong) Brokerage Limited

ICBC International Securities Limited

Futu Securities International (Hong Kong) Limited

Sinomax Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on November 29, 2021. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on and subject to the terms and conditions of this prospectus and the **GREEN** Application Form at the Offer Price. Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering as mentioned herein (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and Shares which may be issued upon exercise of any option granted pursuant to the Pre-IPO Share Option Plan) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly or jointly and severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the **GREEN** Application Form and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### *Grounds for Termination*

The Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their sole and absolute discretion, by a notice (orally or in writing) to the Company, to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time at or prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - (i) any new law or any change or development involving a prospective change (or any event or circumstance likely to result in a change or a development involving a prospective change) in existing law, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any of its members) or Japan (each a “**Relevant Jurisdiction**”); or

---

## UNDERWRITING

---

- (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, trading, credit, currency market, fiscal or regulatory market conditions, equity securities or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, inter-bank markets and credit markets) in or affecting any Relevant Jurisdiction; or
- (iii) any event or a series of events, in the nature of force majeure (including, without limitation, any act of government or order of any court, economic sanction, strike, calamity, crisis, lock-out, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, act of war, outbreak or escalation of hostilities (whether or not war is declared), act of God, act of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, riot, public disorder, outbreak of diseases (including, without limitation, COVID-19), pandemics or epidemics, in each case beyond the control of the Hong Kong Underwriters); or
- (iv) any moratorium, suspension or limitation (including, without limitations, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or
- (v) (a) any change or prospective change in taxation, foreign exchange controls, currency exchange rates or foreign investment regulations (including, without limitations, a devaluation of the Hong Kong dollar or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or RMB is linked to any foreign currency or currencies) or the implementation of any exchange control, (b) any change or prospective change in taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (vi) any general moratorium on commercial banking activities in any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdictions; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any jurisdiction relevant to the business operations of any member of the Group; or
- (viii) the issue or requirement to issue by the Company of a supplemental or amendment to this prospectus, **GREEN** Application Form, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the Offer Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC, in circumstances where the matter to be disclosed could, in the sole and absolute opinion of the Joint Representatives, adversely affect the marketing for or implementation of the Global Offering, unless such supplemental or amendment has been issued with the prior written consent of the Joint Sponsors; or

---

## UNDERWRITING

---

- (ix) any litigation, dispute or legal action or claim being threatened or instigated against any of the Company, its subsidiaries, the Controlling Shareholders or any Director; or
- (x) an authority (as defined in the Hong Kong Underwriting Agreement) commencing any investigation or other action (including arrest or detainment) or proceedings, or announcing an intention to investigate or take other action (including arrest or detainment) or proceedings, against any of the Company, its subsidiaries or any of the Directors; or
- (xi) the chairman vacating his office or any of the Directors being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company; or
- (xii) any adverse change or any development involving a prospective adverse change in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profitability, results of operations, position or condition (financial or otherwise) or performance of any member of the Group or the Group as a whole (including any litigation or claim of any third party being threatened or instigated against any member of the Group); or
- (xiii) any demand by creditors for repayment of indebtedness before its maturity or an order or a petition being presented for the winding-up or liquidation of any member of the Group or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xiv) any contravention by any member of the Group of any applicable laws including the Listing Rules; or
- (xv) any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws;

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters: (a) is, will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, prospects, shareholder's equity, profitability, results of operations, position or condition (financial or otherwise), or performance of any member of the Group or the Group as a whole or to any present or prospective Shareholder in its capacity as such; or (b) has, will have or may have a material adverse effect on the success or marketability of the Global Offering or the level of Offer Shares being applied for, under the Hong Kong Public Offering or the level of interest under the International Offering; or (c) makes, will make it or may make it impracticable or inadvisable or incapable or inexpedient to market or proceed with the Hong Kong Public Offering and/or the International Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the **GREEN** Application Form, the formal notice, the preliminary offering circular or the final offering circular; or (d) would have or may have the effect of making



---

## UNDERWRITING

---

any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Representatives:
- (i) a governmental or regulatory prohibition on the Company for whatever reason from offering, allotting, issuing or selling the Offer Shares (including the Option Shares) pursuant to the terms of the Global Offering; or
  - (ii) that any statement contained in this prospectus, the **GREEN** Application Form (the “**Hong Kong Public Offering Documents**”), the application proof prospectus, the post hearing information pack of the Company, offering circular and/or any notice, announcement, advertisement, communication or other document issued or used (by or on behalf of the Company) in connection with the Hong Kong Public Offering and/or the International Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, inaccurate, incorrect in any material respect or misleading or deceptive, or any forecast, estimate, expression of opinion, intention or expectation expressed in any of the Hong Kong Public Offering Documents, the application proof prospectus, the post hearing information pack and/or any notice, announcement, advertisement, communication or other document so issued or used is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
  - (iii) any contravention by any member of the Group or any Director of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Companies Act or the Listing Rules; or
  - (iv) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission or misstatement and/or in any notice, announcement, advertisement, communication or other document issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
  - (v) that either (a) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company or any of the Controlling Shareholders or (b) any of the representations, warranties and undertakings given by the Company or any of the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, inaccurate or misleading; or
  - (vi) that any of the reporting accountants, or any of the counsels or advisors of the Company or other experts named in this prospectus (except the Joint Sponsors) have withdrawn their respective consent to the issue of this prospectus with the inclusion of their reports, letters, summaries or legal opinions (as the case may be) and references to their names included in the form and context in which they respectively appear; or

---

## UNDERWRITING

---

- (vii) any event, act or omission which gives or is likely to give rise to any liability of the Company or the Controlling Shareholders (as the case may be) pursuant to the indemnities given by the Company and the Controlling Shareholders under the Hong Kong Underwriting Agreement; or
- (viii) any material breach of any of the obligations of the Company or the Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (ix) any adverse change, or any development involving a prospective adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of the Group or the Group as a whole; or
- (x) that a significant portion of the orders in the book-building process at the time the International Underwriting Agreement is entered into, or the investment commitments by any Cornerstone Investors after signing of the cornerstone investment agreements, has been withdrawn, terminated or cancelled; or
- (xi) that the Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (xii) the admission by the Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld.

### **Undertakings to the Stock Exchange Pursuant to the Listing Rules**

#### ***Undertakings by the Company***

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any Shares or other securities convertible into equity securities (whether or not of a class already listed) of the Company or form the subject of any agreement to issue such Shares or securities within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering, the Over-allotment Option, the exercise of any option granted pursuant to the Pre-IPO Share Option Plan or any of the circumstances prescribed by Rule 10.08 of the Listing Rules.

#### ***Undertakings by the Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilizing Manager or any of its associates or any person acting for it), that he/it will not, and shall procure that any other registered holder(s) (including Frandor Limited and Tu Family Holdings Limited) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules, in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the **"First six-month Period"**), dispose of, or enter into any agreement to dispose of any Shares in respect

---

## UNDERWRITING

---

of which it is shown by this prospectus each of the Controlling Shareholders to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) or otherwise create any options, rights, interests or encumbrances in respect of such Shares.

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First six-month Period, he/it will:

- (a) if he/it pledges or charges any of our securities beneficially owned by him/it in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by the Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

The Principal Shareholders and the Pre-IPO Investors (except Celestial City, Wumianshan Ltd., Ershisimianshan Holdings Limited and Ershijiumianshan Holdings Limited) have also entered into an additional lock-up undertaking in favor of our Company, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters to the same effect.

### **Undertakings Pursuant to the Hong Kong Underwriting Agreement**

#### ***Undertakings by the Company***

The Company has undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters not to, and to procure each other member of the Group not to, (except for the offer and issue of the Offer Shares pursuant to the Global Offering, including pursuant to any exercise of the Over-Allotment Option or the exercise of any option granted pursuant to the Pre-IPO Share Option Plan), at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the First six-month Period (the “**Underwriting Agreement First six-month Period**”), without the prior written consent of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) issue, sell, accept subscription for, offer to issue or sell, contract or agree to issue or sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other equity securities of the Company);

---

## UNDERWRITING

---

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other equity securities of the Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other equity securities of the Company);
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether the transaction specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or in cash or otherwise (whether or not the issue of Shares or such other securities of the Company will be completed within the Underwriting Agreement First six-month Period).

In the event that, at any time during the period of six months immediately following the expiry of the Underwriting Agreement First six-month Period, the Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company undertakes to take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of the Company.

### *Undertakings by Controlling Shareholders*

Each of the Controlling Shareholders has undertaken to the Company and each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that, without the prior written consent of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) he/it will not, and will procure that the Principal Shareholders, Frandor Limited and Tu Family Holdings Limited will not, (save for the offer and issue of the Offer Shares by it pursuant to the Global Offering, including pursuant to any exercise of the Over-Allotment Option or the exercise of any option granted pursuant to the Pre-IPO Share Option Plan) at any time during the Underwriting Agreement First six-month Period:
  - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of the Company) (the “**Locked-up Securities**”);

---

## UNDERWRITING

---

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Locked-up Securities;
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i)(a) or (i)(b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i)(a), (i)(b) or (i)(c) above,

in each case, whether the transaction is to be settled by delivery of Shares or such other securities of the Company or in cash or otherwise (whether or not the transaction will be completed within the Underwriting Agreement First six-month Period);

- (ii) until the expiry of the Underwriting Agreement First six-month Period, in the event that he/it or any of the Principal Shareholders, Frandor Limited and Tu Family Holdings Limited enters into any of the transactions specified in paragraphs (i)(a), (i)(b) or (i)(c) above in respect of any Locked-up Securities, or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of the Company; and
- (iii) at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, he/it will (a) if and when he/it or any of the Principal Shareholders, Frandor Limited and Tu Family Holdings Limited pledges or charges any Shares or other securities of the Company beneficially owned by him/it or any of the Principal Shareholders, Frandor Limited and Tu Family Holdings Limited, immediately inform the Company in writing of such pledge or charge together with the number of Shares or other securities of the Company so pledged or charged; and (b) if and when he/it receives indications, either verbal or written, from any pledgee or chargee or any of the Principal Shareholders that any of the pledged or charged Shares or other securities of the Company will be disposed of, immediately inform the Company in writing of such indications.

For the avoidance of doubt, nothing in the above shall prevent the Controlling Shareholders or the relevant registered holder(s), any nominee or trustee holding any Shares or other securities on trust for him/it or the companies controlled by him/it from (i) purchasing additional Shares or other securities of the Company and disposing of such additional Shares or other securities of the Company, provided that such purchase does not contravene the lock-up arrangements with the Controlling Shareholders above or compliance by the Company with the requirement of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float in the Shares, or (ii) using the Shares or other securities of the Company or any interest therein beneficially owned by them as security (including without limitation a charge or a pledge) in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, provided that for the purpose of (ii) above, the Controlling Shareholders agree and undertake to use all reasonable endeavors to ensure that the relevant authorised institution which enforces the relevant security during the Underwriting Agreement First six-month Period (if any) will not dispose of the underlying Shares (whether in on-market or off-market).

---

## UNDERWRITING

---

### **The International Offering**

In connection with the International Offering, it is expected that the Company will enter into the International Underwriting Agreement with (among others) the Joint Representatives, the Joint Global Coordinators and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally and not jointly agree to purchase the International Offer Shares being offered pursuant to the International Offering or procure purchasers for such International Offer Shares.

The Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until January 2, 2022, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require the Company to issue up to an aggregate of 4,181,700 additional Offer Shares, representing 15.0% of the number of Offer Shares initially being offered under the Global Offering, at the Offer Price to solely cover over-allocations in the International Offering, if any.

### **Commission and Expenses**

Under the terms and conditions of the Underwriting Agreements, the Hong Kong Underwriters will receive a base underwriting commission of 4.0% on the aggregate Offer Price payable for the Hong Kong Offer Shares offered under the Hong Kong Public Offering (as adjusted for any reallocation pursuant to the Hong Kong Underwriting Agreement), out of which they will pay any sub-underwriting commission (if any). For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Representatives and the relevant International Underwriters (but not the Hong Kong Underwriters).

Assuming the Over-allotment Option is not exercised at all, and based on an Offer Price of HK\$27.40 per Share (being the mid-point of the indicative Offer Price range of HK\$25.80 to HK\$29.00 per Share), the aggregate commissions and fees (including the incentive fee which will be payable under the Hong Kong Underwriting Agreement and the International Underwriting Agreement), together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering to be borne by the Company are estimated to amount to approximately HK\$100.7 million in aggregate.

### **Indemnity**

The Company and the Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company or any of the Controlling Shareholders of the Hong Kong Underwriting Agreement.



---

## UNDERWRITING

---

### **Hong Kong Underwriters' Interests in the Company**

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Hong Kong Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Global Offering.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### **Joint Sponsors' Fee**

An amount of US\$300,000 is payable by the Company as sponsor fees to each of the Joint Sponsors, totalling an amount of US\$600,000.

### **Independence of Joint Sponsors**

As of the date of this prospectus, both of the Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

## **ACTIVITIES BY SYNDICATE MEMBERS**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, fund management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, securities investment and trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the Stock Exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

---

## UNDERWRITING

---

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering”. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the followings:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and each of their affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of 2,787,800 Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the section headed “The Hong Kong Public Offering”; and
- (b) the International Offering of an aggregate of 25,090,200 Shares, subject to reallocation and the Over-allotment Option as mentioned below) (i) outside the United States in offshore transactions in accordance with Regulation S and (ii) in the United States only to qualified institutional buyers in reliance on Rule 144A or any other exemption from registration under the U.S. Securities Act.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 12.10% of the enlarged issued share capital of the Company immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 13.67% of the enlarged issued share capital of the Company immediately after completion of the Global Offering and the exercise of the Over-allotment Option.

References in this prospectus to applications, **GREEN** Application Form, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares Initially Offered

We are initially offering 2,787,800 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 1.21% of the Company’s enlarged issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed “—Conditions of the Hong Kong Public Offering” below.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$29.00 per Hong Kong Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “—Pricing and Allocation” below, is less than the maximum Offer Price of HK\$29.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

### Conditions of the Hong Kong Public Offering

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including Shares that may be issued pursuant to the exercise of the Over-allotment Option and the option granted under the Pre-IPO Share Option Plan) and the approval for such listing and permission not subsequently having been revoked prior to the Listing Date;
- (b) the Offer Price being duly agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company on or before the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on or before the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. on Friday, December 10, 2021.

If, for any reason, the Offer Price is not agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company on or before Monday, December 6, 2021 or such later date as the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and the Company may agree, the Global Offering will not proceed and will lapse.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the website of the Company ([www.gstzy.cn](http://www.gstzy.cn)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares—14. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

### THE INTERNATIONAL OFFERING

The International Offering will consist of an initial offering of 25,090,200 Offer Shares, representing 90.0% of the total number of Offer Shares initially available under the Global Offering and approximately 10.89% of the Company’s enlarged issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan).

The Stabilizing Manager or its affiliates or any person acting for it may over-allocate up to and not more than an aggregate of 4,181,700 additional Offer Shares, which is 15.0% of the Offer Shares initially available under the Global Offering, and cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part or by using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangement (as detailed below) or a combination of these means.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives on behalf of the International Underwriters.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering (being Sunday, January 2, 2022), to require the Company to allot and issue up to an aggregate of 4,181,700 additional Offer Shares, representing 15.0% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to solely cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 1.78% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option (assuming that no Shares are issued under the Pre-IPO Share Option Plan). In the event that the Over-allotment Option is exercised, an announcement will be made.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Any market purchases of our Shares will be effected in compliance with all applicable laws and regulatory requirements. However, the Stabilizing Manager has been or will be appointed as stabilizing manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules, as amended, under the SFO and hence, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end after a limited period.

Stabilization actions permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, include (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Offer Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v).



---

## STRUCTURE OF THE GLOBAL OFFERING

---

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period which will begin on the Listing Date, and is expected to expire on Sunday, January 2, 2022, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, acquiring the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilization period. Following any over-allocation of Offer Shares in connection with the Global Offering, the Joint Representatives, their affiliates or any person acting on their behalf may cover such over-allocation by, among other methods, using Shares purchased by Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Offer Shares which can be over-allocated will not exceed the number of Offer Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 4,181,700 Offer Shares, representing no more than 15.0% of the Offer Shares initially available under the Global Offering.

### **Stock Borrowing Arrangement**

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 4,181,700 Shares, representing 15.0% of the Offer Shares (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), from Action Thrive, a Controlling Shareholder, pursuant to the Stock Borrowing Agreement which is expected to be entered into between the Stabilizing Manager and Action Thrive.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. Such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to Action Thrive or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option can be exercised, (b) the day on which the Over-allotment Option is exercised in full, or (c) such earlier time as the Stabilizing Manager and Action Thrive may agree in writing. No payment will be made to Action Thrive by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

### PRICING AND ALLOCATION

#### Pricing

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, December 3, 2021 (Hong Kong time) and in any event on or before Monday, December 6, 2021 (Hong Kong time) or such later date as the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and the Company may agree, by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price per Hong Kong Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per International Offer Share under the International Offering based on the Hong Kong dollar price per International Offer Share under the International Offering, as determined by the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company. The Offer Price per Hong Kong Offer Share under the Hong Kong Public Offering will be fixed at the Hong Kong dollar amount which, when increased by the 1.0% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee payable thereon, is (subject to any necessary rounding) effectively equivalent to the Hong Kong dollar price per International Offer Share under the International Offering.

The Offer Price will not be more than HK\$29.00 per Offer Share and is expected to be not less than HK\$25.80 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the website of the Company ([www.gstzy.cn](http://www.gstzy.cn)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) notices of the reduction in the number of Offer Shares or the indicative offer price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company, will be fixed within such revised offer price range.

Supplemental listing documents will also be issued by the Company in the event of a reduction in the number of Offer Shares or the Offer Price. Such supplemental listing documents will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares and/or the Offer Price will not be reduced.

If the number of Offer Shares being offered under the Global Offering or the indicative Offer Price range is so reduced, applicants who have already submitted an application will be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include such information as agreed with the Stock Exchange which may change materially as a result of any such reduction. In the absence of any such notice of reduction published as described in this paragraph, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with the Company and the Joint Representatives (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Representatives may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10.0% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The Offer Price for Shares under the Global Offering is expected to be announced on Thursday, December 9, 2021. The level of indications of interest in the Global Offering, the level of applications and the basis of allotment of Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Thursday, December 9, 2021 on the website of the Company ([www.gstzy.cn](http://www.gstzy.cn)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### **Allocation**

#### ***Allocation Under the Hong Kong Public Offering***

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (subject to the reallocation of the Offer Shares between the Hong Kong Public Offering and the International Offering referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 1,393,900 Hong Kong Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will consist of 1,393,900 Hong Kong Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 1,393,900 Offer Shares, being the number of Hong Kong Offer Shares initially allocated to each pool and representing 50.0% of the 2,787,800 Hong Kong Offer Shares initially available under the Hong Kong Public Offering, are to be rejected.

#### ***Allocation Under the International Offering***

The International Offering will include selective marketing of International Offer Shares in the United States only to qualified institutional buyers in reliance on Rule 144A, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act, as well as to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section headed “—Pricing and Allocation” above and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and

---

## STRUCTURE OF THE GLOBAL OFFERING

---

whether or not it is expected that the relevant investor is likely to hold or sell its Shares, after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of the Company and its Shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Hong Kong Offer Shares under the Hong Kong Public Offering.

### Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEX-GL91-18 require a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering under certain circumstances.

The initial allocation of Offer Shares under the Hong Kong Public Offering shall not be less than 10.0% of the Global Offering. In the event of full or over-subscription in both the Hong Kong Public Offering and the International Offering, the Joint Representatives shall apply a clawback mechanism following the closing of application lists on the following basis:

- (a) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the Joint Representatives, in their absolute discretion, may (but shall not be obliged to) reallocate up to 2,787,800 Offer Shares from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 5,575,600 Offer Shares, representing 20.0% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the final Offer Price shall be fixed at HK\$25.80 per Offer Share (being the low-end of the Offer Price range stated in this prospectus);
- (b) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 8,363,400 Offer Shares, representing 30.0% of the Offer Shares initially available under the Global Offering;
- (c) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 11,151,200 Offer Shares, representing 40.0% of the Offer Shares initially available under the Global Offering; and



---

## STRUCTURE OF THE GLOBAL OFFERING

---

- (d) If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 13,939,000 Offer Shares, representing 50.0% of the Offer Shares initially available under the Global Offering.

In the event of under-subscription in the International Offering but full or over-subscription in the Hong Kong Public Offering irrespective of the number of times, the Joint Representatives, in their absolute discretion, may (but shall not be obliged to) reallocate up to 2,787,800 Offer Shares from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 5,575,600 Offer Shares, representing 20.0% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the final Offer Price shall be fixed at HK\$25.80 per Offer Share (being the low-end of the Offer Price range stated in this prospectus).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate. However, if neither the Hong Kong Public Offering nor the International Offering is fully subscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the **GREEN** Application Form and the Underwriting Agreements.

### DEALING ARRANGEMENT

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, December 10, 2021, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, December 10, 2021. Our Shares will be traded in board lots of 100 Shares each. The stock code of the Shares is 2273.

Share certificates issued in respect of the Offer Shares will only become valid certificates of title at 8:00 a.m. on Friday, December 10, 2021 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.



### IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or any application forms in relation to the Hong Kong Public Offering.**

This prospectus is available at the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at [www.gstzy.cn](http://www.gstzy.cn). If you require a printed copy of this prospectus, you may download and print from the website addresses above.

Set out below are the channels and procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares. The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses stated above.

## 1 HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

**The Company will not provide printed application forms for the Hong Kong Public Offering.**

To apply for Hong Kong Offer Shares, you may:

- (a) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at [www.hkeipo.hk/IPOApp](http://www.hkeipo.hk/IPOApp) or [www.tricorglobal.com/IPOApp](http://www.tricorglobal.com/IPOApp)) or at [www.hkeipo.hk](http://www.hkeipo.hk); or
- (b) apply electronically through the **CCASS EIPO** service and cause HKSCC Nominees to apply on your behalf, including by:
  - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
  - (ii) (if you are a **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet system (<https://ip.ccass.com>) or through the CCASS phone system by calling +852 2979 7888 (following the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request form.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

If you apply through channel (a), the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (b)(i) or (b)(ii), the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Representatives, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2 WHO CAN APPLY

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- are outside the United States and not a U.S. person (within the meaning of Regulation S under the U.S. Securities Act) or are a person described in paragraph h(3) of Rule 902 of Regulation S.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number/passport number (for individual applicant) or Hong Kong business registration number/certificate of incorporation number (for body corporate applicant);
- have a Hong Kong address; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names.

The number of joint applicants may not exceed four.

If you are applying for Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals, please contact them for the information required for the application.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3 TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this prospectus, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Representatives (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Act and the Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) agree that none of the Company, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (h) agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States and not a U.S. person (as defined in Regulation S) or are a person described in paragraph h(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "Personal Collection" section in this prospectus to collect the Share certificate(s) and/or refund cheque(s) in person;
- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that the Company and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** Service Provider by you or by anyone as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to give electronic application instructions on behalf of that other person as their agent.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

#### 4 MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be made for a minimum of 100 Hong Kong Offer Shares and in multiples of that number of Hong Kong Offer Shares as set out in the table below. You are required to pay the amount next to the number of Hong Kong Offer Shares you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK\$		HK\$		HK\$		HK\$
100	2,929.23	2,000	58,584.47	10,000	292,922.33	300,000	8,787,669.90
200	5,858.45	2,500	73,230.59	20,000	585,844.66	400,000	11,716,893.20
300	8,787.67	3,000	87,876.70	30,000	878,766.99	500,000	14,646,116.50
400	11,716.89	3,500	102,522.82	40,000	1,171,689.32	600,000	17,575,339.80
500	14,646.12	4,000	117,168.93	50,000	1,464,611.65	700,000	20,504,563.10
600	17,575.34	4,500	131,815.05	60,000	1,757,533.98	800,000	23,433,786.40
700	20,504.57	5,000	146,461.17	70,000	2,050,456.31	900,000	26,363,009.70
800	23,433.79	6,000	175,753.40	80,000	2,343,378.64	1,000,000	29,292,233.00
900	26,363.01	7,000	205,045.63	90,000	2,636,300.97	1,393,900 <sup>(1)</sup>	40,830,443.58
1,000	29,292.23	8,000	234,337.86	100,000	2,929,223.30		
1,500	43,938.35	9,000	263,630.10	200,000	5,858,446.60		

*Note:*

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and such an application is liable to be rejected.

#### 5 APPLYING THROUGH HK eIPO WHITE FORM SERVICE

##### General

Applicants who meet the criteria in the section headed “—2. Who can apply” above may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** or on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application to the **HK eIPO White Form** Service Provider through the **IPO App** or the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, November 30, 2021 until 11:30 a.m. on Friday, December 3, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, December 3, 2021 or such later time under the section headed “—10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” below.

### No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

## 6 APPLYING THROUGH THE CCASS EIPO SERVICE

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS phone system by calling +852 2979 7888 or through the CCASS Internet system (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Representatives and our Hong Kong Share Registrar.

### Applying through the CCASS EIPO Service

Where you have applied through the **CCASS EIPO** service (either directly or indirectly through a **broker** or **custodian** on your behalf) and an application has been made by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that the Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- agree that none of the Company, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of electronic application instructions to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Act and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### Effect of Applying through the CCASS EIPO Service

By applying through the **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

### Time for Inputting Electronic Application Instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

**Tuesday, November 30, 2021 – 9:00 a.m. to 8:30 p.m.**  
**Wednesday, December 1, 2021 – 8:00 a.m. to 8:30 p.m.**  
**Thursday, December 2, 2021 – 8:00 a.m. to 8:30 p.m.**  
**Friday, December 3, 2021 – 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, November 30, 2021 until 12:00 noon on Friday, December 3, 2021 (24 hours daily, except on Friday, December 3, 2021, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, December 3, 2021, the last application day or such later time as described in the section headed “– 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” below.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

---

*Note:*

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

The Hong Kong Share Registrar would record all applications into its system and identify suspected multiple applications with identical names, identification document numbers and reference numbers according to the Best Practice Note on Treatment of Multiple/Suspected Multiple Applications issued by the Federation of Share Registrars Limited.

With regard to the announcement of results of allocations under the section headed “—11. Publication of Results” below, the list of identification document number(s) may not be a complete list of successful applicants, only successful applicants whose identification document numbers are provided to HKSCC by CCASS Participants are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

### 7 WARNING FOR ELECTRONIC APPLICATIONS

The application for the Hong Kong Offer Shares through the **CCASS eIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS phone system/CCASS Internet system for submission of **electronic application instructions**, they should go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, December 3, 2021, or such later time as described in the section headed “—10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” below.

### 8 HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee and apply through the **HK eIPO White Form** service, in the box marked “For Nominees”, you must include an account number or some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner when you fill in the application details. If you do not include this information, the application will be treated as being made for your own benefit.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly by yourself or indirectly through your **broker** or **custodian**) or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### 9 HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$29.00 per Offer Share. You must also pay the brokerage fee of 1.0%, the SFC transaction levy of 0.0027% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 100 Hong Kong Offer Shares, you will pay HK\$2,929.23.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Hong Kong Offer Shares.

You may submit an application through the **HK eIPO White Form** service or the **CCASS EIPO** service in respect of a minimum of 100 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the section headed “—4. Minimum Application Amount and Permitted Numbers” above or as otherwise specified in the **IPO App** or on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering—Pricing and Allocation”.

### 10 EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning, and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 3, 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, December 3, 2021 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.



### 11 PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, December 9, 2021 on the Company's website at [www.gstzy.cn](http://www.gstzy.cn) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration/certificate of incorporation numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner specified below:

- in the announcement to be posted on the Company's website at [www.gstzy.cn](http://www.gstzy.cn) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Thursday, December 9, 2021. Please note that the list of identification document numbers in the announcement of results of allocations may not be a complete list of successful applicants since only successful applicants whose identification document numbers are provided to HKSCC by CCASS Participants are disclosed. Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results;
- from the "IPO Results" function in the **IPO App** and the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) or [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, December 9, 2021 to 12:00 midnight on Wednesday, December 15, 2021;
- from results allocation telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, December 9, 2021 to Tuesday, December 14, 2021 (excluding Saturday, Sunday and public holiday in Hong Kong);

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12 CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

#### **If your application is revoked:**

By applying through the **HK eIPO White Form** service or through the **CCASS EIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

#### **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Representatives, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

#### ***(a) If the allotment of Hong Kong Offer Shares is void:***

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

(b) *If:*

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk);
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50.0% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13 REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$29.00 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering—The Hong Kong Public Offering—Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Thursday, December 9, 2021.

### 14 DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

Part of the identification document number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your identification document number before encashment of your refund cheque(s). Inaccurate completion of your identification document number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Thursday, December 9, 2021.

Share certificates will only become valid at 8:00 a.m. on Friday, December 10, 2021 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(a) If you apply through the HK eIPO White Form service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 9, 2021, or such other date as notified by the Company.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, December 9, 2021 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) in favour of the applicant (or, in the case of joint applications, the first-named applicant) by ordinary post at your own risk.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

**(b) *If you apply through the CCASS EIPO service***

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, December 9, 2021, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Offer Shares in the manner specified in the section headed "—11. Publication of Results" above on Thursday, December 9, 2021. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 9, 2021 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS phone system and the CCASS Internet system (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, December 9, 2021. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, December 9, 2021.

### 15 ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

### 16 PERSONAL DATA

The following Personal Information Collection Statement applies to any personal data held by the Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, Hong Kong Share Registrar or receiving bank(s) about you.

#### Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of the Company and the Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

#### Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Company or its agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of Share certificate(s) and/or refund cheques to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Company's Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the Company's register of members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of the Company's Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Company's Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of the Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

### Transfer of personal data

Personal data held by the Company and the Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential, but the Company and the Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving bank(s) and the principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### **Retention of personal data**

We and the Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

### **Access to and correction of personal data**

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

*The following is the text of a report, prepared for inclusion in this document received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong. As described in Appendix V headed "Documents Delivered to the Registrar of Companies in Hong Kong and on Display" to this document, a copy of the accountants' report is available for inspection.*



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

## **ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GUSHENGTANG HOLDINGS LIMITED AND MERRILL LYNCH (ASIA PACIFIC) LIMITED AND HAITONG INTERNATIONAL CAPITAL LIMITED**

### **Introduction**

We report on the historical financial information of GUSHENGTANG HOLDINGS LIMITED (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-93, which comprises the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2018, 2019 and 2020, and the six months ended 30 June 2021 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-93 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 November 2021 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### **Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### **Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

### **Review of interim comparative financial information**

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance****Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**Dividends**

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

**No historical financial statements for the Company**

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

*Ernst & Young*  
*Certified Public Accountants*  
Hong Kong  
30 November 2021

**I. HISTORICAL FINANCIAL INFORMATION****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.



## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE . . . . .	5	726,245	896,156	925,366	335,924	598,189
Cost of sales . . . . .		(433,291)	(504,899)	(487,876)	(180,617)	(330,113)
Gross profit . . . . .		292,954	391,257	437,490	155,307	268,076
Other income and gains . . . . .	5	5,784	12,270	11,506	6,930	10,347
Selling and distribution expenses . . . . .		(280,897)	(270,331)	(259,704)	(113,121)	(195,190)
Administrative expenses . . . . .		(68,533)	(57,763)	(70,386)	(20,348)	(60,171)
Fair value changes of convertible redeemable preferred share and convertible bonds . . . . .		(102,566)	(215,292)	(316,194)	(189,980)	(340,681)
Other expenses . . . . .		(14,137)	(8,631)	(11,136)	(1,747)	(13,733)
Finance costs . . . . .	6	(9,839)	(10,337)	(33,511)	(12,871)	(17,518)
Share of profits of associates . . . . .		—	—	172	—	571
LOSS BEFORE TAX . . . . .	7	(177,234)	(158,827)	(241,763)	(175,830)	(348,299)
Income tax credit/(expense) . . . . .	10	3,424	10,807	(13,565)	(3,205)	(1,435)
LOSS FOR THE YEAR/PERIOD . . . . .		(173,810)	(148,020)	(255,328)	(179,035)	(349,734)
OTHER COMPREHENSIVE (LOSS)/INCOME						
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods						
Exchange differences on translation of foreign operations . . . . .		(15,255)	(5,203)	20,608	(4,820)	(981)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods						
Translation of the Company's functional currency to presentation currency . . . . .		(22,313)	(9,023)	58,160	(10,488)	30,642
OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAX . . . . .		(37,568)	(14,226)	78,768	(15,308)	29,661
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD . . . . .		(211,378)	(162,246)	(176,560)	(194,343)	(320,073)
Loss attributable to:						
Owners of the Company . . . . .		(172,981)	(147,883)	(255,749)	(178,883)	(349,808)
Non-controlling interests . . . . .		(829)	(137)	421	(152)	74
		(173,810)	(148,020)	(255,328)	(179,035)	(349,734)
Total comprehensive loss attributable to:						
Owners of the Company . . . . .		(210,549)	(162,109)	(176,981)	(194,191)	(320,147)
Non-controlling interests . . . . .		(829)	(137)	421	(152)	74
		(211,378)	(162,246)	(176,560)	(194,343)	(320,073)
LOSSES PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY						
Basic and diluted (RMB) . . . . .	12	(2.22)	(1.90)	(3.28)	(2.29)	(3.81)

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		31 December	31 December	31 December	30 June
	Notes	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment . . . . .	13	61,845	49,556	41,462	47,471
Right-of-use assets . . . . .	15(a)	154,488	166,528	184,171	222,348
Goodwill . . . . .	16	449,341	462,633	545,110	688,615
Other intangible assets . . . . .	14	2,401	2,616	22,759	31,206
Investment in associates . . . . .	17	—	—	6,172	8,224
Prepayments, other receivables and other assets . . . . .	20	2,850	3,157	11,476	7,346
Deferred tax assets . . . . .	28	17,428	30,956	23,376	30,249
Total non-current assets . . . . .		688,353	715,446	834,526	1,035,459
<b>CURRENT ASSETS</b>					
Inventories . . . . .	18	57,746	45,097	57,743	69,149
Trade receivables . . . . .	19	54,100	42,345	56,576	60,328
Prepayments, other receivables and other assets . . . . .	20	102,304	108,713	132,180	104,132
Financial assets at fair value through profit or loss . . . . .	21	51,300	52,300	114,425	8,993
Cash and cash equivalents . . . . .	22	92,710	138,117	249,994	486,203
Total current assets . . . . .		358,160	386,572	610,918	728,805
<b>CURRENT LIABILITIES</b>					
Trade and bills payables . . . . .	23	146,227	121,104	113,110	133,786
Other payables and accruals . . . . .	24	165,496	167,643	258,664	265,550
Interest-bearing bank loans and other borrowings . . . . .	25	14,459	16,090	83,879	95,663
Bonds payable . . . . .		5,786	—	329,013	—
Convertible redeemable preferred shares . . . . .	26	—	963,357	1,204,204	1,735,299
Lease liabilities . . . . .	15(b)	27,634	36,378	40,029	46,391
Provisions . . . . .	33	12,783	1,161	121	121
Tax payable . . . . .		5,226	5,091	9,064	11,957
Total current liabilities . . . . .		377,611	1,310,824	2,038,084	2,288,767
NET CURRENT LIABILITIES . . . . .		(19,451)	(924,252)	(1,427,166)	(1,559,962)
TOTAL ASSETS LESS CURRENT LIABILITIES . . . . .		668,902	(208,806)	(592,640)	(524,503)
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing bank loans and other borrowings . . . . .	25	7,631	1,965	61,259	96,623
Convertible bonds . . . . .	27	484,548	508,720	198,134	—
Convertible redeemable preferred shares . . . . .	26	757,611	—	—	—
Lease liabilities . . . . .	15(b)	135,837	142,465	158,145	187,080
Other payables and accruals . . . . .	24	100,383	108,232	118,807	32,808
Deferred tax liabilities . . . . .	28	—	—	4,322	6,553
Total non-current liabilities . . . . .		1,486,010	761,382	540,667	323,064
NET LIABILITIES . . . . .		(817,108)	(970,188)	(1,133,307)	(847,567)
<b>DEFICIENCY IN ASSETS</b>					
Equity attributable to owners of the Company					
Share capital . . . . .	29	—	—	—	31
Reserves . . . . .	32	(818,193)	(971,136)	(1,133,641)	(848,006)
Non-controlling interests . . . . .		(818,193)	(971,136)	(1,133,641)	(847,975)
Total deficiency in assets . . . . .		1,085	948	334	408
		(817,108)	(970,188)	(1,133,307)	(847,567)

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Accumulated losses*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	(note 29)	(note 32)	(note 32)	(note 32)	(note 32)		
Loss for the year	—	25,000	33,665	779	(1,884)	(668,399)	1,914
Other comprehensive loss for the year:	—	—	—	—	—	(172,981)	(829)
Exchange differences on translation of foreign operations	—	—	—	—	(15,255)	—	—
Translation of the Company's functional currency to presentation currency	—	—	—	—	(22,313)	—	—
Total comprehensive loss for the year	—	—	—	—	(37,568)	(172,981)	(829)
Transfer from retained profits	—	—	—	1,355	—	(1,355)	—
Equity-settled share option arrangements	—	—	3,195	—	—	—	3,195
At 31 December 2018	—	25,000	36,860	2,134	(39,452)	(842,735)	1,085
At 1 January 2019	—	25,000	36,860	2,134	(39,452)	(842,735)	1,085
Loss for the year	—	—	—	—	—	(147,883)	(137)
Other comprehensive loss for the year:	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations	—	—	—	—	(5,203)	—	—
Translation of the Company's functional currency to presentation currency	—	—	—	—	(9,023)	—	—

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Attributable to owners of the Company									
	Share capital	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Accumulated losses*	Total	Non-controlling interests	Total deficiency
	RMB'000 (note 29)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000	RMB'000	RMB'000	RMB'000
Total comprehensive loss for the year . . . . .	—	—	—	—	(14,226)	(147,883)	(162,109)	(137)	(162,246)
Transfer from retained profits . . . . .	—	—	—	879	—	(879)	—	—	—
Equity-settled share option arrangements . . . . .	—	—	9,166	—	—	—	9,166	—	9,166
At 31 December 2019 . . . . .	—	25,000	46,026	3,013	(53,678)	(991,497)	(971,136)	948	(970,188)
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 income 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)

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Attributable to owners of the Company							Non-controlling interests	Total deficiency/equity
	Share capital	Share Premium*	Capital reserve*	Share option reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Accumulated losses*		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	(note 29)	(note 29)	(note 32)	(note 32)	(note 32)	(note 32)			
Loss for the period	—	—	23,627	61,875	4,488	25,090	(1,248,721)	334	(1,133,307)
Other comprehensive income for the period	—	—	—	—	—	—	(349,808)	74	(349,734)
Exchange differences on translation of foreign operations	—	—	—	—	—	(981)	—	—	(981)
Translation of the Company's functional currency to presentation currency	—	—	—	—	—	30,642	—	—	30,642
Total comprehensive income/(loss) for the period	—	—	—	—	—	29,661	(349,808)	74	(320,073)
Issue of shares (note 29)	25	449,847	—	(61,875)	—	—	—	—	387,997
Transfer from convertible redeemable preferred shares (note 29)	6	217,810	—	—	—	—	—	—	217,816
At 30 June 2021	31	667,657	23,627	—	4,488	54,751	(1,598,529)	408	(847,567)

\* There reserve accounts comprise the consolidated other reserve of RMB818,193,000 (negative), RMB971,136,000 (negative), RMB1,133,641,000 (negative) and RMB848,006,000 (negative) in the consolidated statement of financial position as at 31 December 2018, 2019, 2020, and 30 June 2021, respectively.

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Attributable to owners of the Company								
	Share capital	Capital reserve	Share option reserve	Statutory surplus reserve	Exchange fluctuation reserve	Accumulated losses	Non-controlling interests	Total deficiency
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	(note 29)	(note 32)	(note 32)	(note 32)	(note 32)			
Loss for the period	—	25,000	46,026	3,013	(53,678)	(991,497)	948	(970,188)
Other comprehensive income for the period:	—	—	—	—	—	(178,883)	(152)	(179,035)
Exchange differences on translation of foreign operations	—	—	—	—	(4,820)	—	—	(4,820)
Translation of the Company's functional currency to presentation currency	—	—	—	—	(10,488)	—	—	(10,488)
Total comprehensive income/(loss) for the period	—	—	—	—	(15,308)	(178,883)	(152)	(194,343)
Equity-settled share option arrangements	—	—	3,287	—	—	—	—	3,287
Acquisition of non-controlling interests	—	(1,373)	—	—	—	—	(1,035)	(2,408)
At 30 June 2020 (Unaudited)	—	23,627	49,313	3,013	(68,986)	(1,170,380)	(239)	(1,163,652)



## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
	Notes	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax . . . . .		(177,234)	(158,827)	(241,763)	(175,830)	(348,299)
Adjustments for:						
Finance costs . . . . .	6	9,839	10,337	33,511	12,871	17,518
Share of profits of associates . . . . .	17	—	—	(172)	—	(571)
Interest income . . . . .	5	(1,576)	(3,207)	(3,246)	(1,858)	(1,760)
Loss on disposal of items of property, plant and equipment . . . . .	7	402	—	—	—	—
Impairment of goodwill . . . . .	7	—	2,550	—	—	—
Amortisation of other intangible assets . . . . .	7	426	664	1,195	553	1,825
Fair value loss on convertible redeemable preferred shares . . . . .	7	35,757	191,120	319,844	198,380	330,744
Fair value loss/(gain) on convertible bonds . . . . .	7	66,808	24,172	(3,650)	(8,400)	9,937
Fair value gains on financial assets at fair value through profit or loss . . . . .	7	(1,617)	(693)	(1,961)	(1,081)	(503)
Fair value changes of derivative financial instruments . . . . .	7	(978)	—	—	—	—
Covid-19-related rent concessions from lessors . . . . .	15(b)	—	—	(3,487)	(3,036)	—
Depreciation of property, plant and equipment . . . . .	7	26,345	23,187	22,184	11,468	10,538
Depreciation of right-of-use assets . . . . .	7	30,168	34,968	42,266	22,371	27,867
Impairment/(reversal of impairment) of trade receivable . . . . .	7	365	550	623	(127)	534
Impairment of property, plant and equipment . . . . .	7	7,100	—	657	657	—
Impairment of other intangible assets . . . . .	7	81	—	—	—	—
Equity-settled share option expense . . . . .	7	3,313	9,243	15,361	3,290	43,748
		(801)	134,064	181,362	59,258	91,578
Decrease/(increase) in inventories . . . . .		12,328	12,649	(12,646)	3,714	(11,406)
Decrease/(increase) in trade receivables . . . . .		60,132	11,205	(14,854)	5,638	(4,286)
(Increase)/decrease in prepayments, other receivables and other assets . . . . .		(13,392)	5,854	(18,020)	(6,995)	(1,833)
(Decrease)/increase in trade and bills payables . . . . .		(46,373)	(25,123)	(7,994)	(23,842)	20,676
Increase/(decrease) in other payables and accruals . . . . .		38,096	4,875	27,341	(15,069)	(26,542)
Decrease in provisions . . . . .		(20,484)	(11,622)	(1,040)	(1,040)	—
Cash generated from operations . . . . .		29,506	131,902	154,149	21,664	68,187
Interest received . . . . .		1,576	3,207	3,246	1,858	1,760
Corporate income tax paid . . . . .		(297)	(2,855)	(2,491)	(2,491)	(5,697)
Net cash flows from operating activities . . . . .		30,785	132,254	154,904	21,031	64,250

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

		Year ended 31 December			Six months ended 30 June	
	Notes	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of items of property, plant and equipment . . . . .		(21,784)	(4,619)	(18,591)	(7,828)	(17,443)
Proceeds from disposal of items of property, plant and equipment. . . . .		500	861	98	11	13
Proceeds from disposal of other intangible assets . . . . .		—	34	4	1	3
Additions to other intangible assets . . . . .		(1,757)	(913)	(2,133)	(1,036)	(225)
Acquisition of subsidiaries . . . . .	34	(49,989)	(21,874)	(38,810)	(7,850)	(108,647)
Disposal of subsidiaries . . . . .	35	—	2,600	—	—	—
Additional investment in associates . . . . .		—	—	(3,000)	—	(4,481)
Purchase of financial assets at fair value through profit or loss . . . . .		(782,326)	(217,490)	(990,854)	(412,500)	(231,000)
Proceeds of redemption of financial assets at fair value through profit or loss . . . . .		830,643	217,183	937,775	450,881	338,843
Loans to a director . . . . .		(2,174)	(27,372)	(1,960)	(1,960)	—
Repayment from a director. . . . .		—	16,214	—	—	34,268
Net cash flows (used in)/from investing activities . . . . .		(26,887)	(35,376)	(117,471)	19,719	11,331
CASH FLOWS FROM FINANCING ACTIVITIES						
Issue of preferred shares . . . . .	26	—	—	—	—	243,740
Issue of ordinary shares . . . . .	29	—	—	—	—	250,558
New bank loans and other borrowings . . . . .	39	46,265	12,122	146,618	5,000	84,784
Repayment of bank loans and other borrowings. . . . .	39	(36,925)	(16,157)	(19,535)	(11,531)	(37,636)
Principal portion of lease payments . . . . .	39	(27,165)	(31,636)	(37,039)	(23,453)	(30,359)
Interest paid . . . . .	39	(9,695)	(11,123)	(11,434)	(5,313)	(17,518)
Acquisition of non-controlling interests . . . . .		—	—	(2,408)	(2,408)	—
Repayment of convertible bonds . . . . .		—	(5,000)	—	—	(329,013)
Net cash flows (used in)/from financing activities . . . . .		(27,520)	(51,794)	76,202	(37,705)	164,556
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS. . . . .						
Cash and cash equivalents at the beginning of the year/period . . . . .		115,390	92,710	138,117	138,117	249,994
Effect of foreign exchange rate changes, net . . . . .		942	323	(1,758)	(1,076)	(3,928)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD . . . . .	22	92,710	138,117	249,994	140,086	486,203
Analysis into:						
Cash and bank balances as stated in the consolidated statements of financial position and the consolidated statements of cash flows . . . . .		92,710	138,117	249,994	140,086	486,203

## I. HISTORICAL FINANCIAL INFORMATION (continued)

## STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		31 December	31 December	31 December	30 June
	Notes	2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Investments in subsidiaries . . . . .		36,793	45,102	55,236	54,870
Total non-current assets . . . . .		36,793	45,102	55,236	54,870
CURRENT ASSETS					
Due from subsidiaries . . . . .	20	750,517	751,370	736,978	1,156,893
Cash and cash equivalents . . . . .	22	19,160	19,424	8,500	231,367
Total current assets . . . . .		769,677	770,794	745,478	1,388,260
CURRENT LIABILITIES					
Other payables . . . . .		—	—	—	214,460
Bonds payable . . . . .		5,786	—	329,013	—
Convertible redeemable preferred shares .	26	—	963,357	1,204,204	1,735,299
Total current liabilities . . . . .		5,786	963,357	1,533,217	1,949,759
NET CURRENT LIABILITIES . . . . .		763,891	(192,563)	(787,739)	(561,499)
TOTAL ASSETS LESS CURRENT LIABILITIES . . . . .		800,684	(147,461)	(732,503)	(506,629)
NON-CURRENT LIABILITIES					
Interest-bearing other borrowings . . . . .		—	—	—	52,488
Convertible bonds . . . . .	27	484,548	508,720	198,134	—
Convertible redeemable preferred shares .	26	757,611	—	—	—
Total non-current liabilities . . . . .		1,242,159	508,720	198,134	52,488
NET LIABILITIES . . . . .		(441,475)	(656,181)	(930,637)	(559,117)
DEFICIENCY IN ASSETS					
Share capital . . . . .	29	—	—	—	31
Reserves . . . . .	32	(441,475)	(656,181)	(930,637)	(559,148)
Total deficiency in assets . . . . .		(441,475)	(656,181)	(930,637)	(559,117)

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

## 1. CORPORATE INFORMATION

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

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

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraph headed "Corporate Reorganization" in the section headed "History, Reorganization and Corporate Structure" in the Prospectus. Apart from the Reorganization, the Company has not commenced any business since its incorporation.

At the end of the Relevant Periods, the Company had direct or indirect interests in its subsidiaries, all of which are private limited liability companies, (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

No.	Company name	Place and date of incorporation/registration and place of operation	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
1.	Gushengtang Hong Kong Limited <sup>(c)</sup>	Hong Kong May 30, 2014	HK\$1	100%	—	Investment management
2.	Healthcare Capital Limited	Hong Kong January 3, 2020	HK\$100	100%	—	Investment management
3.	Guangzhou Wumianshan Investment Holdings Co., Ltd. <sup>(a)</sup>	PRC May 22, 2020	USD3,000,000	—	100%	Investment management
4.	Wumianshan Health Technology (Beijing) Co., Ltd. <sup>(a)</sup>	PRC August 13, 2014	USD3,000,000	—	100%	Provision of technical services
5.	Guangzhou Guyi Investment Holding Company Limited <sup>(a)</sup>	PRC April 22, 2020	RMB3,000,000	—	100%	Investment management
6.	Guangdong Gushengtang Health Technology Co., Limited <sup>(c)</sup>	PRC September 13, 2010	RMB30,577,276	—	100%	Investment management
7.	Guangzhou Blue Ocean Pharmaceutical Co., Ltd. ("Blue Ocean")	PRC April 17, 2017	RMB1,500,000	—	100%	Pharmaceutical wholesale and supply chain management
8.	Beijing Gushengtang TCM Hospital Co., Ltd.	PRC September 28, 2011	RMB600,000	—	100%	Provision of medical services
9.	Shenzhen Gushengtang Yuanbo Out-patient Department	PRC May 19, 2017	RMB2,000,000	—	100%	Provision of medical services
10.	Shenzhen Gushengtang TCM Health Technology Co., Ltd.	PRC April 17, 2012	RMB1,000,000	—	100%	Investment management
11.	Zhongshan Gushengtang Medical Investment Management Co., Ltd.	PRC September 15, 2015	RMB15,000,000	—	100%	Investment management
12.	Zhongshan Gushengtang TCM Out-patient Co., Ltd.	PRC May 4, 2016	RMB3,000,000	—	100%	Provision of medical services
13.	Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd.	PRC November 14, 2016	RMB5,000,000	—	100%	Provision of medical services
14.	Foshan Gushengtang TCM Out-patient Department Co., Ltd. (Nanhai Branch)	PRC May 19, 2015	RMB1,200,000	—	100%	Provision of medical services
15.	Fuzhou Gushengtang General Out-patient Co., Ltd.	PRC August 15, 2016	RMB5,600,000	—	100%	Provision of medical services
16.	Fuzhou Gulou Xinfu Longyao TCM Out-patient Department Co., Ltd.	PRC October 13, 2016	RMB26,000,000	—	100%	Provision of medical services
17.	Shanghai Wanjia TCM Out-patient Co., Ltd.	PRC October 19, 2016	RMB16,800,000	—	100%	Provision of medical services
18.	Shanghai Duzhuang Out-patient Co., Ltd.	PRC December 22, 2017	RMB500,000	—	100%	Provision of medical services
19.	Shanghai Jinyue Out-patient Department Co., Ltd.	PRC December 22, 2017	RMB2,000,000	—	100%	Provision of medical services
20.	Shanghai Gushengtang Tongbaokang TCM Out-patient Department Co., Ltd.	PRC January 23, 2018	RMB500,000	—	100%	Provision of medical services

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 1. CORPORATE INFORMATION (continued)

No.	Company name	Place and date of incorporation/registration and place of operation	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
21.	Shanghai Donglong Freight Forwarding Co., Ltd.	PRC December 22, 2017	RMB100,000	—	100%	Provision of logistics services
22.	Gushengtang (Shanghai) Commercial Co., Ltd.	PRC April 19, 2018	RMB100,000,000	—	100%	Provision of technical services
23.	Shanghai Zhenantang TCM Out-patient Department Co., Ltd.	PRC November 9, 2020	RMB16,000,000	—	100%	Provision of medical services
24.	Shanghai Zhongyida TCM Out-patient Department Co., Ltd.	PRC July 21, 2020	RMB6,000,000	—	100%	Provision of medical services
25.	Nanjing Gushengtang Ningxi TCM Out-patient Department Co. Ltd.	PRC November 20, 2016	RMB33,500,000	—	100%	Provision of medical services
26.	Shenzhen Gushengtang TCM Investment Development Co., Ltd.	PRC June 12, 2013	RMB500,000	—	100%	Investment management
27.	Nanjing Gushengtang Huajian TCM Co., Ltd. Pukou Bailu TCM Out-patient Department	PRC October 28, 2020	RMB16,000,000	—	100%	Provision of medical services
28.	Nanjing BaihuiYunyi Technology Co., Ltd. ("Baihui")	PRC November 10, 2020	RMB2,000,000	—	100%	Provision of technical services
29.	Nanjing Gushengtang Huajian TCM Co., Ltd. ("Huajian", together with Baihui, "Bailu")	PRC October 28, 2020	RMB1,600,000	—	100%	Provision of medical services
30.	Suzhou Gushengtang Taohuawu TCM Out-patient Department Co., Ltd.	PRC October 8, 2016	RMB1,000,000	—	100%	Provision of medical services
31.	Suzhou Gusu Gushengtang Laodongwu TCM Out-patient Department Co., Ltd.	PRC October 14, 2016	RMB2,800,000	—	100%	Provision of medical services
32.	Suzhou Gushengtang Tongan Out-patient Department Co., Ltd.	PRC August 7, 2020	RMB1,000,000	—	100%	Provision of medical services
33.	Suzhou Gushengtang Shilu Clinic Co., Ltd.	PRC February 19, 2019	RMB3,500,000	—	100%	Provision of medical services
34.	Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd.	PRC December 5, 2016	RMB12,000,000	—	100%	Provision of medical services
35.	Ningbo Gushengtang Pharmacy Co., Ltd. <sup>(c)</sup>	PRC December 5, 2016	RMB6,000,000	—	100%	Pharmaceutical retail
36.	Ningbo Yinzhou Guyi Shenrong Co., Ltd.	PRC August 17, 2017	RMB500,000	—	100%	Pharmaceutical retail
37.	Ningbo Yinzhou Gushengtang Zhongyishoutang TCM Out-patient Department Co., Ltd.	PRC August 17, 2017	RMB15,000,000	—	100%	Provision of medical services
38.	Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd.	PRC November 20, 2017	RMB3,000,000	—	100%	Provision of medical services
39.	Ningbo Zhenhai Gushengtang Manshan TCM Out-patient Department Co., Ltd.	PRC October 29, 2020	RMB2,200,000	—	100%	Provision of medical services
40.	Ningbo Hailan Health Industry Co., Ltd.	PRC April 12, 2018	RMB1,000,000	—	100%	Provision of medical services
41.	Guangzhou Tianhe District Gushengtang Healthcare Out-patient Department Co. Ltd.	PRC April 28, 2017	RMB500,000	—	100%	Provision of medical services
42.	Guangzhou Haizhu District Gushengtang TCM Out-patient Department Co., Ltd. <sup>(b)</sup>	PRC July 23, 2015	RMB4,000,000	—	90%	Provision of medical services
43.	Guangzhou Gushengtang TCM Oncology Out-patient Department Co., Ltd. <sup>(c)</sup>	PRC July 18, 2016	RMB1,000,000	—	100%	Provision of medical services
44.	Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd.	PRC August 20, 2015	RMB990,000	—	100%	Provision of medical services
45.	Guangzhou Gushengtang TCM Out-patient Department Co., Ltd.	PRC April 10, 2017	RMB3,000,000	—	100%	Provision of medical services
46.	Lingnan Dongshan, Guangzhou Liwan District Gushengtang TCM Out-patient Department Co., Ltd.	PRC January 5, 2018	RMB1,000,000	—	100%	Provision of medical services

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 1. CORPORATE INFORMATION (continued)

No.	Company name	Place and date of incorporation/registration and place of operation	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
47.	Guangzhou Gushengtang Oncology Out-patient Department, Guangzhou Baiyuan Gushengtang TCM Out-patient Department Co., Ltd.	PRC August 25, 2017	RMB1,000,000	—	100%	Provision of medical services
48.	Guangzhou Haizhu District Gushengtang Baogang TCM Out-patient Department Co., Ltd.	PRC January 25, 2018	RMB3,000,000	—	100%	Provision of medical services
49.	Guangzhou Lingnan and Guangzhou Tianhe District Gushengtang Wushan TCM Out-patient Department Co., Ltd.	PRC April 11, 2018	RMB2,000,000	—	100%	Provision of medical services
50.	Guangzhou Zeyitong TCM Co., Ltd.	PRC July 19, 2019	RMB1,000,000	—	100%	Pharmaceutical retail
51.	Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd.	PRC April 20, 2020	RMB5,000,000	—	100%	Provision of medical services
52.	Guangzhou Gushengtang Information Technology Co., Ltd. <sup>(c)</sup>	PRC August 18, 2017	RMB30,000,000	—	100%	Provision of technical services
53.	Guangzhou Gushengtang Medical Services Co., Ltd.	PRC September 28, 2017	RMB1,000,000	—	100%	Investment management
54.	Guangzhou Gushengtang Healthcare Medical Investment Co., Ltd.	PRC August 18, 2017	RMB1,000,000	—	100%	Investment management
55.	Guangzhou Yuexiu Gushengtang Health Services District Care Station Co., Ltd.	PRC July 15, 2020	RMB100,000	—	100%	Provision of medical services
56.	Guangzhou Liwan District Gushengtang Medical Care Station Co., Ltd.	PRC July 20, 2020	RMB100,000	—	100%	Provision of medical services
57.	Guangzhou Guangyitang Health Management Co., Ltd.	PRC May 11, 2020	RMB1,000,000	—	100%	Investment management
58.	Shanghai Gutang Health Management Consultancy Co., Ltd. <sup>(a)</sup>	PRC May 13, 2015	USD50,000,000	—	100%	Investment management
59.	Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd.	PRC September 7, 2015	RMB18,000,000	—	100%	Investment management
60.	Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd.	PRC September 7, 2015	RMB12,000,000	—	100%	Provision of medical services
61.	Wuxi Gushengtang Baoyuanchun Nanchan Temple Pharmacy Co., Ltd.	PRC September 7, 2015	RMB2,080,000	—	100%	Pharmaceutical retail
62.	Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd.	PRC September 7, 2015	RMB10,000,000	—	100%	Provision of medical services
63.	Wuxi Gushengtang Baoyuanchun Chongan Temple Pharmacy Co., Ltd.	PRC September 7, 2015	RMB2,080,000	—	100%	Pharmaceutical retail
64.	Wuxi Gushengtang Baoyuanchun Shenrong Health Products Co., Ltd.	PRC September 7, 2015	RMB2,080,000	—	100%	Pharmaceutical retail
65.	Sichuan Gusheng Pharmaceutical Co., Ltd.	PRC August 3, 2018	RMB50,000,000	—	100%	Pharmaceutical retail
66.	Sichuan Gusheng Medical Management Co., Ltd.	PRC August 27, 2018	RMB5,000,000	—	100%	Investment management
67.	Guangzhou Dayi Information Technology Co., Ltd.	PRC April 3, 2019	RMB2,000,000	—	100%	Provision of technical services
68.	Shenzhen Gushengtang Xiangzhu Out-patient Department	PRC October 10, 2018	RMB2,000,000	—	100%	Provision of medical services
69.	Guangzhou Bailitiaoyi Consultancy Co., Ltd.	PRC July 13, 2018	RMB1,000,000	—	100%	Investment management
70.	Guangzhou Blue Ocean Pharmaceutical Co., Ltd.Nanjing Branch	PRC September 6, 2019	—	—	100%	Pharmaceuticals wholesaler



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 1. CORPORATE INFORMATION (continued)

No.	Company name	Place and date of incorporation/registration and place of operation	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
71.	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang Renheng TCM Hospital	PRC October 8, 2013	—	—	100%	Provision of medical services
72.	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang TCM Out-patient Department (Zhuzilin first branch)	PRC June 3, 2016	—	—	100%	Provision of medical services
73.	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang Health Club	PRC August 2, 2013	—	—	100%	Provision of medical services
74.	Shenzhen Gushengtang TCM Investment Development Co., Ltd. Luohu Hurun General Out-patient Department	PRC November 10, 2015	—	—	100%	Provision of medical services
75.	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Gushengtang Bao'an TCM Hospital	PRC December 1, 2016	—	—	100%	Provision of medical services
76.	Shenzhen Gushengtang TCM Health Technology Co., Ltd. Huanggang Out-patient Department	PRC July 13, 2018	—	—	100%	Provision of medical services
77.	Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Dongshan Out-patient Department	PRC September 22, 2015	—	—	100%	Provision of medical services
78.	Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Shuiyin Out-patient Department	PRC September 22, 2015	—	—	100%	Provision of medical services
79.	Guangzhou Tianhe, Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. Taojin Out-patient Department	PRC September 22, 2015	—	—	100%	Provision of medical services
80.	Nanjing Bailu TCM Clinic Co., Ltd.	PRC September 30, 2020	RMB66,000,000	—	100%	Provision of medical services
81.	Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd.	PRC December 3, 2004	RMB7,500,000	—	100%	Provision of medical services
82.	Beijing Kunlun Hospital Co., Ltd.	PRC December 29, 2003	RMB50,000	—	100%	Provision of medical services
83.	Ningbo Haishu Gushengtang Liuting TCM Out-patient Department Co., Ltd.	PRC October 25, 2017	RMB8,000,000	—	100%	Provision of medical services
84.	Fuzhou Xiulichun TCM Out-patient Co., Ltd.	PRC March 9, 2018	RMB16,000,000	—	100%	Provision of medical services
85.	Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司)	PRC June 10, 2020	RMB3,000,000	—	100%	Provision of medical services
86.	Shanghai Wanlian Pharmacy Co., Ltd. ("Shanghai Wanlian")	PRC April 24, 2020	RMB1,000,000	—	100%	Provision of medical services
87.	Beijing Kunlun Hospital Co., Ltd.	PRC August 11, 2003	RMB600,000	—	100%	Provision of medical services

## Notes:

- (a) The company is registered as a wholly-foreign-owned enterprise under the law of the People's Republic of China ("PRC").
- (b) The company is a non-wholly-owned subsidiary of the Company.
- (c) 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.
- (d) No audited financial statements have been prepared for these entities since incorporation, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (e) The English names of these companies represents 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.1 BASIS OF PRESENTATION**

Pursuant to the Reorganization, as more fully explained in the paragraph headed “Corporate Reorganization” in the section headed “History, Reorganization and Corporate Structure” in the Prospectus, the Company became the holding company of the companies comprising the Group on 21 August 2014.

Due to regulatory restrictions on foreign ownership in schools in the PRC, the Business was carried out by Guangdong Gushengtang Health Technology Co., Limited and its subsidiaries (the “PRC Operating Entities”) during the Relevant Periods. Pursuant to the Reorganisation, WFOE, the Company’s wholly-owned subsidiaries, has entered into the structured contracts with, among others, the PRC Operating Entities and their respective equity holders (the “Structured Contracts”). The arrangements of the Structured Contracts enable WFOE to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC Operating Entities. Accordingly, after the Structured Contracts have been signed in 21 August 2014, the PRC Operating Entities are controlled by the Company based on the Structured Contracts though the Company does not have any direct or indirect equity interest in the PRC Operating Entities. Details of the Structured Contracts are disclosed in the section headed “Contractual Arrangements” in the Document.

As the Reorganisation included inserting new holding companies into the Group and deregistration and disposal of certain subsidiaries with no actual business operations. Except for the deregistration and disposal of those subsidiaries, which are accounted for when they were incurred, the Reorganisation results in no change in subsidiaries or businesses being consolidated during the Relevant Period.

Equity interests in subsidiaries held by parties other than the Company, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

Profit or loss is attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions and balances have been eliminated on consolidation.

**2.2 BASIS OF PREPARATION**

The Group recorded net current liabilities of RMB1,560.0 million as at 30 June 2021, mainly resulting from certain convertible redeemable preferred shares, further details of which are set out in note 26 to the Historical Financial Information. The directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance, including the following conditions, in assessing whether the Group will have sufficient financial resources to continue as a going concern:

- (a) The Group intended to enhance cost efficiency to keep a healthy cash flow operations and postponing future expansion; and
- (b) As at 30 June 2021, the Group had unutilised bank facilities amounting to RMB471.9 million (note 25) and intended to enter more bank facilities to ensure sufficient financial resources for future liquidity.

The Directors have prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period, based on the abovementioned measures and plans, and concluded that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 on a going concern basis.

The Historical Financial Information has 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.

All HKFRSs effective for the accounting period commencing from 1 January 2021, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods. The Group also early adopted amendments to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021* on 1 January 2021 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the Relevant Periods.

The Historical Financial Information has 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 Incentive Arrangement (as defined in note 30), which have been measured at fair value at the end of each of the Relevant Periods.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

### 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information. The Group intends to adopt them, if applicable, when they become effective.

Amendments to HKFRS 3 . . . . .	<i>Reference to the Conceptual Framework</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 . . . . .	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 17 . . . . .	<i>Insurance Contracts</i> <sup>2</sup>
Amendments to HKFRS 17 . . . . .	<i>Insurance Contracts</i> <sup>2, 5</sup>
Amendments to HKAS 1 . . . . .	<i>Classification of Liabilities as Current or Non-current</i> <sup>2, 4</sup>
Amendments to HKAS 1 . . . . .	<i>Disclosure of Accounting Policies</i> <sup>2</sup>
Amendments to HKAS 8 . . . . .	<i>Definition of Accounting Estimates</i> <sup>2</sup>
Amendments to HKAS 12 . . . . .	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>2</sup>
Amendments to HKAS 16 . . . . .	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>1</sup>
Amendments to HKAS 37 . . . . .	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> <sup>1</sup>
Annual Improvements to HKFRSs 2018-2020 . . . . .	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to HKAS 1 issued in August 2020, 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

<sup>5</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, the effective date of HKFRS 17 was deferred to 1 January 2023, and 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment 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 investment 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 the profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes 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 investment 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 investment in associates.

Business combinations and goodwill

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

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

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

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

Any contingent consideration to be transferred by the acquirer is recognized 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 recognized 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 recognized 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, recognized in profit or loss as a gain on bargain purchase.

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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 recognized 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.

An impairment loss is recognized 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.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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 recognized 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to 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 recognizes 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 or 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/period end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year/period the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvement under construction, which is stated at cost less any impairment losses, and is 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.



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The 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 is amortised on the straight-line basis over its 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 criteria is expensed when incurred.

Lease

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 recognizes 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 recognized 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 recognized, 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 recognized 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

1.6 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 recognized 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 recognized as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Lease (continued)

## (c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office building (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognized 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized 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.

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 recognized 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****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 recognized in profit or loss when the asset is derecognized, 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 recognized in the 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 derecognized (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 recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognizes 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 recognized 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 Relevant Periods, 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets (continued)*General approach (continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*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 recognizes 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 recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, lease liabilities, convertible redeemable preferred shares, convertible bonds, and interest-bearing bank loans and other borrowing and bonds payable.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification.

*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 recognized in profit or loss. The net fair value gain or loss recognized 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 recognized 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 recognized in profit or loss does not include any interest charged on these financial liabilities.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial liabilities (continued)*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 recognized in profit or loss when the liabilities are derecognized 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.

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 recognized 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 Historical Financial Information.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in profit or loss. The component of fair value changes relating to the company's own credit risk is recognized 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 recognized in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements 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 statements 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Provisions

A provision is recognized 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 recognized for a provision is the present value at the end of each of the Relevant Periods 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 recognized outside profit or loss is recognized 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 Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where 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 recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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:

- where 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 recognized 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 Relevant Periods 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. Unrecognized deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognized 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 Relevant Periods.

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.



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Government grants

Government grants are recognized 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 recognized 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 recognized 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 recognized 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 recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

## (a) Healthcare solutions

Healthcare solutions comprise consultation and diagnosis service, prescription service, decoction service, medication and physiotherapy. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication, and iii) physiotherapy. The Group allocates the transaction price to each performance obligation based on 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 customer. Revenue from consultation, diagnosis and prescription is recognized when those services are completed. Revenue from decoction and medication is recognized when the related medicative healthcare products are delivered to customer. Revenue from physiotherapy is recognized evenly upon each of completed services. Transactions are settled by payment from commercial insurance, government's insurance scheme, or directly paid by bank cards, third-party payment platforms or cash from customers.

## (b) Sale of healthcare products

Sale of healthcare products includes sale of valuable medicinal herbs and nourishment and revenue from the sale of healthcare products is recognized at the point in time when control of the asset is transferred to the customer. Transactions are settled by payment from commercial insurance, government's insurance scheme, or directly paid by bank cards or cash from customers.

*Other income*

Interest income is recognized, 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 recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Contract liabilities

A contract liability is recognized 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 recognized 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 note 30 to the Historical Financial Information.

The cost of equity-settled transactions is recognized 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 recognized 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 recognized 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 recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized 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 recognized for the award is recognized 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.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Share-based payments (continued)*Cash-settled transactions*

The cost of cash-settled transactions is measured initially at fair value at the grant date using the discounted cashflow method, taking into account the terms and conditions upon which the instruments were granted (note 30). The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognized 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 recognized in profit or loss.

Employee retirement benefits*Mainland China*

As stipulated by the rules and regulations of Mainland China, the Company's subsidiaries which operates in Mainland China are required to contribute to a state-sponsored retirement plan for all its Mainland China employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plans are responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

*Hong Kong*

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, the Company's subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The costs of employee retirement benefits are recognized 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 recognized 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 recognized immediately as a liability when they are proposed and declared.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currencies

The functional currency of the Company is the United States dollars ("USD") while the presentation currency of the Company for the Historical Financial Information 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 recognized in profit or loss.

Differences arising on settlement or translation of monetary items are recognized 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 recognized 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 recognized in other comprehensive income or profit or loss is also recognized 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 recognizes 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, joint ventures 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 weighted average exchange rates for the year.

The resulting exchange differences are recognized 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 recognized 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 Historical Financial Information 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 judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Historical Financial Information.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Judgements (continued)*Significant judgement in determining the lease term of contracts with renewal options*

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years). In addition, the renewal options for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018, 2019, 2020 and 30 June 2021 were RMB449,341,000, RMB462,633,000, RMB545,110,000, and RMB688,615,000, respectively. Further details are given in note 16 to the Historical Financial Information.

*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 2018, 2019, 2020 and 30 June 2021 were RMB757,611,000, RMB963,357,000, RMB1,204,204,000 and RMB1,735,299,000, respectively. Further details are included in note 26 to the Historical Financial Information.

*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 recognized 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 recognized, 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 recognized tax losses at 31 December 2018, 2019, 2020 and 30 June 2021 were RMB5,908,000, RMB17,634,000, RMB11,404,000 and RMB16,200,000, respectively. Further details are contained in note 28 to the Historical Financial Information.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****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 provision of healthcare services and sales 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 each of the Relevant Periods.

**5. REVENUE, OTHER INCOME AND GAINS**Revenue

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

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Revenue from contracts with customers. . . . .	726,245	896,156	925,366	335,924	598,189

## (i) Disaggregated revenue information

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
<b>Type of goods or service</b>					
Healthcare solutions. . . . .	668,135	865,862	891,797	326,960	588,872
Sale of healthcare products . . . . .	58,110	30,294	33,569	8,964	9,317
	726,245	896,156	925,366	335,924	598,189
<b>Timing of revenue recognition</b>					
Goods and services transferred at a point in time . .	726,245	896,156	925,366	335,924	598,189



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

## Revenue (continued)

## (i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognized in the Relevant Periods that were included in the contract liabilities at the beginning of respective periods:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	

Revenue recognized that was included in the contract liability balances at the beginning of the year/period:

Healthcare solutions. . . . .	7,084	8,132	16,852	16,852	24,429
-------------------------------	-------	-------	--------	--------	--------

## (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 recognized 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, government's insurance scheme, third-party payment platforms, or directly paid by bank cards, third-party payment platforms or cash from customers.

*Healthcare solutions*

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

The Group 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 recognized when the membership rights are redeemed for control of the goods and services.

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

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	

Amounts expected to be recognized as revenue

within one year . . . . .	8,132	16,852	24,429	19,050	20,171
---------------------------	-------	--------	--------	--------	--------

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

## Revenue (continued)

## (ii) Performance obligations (continued)

## Healthcare solutions (continued)

## Other income and gains

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Fair value gains on financial assets at fair value					
through profit or loss, net . . . . .	1,617	693	1,961	1,081	503
Interest income . . . . .	1,576	3,207	3,246	1,858	1,760
Government grant* . . . . .	693	6,162	1,493	436	314
Covid-19-related rent concessions from lessors . . . .	—	—	3,487	3,036	—
Fair value change of derivative financial					
instruments . . . . .	978	—	—	—	—
Rental income . . . . .	338	1,305	1,125	489	857
Foreign exchange differences, net . . . . .	—	—	—	—	6,486
Others . . . . .	582	903	194	30	427
	<u>5,784</u>	<u>12,270</u>	<u>11,506</u>	<u>6,930</u>	<u>10,347</u>

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

## 6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Interest on interest-bearing bank loans and other					
borrowings . . . . .	2,337	2,233	2,361	673	4,964
Interest on bonds payable . . . . .	144	248	22,077	7,558	7,101
Interest on lease liabilities (note 15(b)) . . . . .	7,358	7,856	9,073	4,640	5,453
	<u>9,839</u>	<u>10,337</u>	<u>33,511</u>	<u>12,871</u>	<u>17,518</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 7. LOSS BEFORE TAX

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

	Notes	Year ended 31 December			Six months ended 30 June	
		2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cost of provision of healthcare solutions. . . . .		396,600	491,325	467,891	175,959	325,132
Cost of sale of healthcare products . . . . .		36,691	13,574	19,985	4,658	4,981
Depreciation of property, plant and equipment . . . . .	13	26,345	23,187	22,184	11,468	10,538
Amortisation of other intangible assets <sup>#</sup> . . . . .	14	426	664	1,195	553	1,825
Depreciation of right-of-use assets . . . . .	15(a)	30,168	34,968	42,266	22,371	27,867
Research and development costs <sup>##</sup> . . . . .		3,044	3,207	3,037	1,787	1,350
Lease payments not included in the measurement of lease liabilities. . . . .	15(c)	24,223	18,038	7,131	4,297	1,554
Auditors' remuneration . . . . .		900	980	772	386	—
Listing expenses <sup>**</sup> . . . . .		—	—	8,482	—	11,216
Employee benefit expense (excluding directors' remuneration (note 8)): Wages and salaries . . . . .		153,475	167,890	167,062	66,086	94,673
Equity-settled share-base payments . . . . .	30(a)/31	3,313	9,243	15,361	3,290	43,748
Pension scheme contributions. . . . .		20,122	13,817	(1,336)	(938)	12,477
		<u>176,910</u>	<u>190,950</u>	<u>181,087</u>	<u>68,438</u>	<u>150,898</u>
Fair value losses on convertible redeemable preferred shares . . . . .	26	35,757	191,120	319,844	198,380	330,744
Fair value loss/(gain) on convertible bonds . . . . .	27	66,808	24,172	(3,650)	(8,400)	9,937
Fair value gains on financial assets at fair value through profit or loss, net* . . . . .	5	(1,617)	(693)	(1,961)	(1,081)	(503)
Fair value changes of derivative financial instruments* . . . . .		(978)	—	—	—	—
Impairment/(reversal of impairment) of trade receivable** . . . . .	19	365	550	623	(127)	534
Loss on disposal of items of property, plant and equipment** . . . . .		402	—	—	—	—
Impairment of goodwill** . . . . .	16	—	2,550	—	—	—
Impairment of property, plant and equipment** . . . . .	13	7,100	—	657	657	—
Impairment of other intangible assets** . . . . .	14	81	—	—	—	—

\* Included in "Other income and gains" in profit or loss.

\*\* Included in "Other expenses" in profit or loss.

# Included in "Administrative expenses" and "Selling and distribution expenses" in profit or loss.

## Included in "Administrative expenses" in profit or loss.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 8. DIRECTORS' REMUNERATION

Mr. Tu Zhiliang was appointed as the chairman of the Board, executive director and chief executive officer of the Company on 8 May 2014.

Mr. Jiang Xiaodong and Mr. Huang Jingsheng were appointed as non-executive directors of the Company on 21 August 2014.

Mr. Xu Yongjiu was appointed as non-executive directors of the Company on 15 July 2017.

Mr. Liu Kanghua and Mr. Gao Jian were appointed as non-executive directors of the Company on 25 May 2021.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Fees: . . . . .	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind . . . . .	681	681	681	341	544
Pension scheme contributions. . . . .	71	73	39	18	39
Equity-settled share-based payments . . . . .	137	64	9	—	—
	889	818	729	359	583

(a) Executive directors, non-executive directors and the chief executive.

## Year ended 31 December 2018

	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity-settled share-based payments	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Executive director:				
Mr. Tu Zhiliang . . . . .	681	71	—	752
Mr. HUANG Jingsheng . . . . .	—	—	137	137
	681	71	137	889

## Year ended 31 December 2019

Executive director:				
Mr. Tu Zhiliang . . . . .	681	73	—	754
Mr. HUANG Jingsheng . . . . .	—	—	64	64
	681	73	64	818

## Year ended 31 December 2020

Executive director:				
Mr. Tu Zhiliang . . . . .	681	39	—	720
Mr. HUANG Jingsheng . . . . .	—	—	9	9
	681	39	9	729

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 8. DIRECTORS' REMUNERATION (continued)

(a) Executive directors, non-executive directors and the chief executive. (continued)

## Six months ended 30 June 2021

	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity-settled share-based payments	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive director:</i>				
Mr. Tu Zhiliang . . . . .	419	39	—	458
<i>Non-executive directors:</i>				
Mr. JIANG Xiaodong . . . . .	25	—	—	25
Mr. LIU Kanghua . . . . .	25	—	—	25
Mr. HUANG Jingsheng . . . . .	25	—	—	25
Mr. Gao Jian . . . . .	25	—	—	25
Mr. Xu Yongjiu . . . . .	25	—	—	25
	125	—	—	125

## Six months ended 30 June 2020 (Unaudited)

<i>Executive director:</i>				
Mr. Tu Zhiliang . . . . .	341	18	—	359

There was no arrangement under which directors waived or agreed to waive any remuneration during the Relevant Periods.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2018, 2019 2020 and the six months ended 30 June 2021 included 1, 1, 1 and 0 director respectively, details of whose remuneration are set out in note 8 above.

Details of the remuneration of the Group's remaining 4, 4, 4 and 5 highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, allowances and benefits in kind. . . . .	2,010	2,100	3,070	1,575	2,323
Performance-related bonuses . . . . .	262	1,013	144	28	927
Pension scheme contributions . . . . .	263	232	210	54	192
Equity-settled share-based payments. . . . .	671	283	2,052	1,219	15,181
	3,206	3,628	5,476	2,876	18,623

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****9. FIVE HIGHEST PAID EMPLOYEES (continued)**

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
				<i>(Unaudited)</i>	
Nil to HK\$1,000,000 . . . . .	2	2	2	3	—
HK\$1,000,001 to HK\$1,500,000 . . . . .	2	2	1	—	—
HK\$1,500,001 to HK\$2,000,000 . . . . .	—	—	—	1	—
HK\$2,000,001 to HK\$2,500,000 . . . . .	—	—	1	—	—
HK\$2,500,001 to HK\$3,000,000 . . . . .	—	—	—	—	2
HK\$3,000,001 to HK\$3,500,000 . . . . .	—	—	—	—	1
HK\$3,500,001 to HK\$4,000,000 . . . . .	—	—	—	—	1
HK\$4,000,001 to HK\$4,500,000 . . . . .	—	—	—	—	—
HK\$4,500,001 to HK\$5,000,000 . . . . .	—	—	—	—	1
HK\$5,000,001 to HK\$5,500,000 . . . . .	—	—	—	—	—
HK\$5,500,001 to HK\$6,000,000 . . . . .	—	—	—	—	1
	4	4	4	4	5

During the Relevant Periods, no highest paid employees waived or agreed to waive any remuneration.

**10. INCOME TAX EXPENSE/(CREDIT)**

The income tax expense/(credit) for the year are as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Current . . . . .	4,445	2,721	6,465	4,954	8,590
Deferred ( <i>note 28</i> ). . . . .	(7,869)	(13,528)	7,100	(1,749)	(7,155)
	(3,424)	(10,807)	13,565	3,205	1,435

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries 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, the 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 the PRC are subject to "small and micro enterprises" and, accordingly, a preferential income tax rate of 5%-10% during the Relevant Periods.

*Hong Kong*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods. 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 Relevant Periods.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 10. INCOME TAX EXPENSE/(CREDIT) (continued)

A reconciliation of the tax expense/(credit) applicable to loss before tax at the statutory rate applicable in the respective jurisdictions to the tax expense/(credit) at the effective tax rate for each of the Relevant Periods is as follows:

Year ended 31 December 2018

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax . . . . .	(71,208)		(106,026)		(177,234)	
Tax at the statutory tax rate . . . . .	(17,802)	25.0	—	—	(17,802)	10.0
Lower tax rate for specific provinces or enacted by local authority . . . . .	(145)	0.2	—	—	(145)	0.1
Expenses not deductible for tax . . . . .	7,479	(10.5)	—	—	7,479	(4.2)
Tax losses utilised from previous periods . . . . .	(2,388)	3.4	—	—	(2,388)	1.3
Tax losses not recognized . . . . .	12,586	(17.7)	—	—	12,586	(7.1)
Tax losses recognized from previous periods . . . . .	(3,154)	4.4	—	—	(3,154)	1.8
Tax credit at the Group's effective rate . . . . .	(3,424)	4.8	—	—	(3,424)	1.9

Year ended 31 December 2019

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax . . . . .	65,017		(223,844)		(158,827)	
Tax at the statutory tax rate . . . . .	16,254	25.0	—	—	16,254	(10.2)
Lower tax rate for specific provinces or enacted by local authority . . . . .	(262)	(0.4)	—	—	(262)	0.2
Tax incentive on eligible expenses . . . . .	(601)	(0.9)	—	—	(601)	0.4
Expenses not deductible for tax . . . . .	6,413	9.9	—	—	6,413	(4.0)
Tax losses utilised from previous periods . . . . .	(28,161)	(43.4)	—	—	(28,161)	17.6
Tax losses not recognized . . . . .	8,160	12.6	—	—	8,160	(5.1)
Tax losses recognized from previous periods . . . . .	(12,610)	(19.4)	—	—	(12,610)	7.9
Tax credit at the Group's effective rate . . . . .	(10,807)	(16.6)	—	—	(10,807)	6.8

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)	9.4
Tax losses not recognized . . . . .	3,515	3.0	—	—	3,515	(1.5)
Tax losses recognized from previous periods . . . . .	(339)	(0.3)	—	—	(339)	0.1
Tax charge at the Group's effective rate . . . . .	13,565	11.6	—	—	13,565	(5.6)

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****10. INCOME TAX EXPENSE/(CREDIT) (continued)**

Six months ended 30 June 2021

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax . . . . .	(103,999)		(244,300)		(348,299)	
Tax at the statutory tax rate . . . . .	(26,000)	25.0	—	—	(26,000)	7.5
Lower tax rate for specific provinces or enacted by local authority . . . . .	(4,184)	4.0	—	—	(4,184)	1.2
Tax incentive on eligible expenses . . . . .	(253)	0.2	—	—	(253)	0.1
Expenses not deductible for tax . . . . .	3,800	(3.7)	—	—	3,800	(1.1)
Tax losses utilised from previous periods . . . . .	(3,658)	3.6	—	—	(3,658)	1.0
Tax losses not recognized . . . . .	31,730	(30.5)	—	—	31,730	(9.1)
Tax charge at the Group's effective rate . .	1,435	(1.4)	—	—	1,435	(0.4)

Six months ended 30 June 2020 (Unaudited)

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax . . . . .	25,106		(200,936)		(175,830)	
Tax at the statutory tax rate . . . . .	6,277	25.0	—	—	6,277	(3.6)
Lower tax rate for specific provinces or enacted by local authority . . . . .	(510)	(2.0)	—	—	(510)	0.3
Tax incentive on eligible expenses . . . . .	(335)	(1.3)	—	—	(335)	0.2
Expenses not deductible for tax . . . . .	2,502	10.0	—	—	2,502	(1.4)
Tax losses utilised from previous periods . . . . .	(10,366)	(41.2)	—	—	(10,366)	5.9
Tax losses not recognized . . . . .	5,976	23.8	—	—	5,976	(3.4)
Tax losses recognized from previous periods . . . . .	(339)	(1.4)	—	—	(339)	0.2
Tax charge at the Group's effective rate . .	3,205	12.9	—	—	3,205	(1.8)

\* Elsewhere represented the Group's subsidiaries incorporated in Cayman Islands or Hong Kong.

**11. DIVIDENDS**

No dividends have been paid or declared by the Company since its date of incorporation.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 12. LOSSES PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the losses for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 78,000,000, 78,000,000, 78,000,000 and 91,825,183 in issue during the year ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021.

Because the diluted loss per share amounts 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 year ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation.

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

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	(Unaudited)				
Losses:					
Losses attributable to ordinary equity holders of the Company (RMB'000) . . . . .	(172,981)	(147,883)	(255,749)	(178,883)	(349,808)
Shares:					
Weighted average number of ordinary shares in issue during the year used in the basic losses per share calculation . . . . .	78,000,000	78,000,000	78,000,000	78,000,000	91,825,183

## 13. PROPERTY, PLANT AND EQUIPMENT

	Furniture fixtures and equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2018</b>					
At 1 January 2018:					
Cost . . . . .	30,534	82,847	1,687	—	115,068
Accumulated depreciation and impairment . . . . .	(12,266)	(40,040)	(844)	—	(53,150)
Net carrying amount. . . . .	18,268	42,807	843	—	61,918
At 1 January 2018, net of accumulated depreciation and impairment . . . . .	18,268	42,807	843	—	61,918
Additions . . . . .	12,284	21,848	142	35,104	69,378
Disposal. . . . .	(902)	—	—	(35,104)	(36,006)
Depreciation provided during the year . . . . .	(9,500)	(16,539)	(306)	—	(26,345)
Impairment provided during the year . . . . .	(1,200)	(5,900)	—	—	(7,100)
At 31 December 2018, net of accumulated depreciation and impairment . . . . .	18,950	42,216	679	—	61,845
At 31 December 2018					
Cost . . . . .	40,952	104,695	1,829	—	147,476
Accumulated depreciation and impairment . . . . .	(22,002)	(62,479)	(1,150)	—	(85,631)
Net carrying amount. . . . .	18,950	42,216	679	—	61,845

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2019</b>				
At 1 January 2019:				
Cost. . . . .	40,952	104,695	1,829	147,476
Accumulated depreciation and impairment . .	(22,002)	(62,479)	(1,150)	(85,631)
Net carrying amount . . . . .	18,950	42,216	679	61,845
At 1 January 2019, net of accumulated depreciation and impairment . . . . .	18,950	42,216	679	61,845
Additions . . . . .	4,017	7,739	3	11,759
Disposal . . . . .	(397)	—	(464)	(861)
Depreciation provided during the year. . . . .	(8,514)	(14,550)	(123)	(23,187)
At 31 December 2019, net of accumulated depreciation and impairment . . . . .	14,056	35,405	95	49,556
At 31 December 2019				
Cost. . . . .	41,956	110,890	946	153,792
Accumulated depreciation and impairment . .	(27,900)	(75,485)	(851)	(104,236)
Net carrying amount . . . . .	14,056	35,405	95	49,556
<b>31 December 2020</b>				
At 1 January 2020:				
Cost. . . . .	41,956	110,890	946	153,792
Accumulated depreciation and impairment . .	(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 and impairment . . . . .	14,056	35,405	95	49,556
Additions . . . . .	6,679	8,166	—	14,845
Disposal . . . . .	(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 and impairment . . . . .	13,174	28,223	65	41,462
At 31 December 2020				
Cost. . . . .	47,392	119,056	803	167,251
Accumulated depreciation and impairment . .	(34,218)	(90,833)	(738)	(125,789)
Net carrying amount . . . . .	13,174	28,223	65	41,462

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>30 June 2021</b>				
At 1 January 2021:				
Cost. . . . .	47,392	119,056	803	167,251
Accumulated depreciation and impairment . . .	(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 and impairment . . . . .	13,174	28,223	65	41,462
Additions . . . . .	4,854	11,533	173	16,560
Disposal . . . . .	(13)	—	—	(13)
Depreciation provided during the period. . . .	(2,980)	(7,547)	(11)	(10,538)
At 30 June 2021, net of accumulated depreciation and impairment . . . . .	15,035	32,209	227	47,471
<b>At 30 June 2021</b>				
Cost. . . . .	51,975	130,589	976	183,540
Accumulated depreciation and impairment . .	(36,940)	(98,380)	(749)	(136,069)
Net carrying amount . . . . .	15,035	32,209	227	47,471

During the years ended 31 December 2018 and 2020, impairments of RMB7,100,000 and RMB657,000, were provided in respect of the leasehold improvements, furniture fixtures and equipment with carrying value in aggregate of RMB7,100,000 and RMB657,000, respectively. 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 the recoverable amount of these assets were nil and made full provision on their carrying value.

## 14. OTHER INTANGIBLE ASSETS

	Software	Online platform	Total
	RMB'000	RMB'000	RMB'000
<b>31 December 2018</b>			
At 1 January 2018, net of accumulated amortisation . . . . .	1,151	—	1,151
Additions. . . . .	1,757	—	1,757
Amortisation provided during the year . . . . .	(426)	—	(426)
Impairment provided during the year . . . . .	(81)	—	(81)
At 31 December 2018 . . . . .	2,401	—	2,401
At 31 December 2018			
Cost. . . . .	3,425	—	3,425
Accumulated amortisation and impairment . . . . .	(1,024)	—	(1,024)
Net carrying amount . . . . .	2,401	—	2,401

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 14. OTHER INTANGIBLE ASSETS (continued)

	Software	Online platform	Total
	RMB'000	RMB'000	RMB'000
<b>31 December 2019</b>			
At 1 January 2019, net of accumulated amortisation . . . . .	2,401	—	2,401
Additions . . . . .	913	—	913
Disposal . . . . .	(34)	—	(34)
Amortisation provided during the year . . . . .	(664)	—	(664)
At 31 December 2019 . . . . .	2,616	—	2,616
At 31 December 2019			
Cost. . . . .	4,051	—	4,051
Accumulated amortisation and impairment . . . . .	(1,435)	—	(1,435)
Net carrying amount . . . . .	2,616	—	2,616
<b>31 December 2020</b>			
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 impairment . . . . .	(2,151)	(480)	(2,631)
Net carrying amount . . . . .	4,030	18,729	22,759
<b>30 June 2021</b>			
At 1 January 2021, net of accumulated amortisation . . . . .	4,030	18,729	22,759
Additions . . . . .	225	—	225
Acquisition of a subsidiary (note 34) . . . . .	—	10,050	10,050
Disposal . . . . .	(3)	—	(3)
Amortisation provided during the period . . . . .	(697)	(1,128)	(1,825)
At 30 June 2021 . . . . .	3,555	27,651	31,206
At 30 June 2021			
Cost. . . . .	6,398	29,259	35,657
Accumulated amortisation and impairment . . . . .	(2,843)	(1,608)	(4,451)
Net carrying amount . . . . .	3,555	27,651	31,206



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 15. LEASES

## The Group as a lessee

The Group has lease contracts for office buildings used in its operations. Leases of office buildings generally have lease terms between 1.6 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 recognize 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 recognize 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 recognizes 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 amounts of the Group's right-of-use assets and the movements during the year/period are as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period . . . . .	92,872	154,488	166,528	184,171
Addition . . . . .	91,784	47,008	59,909	66,044
Depreciation charge . . . . .	(30,168)	(34,968)	(42,266)	(27,867)
At end of year/period . . . . .	154,488	166,528	184,171	222,348

## (b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021 are as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period . . . . .	98,821	163,471	178,843	198,174
New leases . . . . .	91,815	47,008	59,857	65,656
Accretion of interest recognized during the year/period . . . . .	7,358	7,856	9,073	5,453
Covid-19-related rent concessions from lessors . .	—	—	(3,487)	—
Payment . . . . .	(34,523)	(39,492)	(46,112)	(35,812)
At end of year/period . . . . .	163,471	178,843	198,174	233,471
Analysed into: . . . . .				
Current portion . . . . .	27,634	36,378	40,029	46,391
Non-current portion . . . . .	135,837	142,465	158,145	187,080
	163,471	178,843	198,174	233,471

The maturity analysis of lease liabilities is disclosed in note 42 to the Historical Financial Information.

## (c) The amounts recognized in profit or loss in relation to leases are as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on lease liabilities . . . . .	7,358	7,856	9,073	(Unaudited) 4,640	5,453
Depreciation charge of right-of-use assets . . . . .	30,168	34,968	42,266	22,371	27,867
Expense relating to short-term leases and other leases with remaining lease terms ended on or before the end of the year . . . . .	24,223	18,038	7,131	4,297	1,554
Covid-19-related rent concessions from lessors . .	—	—	(3,487)	(3,036)	—
Total amount recognized in profit or loss . . . . .	61,749	60,862	54,983	28,272	34,874

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 15. LEASES (continued)

## 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 recognized by the Group during the year 2018, 2019, 2020 and the six months ended 30 June 2021 was RMB338,000, RMB1,305,000, and RMB1,125,000 and RMB857,000, respectively, details of which are included in note 5 to the Historical Financial Information.

## 16. GOODWILL

	Notes	31 December 2018	31 December 2019	31 December 2020	30 June 2021
		RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period . . . . .		384,273	449,341	462,633	545,110
Acquisition of subsidiaries . . . . .	34	65,068	18,442	82,477	143,505
Impairment provided during the year/period . .	7	—	(2,550)	—	—
Disposal of subsidiaries . . . . .	35	—	(2,600)	—	—
At the end of the year/period . . . . .		449,341	462,633	545,110	688,615

The management of the Group made provision for impairment of goodwill of RMB2,550,000 during the year 2019 according to the revised projected cash flows in the corresponding cash-generating unit ( "CGU") according to the Group's disposal schedule.

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following CGUs by areas as below 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").

The recoverable amount of the CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The growth rate beyond the five-year period had been projected as 3.0%.

In 2017, the Group acquired Blue Ocean, acting 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, the management treated these assets as corporate assets and allocated the carrying amounts to each CGU based on the revenue portion to total revenue.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)

The respective recoverable amount and the carrying value of the CGUs as at 31 December 2018, 2019, 2020 and 30 June 2021 are as follows:

	31 December 2018			31 December 2019			31 December 2020			30 June 2021		
	Carrying value including goodwill and allocated			Carrying value including goodwill and allocated			Carrying value including goodwill and allocated			Carrying value including goodwill and allocated		
	Recoverable amount	corporate assets	Head-room	Recoverable amount	corporate assets	Head-room	Recoverable amount	corporate assets	Head-room	Recoverable amount	corporate assets	Head-room
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Guangzhou and Foshan CGU . . . . .	284,418	143,933	140,485	350,635	140,535	210,100	441,920	150,814	291,106	486,052	165,892	320,160
Shenzhen CGU . . . . .	393,430	23,825	369,605	546,732	24,865	521,867	717,469	35,718	681,751	810,952	63,644	747,308
Suzhou and Wuxi CGU . . . . .	134,566	78,765	55,801	194,253	77,473	116,780	332,626	112,365	220,261	348,097	124,406	223,691
Ningbo CGU . . . . .	104,215	92,686	11,529	152,973	92,118	60,855	223,840	98,158	125,682	277,868	113,602	164,266
Nanjing CGU . . . . .	51,002	40,937	10,065	85,888	40,111	45,777	128,878	41,638	87,240	147,069	45,552	101,517
Shanghai CGU . . . . .	223,092	68,569	154,523	446,189	82,631	363,558	725,861	98,262	627,599	861,759	123,134	738,625
Fuzhou CGU . . . . .	65,395	33,804	31,591	99,906	33,218	66,688	135,492	35,008	100,484	200,422	58,641	141,781
Beijing CGU . . . . .	-	-	-	-	-	-	-	-	-	285,272	85,342	199,930
	1,256,118	482,519	773,599	1,876,576	490,951	1,385,625	2,706,086	571,963	2,134,123	3,417,491	780,213	2,637,278

The pre-tax discount rates applied to the cash flow projections, the forecasted compounded revenue growth rate and gross profit margin used to extrapolate cash flow projections and terminal growth rates are follows:

*Guangzhou and Foshan CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	2.8%	6.0%	16.2%	15.7%
Gross profit margin . . . . .	49.4%-51.9%	50.9%-51.9%	50.9%-51.9%	48.5%-51.9%
Pre-tax discount rate . . . . .	16.6%	15.2%	14.6%	13.7%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

*Shenzhen CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	20.1%	19.6%	24.2%	24.2%
Gross profit margin . . . . .	48.0%-49.9%	48.6%-50.4%	48.9%-50.9%	48.2%-50.9%
Pre-tax discount rate . . . . .	16.5%	15.1%	14.4%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)*Suzhou and Wuxi CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	16.2%	17.6%	27.3%	26.1%
Gross profit margin . . . . .	39.1%-42.4%	39.8%-42.9%	40.9%-42.9%	41.5%-42.9%
Pre-tax discount rate . . . . .	16.3%	15.0%	14.5%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

*Ningbo CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	12.3%	17.3%	22.8%	24.8%
Gross profit margin . . . . .	37.3%-43.9%	42.0%-44.4%	42.9%-44.9%	43.4%-45.3%
Pre-tax discount rate . . . . .	16.3%	15.0%	14.4%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

*Nanjing CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	22.3%	25.3%	27.5%	27.5%
Gross profit margin . . . . .	33.8%-41.9%	35.6%-42.9%	39.9%-43.9%	40.9%-43.9%
Pre-tax discount rate . . . . .	16.0%	14.9%	14.3%	13.5%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

The pre-tax discount rates applied to the cash flow projections, the forecasted compounded revenue growth rate and gross profit margin used to extrapolate cash flow projections and terminal growth rates are follows:

*Shanghai CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	33.9%	32.2%	31.3%	32.1%
Gross profit margin . . . . .	41.5%-49.9%	47.6%-50.4%	48.9%-50.9%	49.4%-50.9%
Pre-tax discount rate . . . . .	16.1%	14.9%	14.4%	13.5%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

*Fuzhou CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	19.5%	21.5%	27.6%	24.8%
Gross profit margin . . . . .	39.2%-44.7%	42.1%-44.9%	44.0%-44.9%	43.4%-45.3%
Pre-tax discount rate . . . . .	16.1%	14.9%	14.4%	13.6%
Terminal growth rate . . . . .	3.0%	3.0%	3.0%	3.0%

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)*Beijing CGU*

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Compounded revenue growth rates (during the five-year period) . . . . .	—	—	—	14.5%
Gross profit margin . . . . .	—	—	—	35.7%-44.9%
Pre-tax discount rate . . . . .	—	—	—	13.6%
Terminal growth rate . . . . .	—	—	—	3.0%

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2018, 2019, 2020 and 30 June 2021. 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 Relevant periods is estimated based on the historical sales data and market outlook perceived by management.

*Budgeted gross margins*—The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Discount rates*—The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

**Sensitivity analysis***Guangzhou and Foshan CGU*

For the Guangzhou and Foshan CGU, the estimated recoverable amounts exceeded its carrying values by RMB140.5 million, RMB210.1 million, RMB291.1 million and RMB320.2 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Guangzhou and Foshan CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Guangzhou and Foshan CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-15.7%	-20.1%	-27.6%	-24.7%
Gross profit margin . . . . .	-10.1%	-12.5%	-15.0%	-13.9%
Pre-tax discount rate . . . . .	13.4%	16.8%	23.2%	20.0%

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)Sensitivity analysis (continued)*Shenzhen CGU*

For the Shenzhen CGU, the estimated recoverable amounts exceeded its carrying values by RMB369.6 million, RMB512.9 million, RMB681.8 million and RMB747.3 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Shenzhen CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Shenzhen CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-69.2%	-67.1%	-77.2%	-54.4%
Gross profit margin . . . . .	-18.0%	-18.9%	-19.6%	-18.7%
Pre-tax discount rate . . . . .	332.5%	292.6%	322.0%	96.1%

*Suzhou and Wuxi CGU*

For the Suzhou and Wuxi CGU, the estimated recoverable amounts exceeded its carrying values by RMB55.8 million, RMB116.8 million, RMB220.3 million and RMB223.7 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Suzhou and Wuxi CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Suzhou and Wuxi CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-13.2%	-22.0%	-30.0%	-25.6%
Gross profit margin . . . . .	-5.5%	-8.6%	-10.2%	-9.2%
Pre-tax discount rate . . . . .	8.0%	15.2%	21.4%	17.3%

*Ningbo CGU*

For the Ningbo CGU, the estimated recoverable amounts exceeded its carrying values by RMB11.5 million, RMB60.9 million, RMB125.7 million and RMB164.3 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Ningbo CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Ningbo CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-3.0%	-12.5%	-21.9%	-22.0%
Gross profit margin . . . . .	-1.6%	-6.1%	-9.8%	-10.0%
Pre-tax discount rate . . . . .	1.6%	6.9%	13.4%	13.5%



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)**Sensitivity analysis (continued)***Nanjing CGU*

For the Nanjing CGU, the estimated recoverable amounts exceeded its carrying values by RMB10.1 million, RMB45.8 million, RMB87.2 million and RMB101.5 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Nanjing CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Nanjing CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-5.5%	-19.0%	-29.4%	-28.0%
Gross profit margin. . . . .	-2.6%	-8.3%	-12.2%	-12.2%
Pre-tax discount rate . . . . .	2.5%	10.5%	19.5%	19.0%

*Shanghai CGU*

For the Shanghai CGU, the estimated recoverable amounts exceeded its carrying values by RMB154.5 million, RMB363.6 million, RMB627.6 million and RMB738.6 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Shanghai CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Shanghai CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-29.6%	-42.0%	-51.5%	-46.6%
Gross profit margin. . . . .	-10.6%	-14.7%	-16.9%	-16.7%
Pre-tax discount rate . . . . .	18.4%	35.3%	57.8%	50.9%

*Fuzhou CGU*

For the Fuzhou CGU, the estimated recoverable amounts exceeded its carrying values by RMB31.6 million, RMB66.7 million, RMB100.5 million and RMB141.8 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Fuzhou CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Fuzhou CGU's recoverable amount to be equal to its carrying value as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Change required for carrying value to equal recoverable amount			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-16.0%	-26.5%	-35.7%	-32.3%
Gross profit margin. . . . .	-7.1%	-10.7%	-12.6%	-11.6%
Pre-tax discount rate . . . . .	9.5%	18.8%	29.0%	22.6%

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 16. GOODWILL (continued)

Impairment testing of goodwill (continued)

**Sensitivity analysis (continued)**

*Beijing CGU*

For the Beijing CGU, the estimated recoverable amounts exceeded its carrying values by RMB199.9 million as at 30 June 2021. The directors of the Company believed that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Beijing CGU to exceed its recoverable amount.

The changes in the following table to assumptions used in the impairment review would have, in isolation, led to the Fuzhou CGU's recoverable amount to be equal to its carrying value as at 30 June 2021:

	Change required for carrying value to equal recoverable amount
	30 June 2021
Compounded revenue growth rates (during the five-year period) . . . . .	-34.7%
Gross profit margin . . . . .	-11.0%
Pre-tax discount rate . . . . .	20.3%

## 17. INVESTMENT IN ASSOCIATES

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets . . . . .	—	—	6,172	8,224

Particulars of the material associates are as follows:

Name	Particulars of issued shares shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Guangzhou Walkorl Cultural Communication Co., Ltd. ("Guangzhou Walkorl") <sup>(a)</sup> . . . . .	Ordinary shares	Mainland China	23.5%	Brand billboard production and marketing
Guangzhou Yanqing Health Trading for Technology Co., Ltd. ("Guangzhou Yanqing") <sup>(b)</sup> . . . . .	Ordinary shares	Mainland China	20.0%	Trading for medical equipment

*Notes:*

- (a) In 2020, the Group acquired 23.5% equity interests in Guangzhou Walkorl 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 RMB481,000 and maintained the same percentage of shareholdings. As at 30 June 2021, the Group has paid all considerations, RMB3,481,000 of which was paid in 2021.
- (b) During the period ended 30 June 2021, the Group invested RMB1,000,000 to establish Guangzhou Yanqing with an independent third party, and the Group has 20% equity interest in the company, resulting in a significant influence over this company. As at 30 June 2021, the Group has paid all considerations.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 17. INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates:

	Year ended 31 December			Six months ended 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Share of the associates' profit for the year/period . . . . .	—	—	172	571
Share of the associates' total comprehensive income for the year/period . . . . .	—	—	172	571
Aggregate carrying amount of the Group's investment in the associates. . . . .	—	—	6,172	8,224

## 18. INVENTORIES

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Pharmaceuticals, consumables and packaging materials . . . . .	57,746	45,097	57,743	69,149

There was no inventory provision recognized during the year ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021.

## 19. TRADE RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables . . . . .	54,488	42,895	57,459	61,109
Less:				
Impairment . . . . .	(388)	(550)	(883)	(781)
	54,100	42,345	56,576	60,328

The individual patients of the Group would usually settle payments by cash or government's social insurance schemes. Payments by the PRC government's social insurance schemes will normally be settled 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 ranged from 30 to 180 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

At 31 December 2018, 2019, 2020 and 30 June 2021, certain of the Group's trade receivables with an aggregate net carrying amount of approximately RMB32,437,000, RMB9,874,000, RMB16,256,000 and RMB8,858,000, were pledged to secure bank loans granted to the Group (note 25(b)), respectively.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 19. TRADE RECEIVABLES (continued)

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

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Within three months . . . . .	48,121	33,046	51,042	56,590
Three months to one year. . . . .	5,706	9,139	5,369	3,738
Over one year . . . . .	273	160	165	—
	54,100	42,345	56,576	60,328

The movements in the loss allowance for impairment of trade receivables are as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period . . . . .	410	388	550	883
Impairment losses, net (note 7) . . . . .	365	550	623	534
Amount written off as uncollectible . . . . .	(387)	(388)	(290)	(636)
At end of year/period . . . . .	388	550	883	781

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 represents the settlements from corporate customers and state-owned Bureau of Health Insurance Settlement Centers, respectively, based on their own credit risks. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using provision matrixes:

		Past due		
	Current	Less than one year	Over one year	Total
<i>Group A</i>				
<b>At 31 December 2018</b>				
Expected credit loss rate (%) . . . . .	0.0	2.0	43.7	5.0
Gross carrying amount (RMB'000). . . . .	1,666	5,522	639	7,827
Expected credit losses (RMB'000) . . . . .	—	109	279	388
<b>At 31 December 2019</b>				
Expected credit loss rate (%) . . . . .	0.0	3.9	63.4	11.1
Gross carrying amount (RMB'000). . . . .	1,567	2,713	702	4,982
Expected credit losses (RMB'000) . . . . .	—	105	445	550
<b>At 31 December 2020</b>				
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
<b>At 30 June 2021</b>				
Expected credit loss rate (%) . . . . .	0.1	11.9	51.2	8.5
Gross carrying amount (RMB'000). . . . .	5,300	3,152	778	9,230
Expected credit losses (RMB'000) . . . . .	7	376	398	781

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 19. TRADE RECEIVABLES (continued)

		Past due		
	Current	Less than one year	Over one year	Total
<i>Group B</i>				
<b>At 31 December 2018</b>				
Expected credit loss rate (%) . . . . .	—	—	—	—
Gross carrying amount (RMB'000) . . . . .	46,661	—	—	46,661
Expected credit losses (RMB'000) . . . . .	—	—	—	—
<b>At 31 December 2019</b>				
Expected credit loss rate (%) . . . . .	—	—	—	—
Gross carrying amount (RMB'000) . . . . .	37,913	—	—	37,913
Expected credit losses (RMB'000) . . . . .	—	—	—	—
<b>At 31 December 2020</b>				
Expected credit loss rate (%) . . . . .	—	—	—	—
Gross carrying amount (RMB'000) . . . . .	49,072	—	—	49,072
Expected credit losses (RMB'000) . . . . .	—	—	—	—
<b>At 30 June 2021</b>				
Expected credit loss rate (%) . . . . .	—	—	—	—
Gross carrying amount (RMB'000) . . . . .	51,879	—	—	51,879
Expected credit losses (RMB'000) . . . . .	—	—	—	—
		Past due		
	Current	Less than one year	Over one year	Total
<i>Total</i>				
<b>At 31 December 2018</b>				
Gross carrying amount (RMB'000) . . . . .	48,327	5,522	639	54,488
Expected credit losses (RMB'000) . . . . .	—	109	279	388
<b>At 31 December 2019</b>				
Gross carrying amount (RMB'000) . . . . .	39,480	2,713	702	42,895
Expected credit losses (RMB'000) . . . . .	—	105	445	550
<b>At 31 December 2020</b>				
Gross carrying amount (RMB'000) . . . . .	51,146	5,041	1,272	57,459
Expected credit losses (RMB'000) . . . . .	2	309	572	883
<b>At 30 June 2021</b>				
Gross carrying amount (RMB'000) . . . . .	57,179	3,152	778	61,109
Expected credit losses (RMB'000) . . . . .	7	376	398	781

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

## The Company

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Due from subsidiaries . . . . .	750,517	751,370	736,978	1,156,893

The amount due from a subsidiaries is unsecured, interest-bearing and repayable on demand. There was no recent history of default and past due amounts. As at 31 December 2018, 2019, 2020 and 30 June 2021, the loss allowance was assessed to be not material.

## The Group

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments . . . . .	41,561	40,376	55,293	64,327
Deposits and other receivables (note (a)) . . . . .	37,193	26,438	44,262	44,536
Amounts due from a director (note (b)) . . . . .	21,150	32,308	34,268	—
Amounts due from employees . . . . .	5,250	12,748	9,833	2,615
	105,154	111,870	143,656	111,478
Less:				
Portion classified as non- current assets. . . . .	(2,850)	(3,157)	(11,476)	(7,346)
	102,304	108,713	132,180	104,132

## 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 2018, 2019, 2020 and 30 June 2021, the loss allowance was assessed to be not material.
- (b) The amount due from a director is unsecured, interest-bearing and repayable on demand.
- (c) At 31 December 2018, 2019, 2020 and 30 June 2021, certain of the Group's prepayments, other receivables and other assets with an aggregate net carrying amount of approximately RMB47,226,000, RMB57,828,000, RMB60,317,000 and RMB8,624,000, respectively, were pledged to secure bank loans granted to the Group (note 25(b)).

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Wealth management products. . . . .	51,300	52,300	107,340	—
Derivative financial instruments . . . . .	—	—	7,085	8,993
	51,300	52,300	114,425	8,993

As at 31 December 2018, 2019, 2020 and 30 June 2021, the net fair value gains in respect of the Group's financial instruments at fair value through profit or loss recognized amounted to RMB1,617,000, RMB693,000, RMB1,961,000 and RMB503,000 (note 7), respectively.

## (1) Wealth management product

The Group's wealth management products at 31 December 2018, 2019, 2020, were issued by banks in Mainland China. It is classified as financial asset at fair value through profit or loss as its contractual cash flows do not qualify for solely payments of principal and interest.



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)****(2) Derivative financial instrument**

On 1 February 2018, the Group acquired 100% equity interest of Ningbo Jiangbei Wenjiao Gushengtang TCM Outpatient Department Co., Ltd (“寧波江北文教固生堂中醫門診部有限公司”, “Ningbo Gushengtang”) from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the actual revenue. The fair value of the contingent consideration to be paid by the Group was RMB978,000 on the acquisition date (note 33) and it was subsequently measured at fair value with changes in fair value recognized in profit or loss in 2018. The contingent consideration was settled in 2019.

On 31 August 2020, the Group acquired a 100% equity interests 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 recognized at the amount of RMB7,085,000 and the contingent consideration has not been settled as at 30 June 2021.

On 28 February 2021, the Group acquired a 100% equity interests 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 30 June 2021.

On 30 April 2021, the Group acquired a 100% equity interests in Fuzhou Xiulichun TCM Out-patient Co., Ltd. (“福州袖里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 30 June 2021.

On 30 April 2021, the Group acquired a 100% equity interests 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 30 June 2021.

On 30 June 2021, the Group acquired a 100% equity interests 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 30 June 2021.

The fair value of contingent consideration was developed through Scenario-Based Method. The assumptions of expected payment date and forecasted revenue and profit are based on the best estimation of the management.

**22. CASH AND CASH EQUIVALENTS****The Company**

	<b>31 December 2018</b>	<b>31 December 2019</b>	<b>31 December 2020</b>	<b>30 June 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances . . . . .	19,160	19,424	8,501	231,367
Cash and cash equivalents. . . . .	19,160	19,424	8,501	231,367
Denominated in:				
USD . . . . .	19,160	19,424	8,500	226,436
HK\$ . . . . .	—	—	1	4,931
	19,160	19,424	8,501	231,367

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 22. CASH AND CASH EQUIVALENTS (continued)

## The Group

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances . . . . .	92,710	138,117	249,994	486,203
Cash and cash equivalents. . . . .	92,710	138,117	249,994	486,203
Denominated in:				
RMB ( <i>note</i> ) . . . . .	73,147	118,327	232,948	252,753
USD . . . . .	19,563	19,790	17,009	228,492
HK\$ . . . . .	—	—	37	4,958
	92,710	138,117	249,994	486,203

There is no restricted cash and cash equivalents for the Group and the Company as at 31 December 2018, 2019, 2020 and 30 June 2021.

*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. Cash at banks earns interest at floating rates based on daily bank 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 Relevant Periods, based on the invoice date, is as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within three months. . . . .	67,035	60,411	84,065	101,018
Three months to one year . . . . .	55,668	19,455	11,097	16,872
Over one year. . . . .	23,524	41,238	17,948	15,896
	146,227	121,104	113,110	133,786

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 Relevant Periods approximated to their corresponding carrying amounts due to their relatively short maturity terms.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 24. OTHER PAYABLES AND ACCRUALS

		31 December 2018	31 December 2019	31 December 2020	30 June 2021
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities . . . . .	(i)	8,132	16,852	24,429	20,171
Other payables . . . . .	(ii)/(iii)	155,566	136,737	212,667	133,150
Payable for Incentive Arrangement (defined in note 30) . . . . .		12,813	24,851	32,106	32,808
Accruals . . . . .		15,720	12,717	13,483	16,379
Salary and welfare payable . . . . .		72,229	81,746	88,191	92,809
Other tax payable . . . . .		1,419	2,972	6,595	3,041
		265,879	275,875	377,471	298,358
Less:					
Non-current portion . . . . .		(100,383)	(108,232)	(118,807)	(32,808)
Current portion . . . . .		165,496	167,643	258,664	265,550

## Notes:

- (i) Details of contract liabilities as at the end of the reporting period are as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Healthcare solutions . . . . .	8,132	16,852	24,429	20,171

Contract liabilities include short-term advances received for healthcare solutions. The increase in contract liabilities as at 31 December 2019 and 2020 was primarily due to the increased prepayments made by the members of the Group enrolled in membership program while decrease in contract liabilities as at 30 June 2021 was mainly because of the quick settlement made by the members of the Group enrolled in 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 contingent revival of repayment obligation of the convertible loan, was then recognised. Since then, no gain or loss was recognized 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 February 2021 (note 29(c)).

## 25. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:				
Bank loans:				
Within one year or on demand. . . . .	14,459	16,090	83,879	87,588
In the second year. . . . .	7,146	1,740	36,816	36,099
In the third year . . . . .	485	225	24,443	8,036
	<u>22,090</u>	<u>18,055</u>	<u>145,138</u>	<u>131,723</u>
Other borrowings:				
Within one year or on demand. . . . .	—	—	—	8,075
In the second year. . . . .	—	—	—	8,075
In the third year . . . . .	—	—	—	8,075
Over three years . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,338</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>60,563</u>
	<u>22,090</u>	<u>18,055</u>	<u>145,138</u>	<u>192,286</u>

(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 securities for interest-bearing bank borrowings:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables . . . . .	32,437	9,874	16,256	8,858
Prepayments, other receivables and other assets . . . . .	47,226	57,828	60,317	8,624
	79,663	67,702	76,573	17,482

I-62

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 26. CONVERTIBLE REDEEMABLE PREFERRED SHARES

## The Company and the Group

Since the date of incorporation, the Company has completed several rounds of financing by issuing series of Preferred Share. For details, please refer to below table:

	Date of Issuance	Purchase Price (USD/Share)	Number of Shares	Total consideration	
				USD'000	RMB'000
Series A Preferred Shares . . . . .	21 August 2014	0.33	12,000,000	4,000	24,653
Series B-1 Preferred Shares . . . . .	30 April 2015	0.86	13,939,552	12,000	73,396
Series B-2 Preferred Shares . . . . .	13 August 2015	0.55	10,909,091	6,000	38,406
Series B-3 Preferred Shares . . . . .	29 September 2015	0.55	3,636,361	2,000	12,732
Series B-4 Preferred Shares . . . . .	19 September 2020	0.70	132,367	93	643
Series C-1 Preferred Shares . . . . .	13 April 2016	1.47	3,400,140	5,000	32,296
Series C-2 Preferred Shares . . . . .	13 April 2016	1.56	4,816,866	7,500	48,443
Series C-3 Preferred Shares . . . . .	13 April 2016	1.61	10,876,857	17,500	113,034
Series C-4 Preferred Shares . . . . .	19 December 2016	1.56	3,211,244	5,000	32,818
Series D-1 Preferred Shares . . . . .	22 March 2021	3.41	9,371,885	31,917	208,071
Series E-1 Preferred Shares . . . . .	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 Share holders ("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 ("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.

The convertible redeemable preferred shares will be converted to ordinary shares upon the listing.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (continued)**

The key terms of the Preferred Share are summarised as follows: (continued)

*Redemption features*

Redemption of Series A, Series B or Series C Preferred Shares. The Company shall, after receiving 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 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 December 31, 2019; and (ii) twelve percent (12%) per annum for the period since January 1, 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 October 31, 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 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 December 31, 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,

Redemption of Series E Preferred Shares. The Company shall, after receiving 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.



**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (continued)***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.

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 these Articles. 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 host debt and conversion derivative of Preferred Shares as financial liabilities measured as fair value through profit or loss, presented as convertible redeemable preferred shares in the consolidated statements of financial position. Changes in fair value of Preferred Shares were recorded in "fair value changes of convertible redeemable preferred shares". Management considered that fair value change in the Preferred Shares attributable to changes of own credit risk is not significant.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (continued)

The key terms of the Preferred Share are summarised as follows: (continued)

*Presentation and classification (continued)*

The movements of the convertible redeemable preferred share are set out as below:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period . . . . .	683,225	757,611	963,357	1,204,204
Issuance of Preferred Shares . . . . .	—	—	643	243,740
Conversion into Preferred Shares from convertible bonds (note 27) . . . . .	—	—	—	208,071
Fair value losses on Preferred Shares . . . . .	35,757	191,120	319,844	330,744
Transferred to equity* . . . . .	—	—	—	(217,816)
Exchange realignment . . . . .	38,629	14,626	(79,640)	(33,644)
At end of year/period. . . . .	757,611	963,357	1,204,204	1,735,299

\* Upon the submission of the first listing application to the Hong Kong Exchange on 10 June 2021, the redemption rights embedded in the Series D Preferred Shares automatically terminated and the relevant Preferred Shares were transferred to equity.

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 31 December 2018, 2019, 2020 and 30 June 2021. Key valuation assumptions used to determine the fair value of the Preferred Shares are set as below:

	1 January 2018	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Discount rate	14.14%	13.24%	12.22%	11.75%	11.01%
Risk-free interest rate . . . . .	3.83%-3.90%	2.73%-.96%	2.36%-2.67%	2.57%-2.68%	2.30%
Discounts for lack of marketability ("DLOM") . . . . .	20.00%	20.00%	20.00%	12.73%	9.21%
Volatility . . . . .	28.51%-37.78%	35.20%-38.89%	36.05%-40.30%	50.91%-57.91%	54.35%
Possibilities under liquidation scenario . . . . .	5.00%	5.00%	5.00%	5.00%	5.00%
Possibilities under redemption scenario . . . . .	35.00%	30.00%	30.00%	20.00%	5.00%
Possibilities under initial public offering scenario . . . . .	60.00%	65.00%	65.00%	75.00%	90.00%

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 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 convertible bonds agreements with total aggregate principal amount of RMB395,000,000. There was no movement in the number of these convertible bonds during the Relevant Periods. 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 the annual interest rate of 10% before or on 31 December 2019 and 12% after 31 December 2019.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 27. CONVERTIBLE BONDS (continued)

In 2018 and 2020, the convertible bonds with total aggregation 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 the end of 30 April 2021. The remaining balance of convertible bonds of RMB208,071,000 with principal of RMB150,000,000 was converted to Series D Preferred Shares on 22 March 2021. The convertible bonds issued during the Relevant Period as follows:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period . . . . .	423,382	484,548	508,720	198,134
Fair value loss/(gain) on convertible bonds . . . .	66,808	24,172	(3,650)	9,937
Converted to Series D Preferred Shares. . . . .	—	—	—	(208,071)
Transfer to bonds payable* . . . . .	(5,642)	—	(306,936)	—
At the end of the year/period . . . . .	484,548	508,720	198,134	—

\* Certain bond holders elected not to convert their bonds into preferred shares and the amounts transferred to bonds payable accordingly.

The Group applied the Binomial Model to determine the fair value of the convertible bonds as a whole as at 1 January 2018, and 31 December 2018, 2019 and 2020 and 22 March 2021. Key valuation assumptions used to determine the fair value of the convertible bonds are set as below:

	31 December 2018	31 December 2019	31 December 2020	22 March 2021
Risk-free interest rate . . . . .	2.73%-2.96%	2.36%-2.67%	2.57%-2.68%	2.49%
Volatility . . . . .	35.20%-38.89%	36.05%-40.30%	50.91%-57.91%	57.39%

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 ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 are as follows:

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries
	RMB'000
At 1 January 2018 . . . . .	—
Deferred tax credited to profit or loss during the year (note 10). . . . .	—
At 31 December 2018 and 1 January 2019 . . . . .	—
Deferred tax credited to profit or loss during the year (note 10). . . . .	—
At 31 December 2019 and 1 January 2020 . . . . .	—
Acquisition of a subsidiary (note 34). . . . .	4,802
Deferred tax credited to profit or loss during the year (note 10). . . . .	(480)
At 31 December 2020 and 1 January 2021 . . . . .	4,322
Acquisition of a subsidiary (note 34). . . . .	2,513
Deferred tax credited to profit or loss during the period (note 10) . . . . .	(282)
At 30 June 2021 . . . . .	6,553

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 28. DEFERRED TAX (continued)

Deferred tax assets

	Impairment Provisions	Tax losses available for offsetting against future taxable profits	Unrealised profits arising from intra-group transactions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018 . . . . .	6,044	1,777	1,738	9,559
Deferred tax credited to profit or loss during the year (note 10). . . . .	2,090	4,131	1,648	7,869
At 31 December 2018 and 1 January 2019 . . . . .	8,134	5,908	3,386	17,428
Deferred tax credited to profit or loss during the year (note 10). . . . .	760	11,726	1,042	13,528
At 31 December 2019 and 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)
At 31 December 2020 and 1 January 2021 . . . . .	6,812	11,404	5,160	23,376
Deferred tax credited to profit or loss during the period (note 10) . . . . .	512	4,796	1,565	6,873
At 30 June 2021 . . . . .	7,324	16,200	6,725	30,249

Deferred tax assets of RMB12,586,000, RMB8,160,000, RMB3,515,000, RMB28,554,000 have not been recognized 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 2018, 2019, 2020 and the six months ended 30 June 2021, respectively.

## 29. SHARE CAPITAL

The Company was incorporated on 5 August 2014 with authorised share capital of USD50,000 divided into 500,000,000 ordinary shares ("Ordinary Shares") with a par value of USD0.0001 each. After several changes, on 30 June 2021, the authorised share capital of the Company was changed to USD26,000 divided into 264,430,287 shares, consisting of (i) 178,795,155 ordinary shares of par value USD0.0001 each; (ii) 12,000,000 Series A Preferred Shares of par value USD0.0001 each; (iii) 28,617,371 Series B Preferred Shares of par value USD0.0001 each; (iv) 22,305,109 Series C Preferred Shares of par value USD0.0001 each; (v) 9,371,885 Series D Preferred Shares of par value USD0.0001 each and (vi) 13,340,767 Series E Preferred Shares of par value USD0.0001 each, as aforementioned in note 26 to the Historical Financial Information.

Shares

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
<b>Issued and unpaid:</b>				
Number of ordinary share of USD0.0001 each . .	78,000,000	78,000,000	78,000,000	78,000,000
Nominal value of ordinary shares (USD). . . . .	7,800	7,800	7,800	7,800
<b>Issued and fully paid:</b>				
Number of ordinary share of USD0.0001 each . .	—	—	—	38,883,328
Number of preferred share* of USD0.0001 each.	—	—	—	9,371,885
Nominal value of ordinary shares (USD). . . . .	—	—	—	3,888
Nominal value of preferred shares (USD) . . . . .	—	—	—	937

\* the preferred shares disclosed in the table above represents the Series D Preferred Shares presented as equity, rather than liabilities. Those preferred shares as liabilities are disclosed in note 26 to the Historical Financial Information.

Save for the aforesaid and the Reorganization as more fully explained in the prospectus, the Company has not conducted any business since the date of its incorporation.

Each Preferred Share shall be converted into one ordinary share (subject to certain adjustment, as applicable, according to the article of associate of the Company), which will immediately be re-classified and re-designated as one ordinary share with effect from the date, on which the ordinary shares are listed on the Hong Kong Stock Exchange and from which dealings in the shares are permitted to commence on the Stock Exchange. Details of the Company's Preferred Shares issued are included in note 26 to the History Financial Information.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 29. SHARE CAPITAL (continued)

Shares (continued)

A summary of movements in the Company's share capital is as follows:

	Number of preferred shares	Number of ordinary shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2018, 31 December 2018, 2019, and 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	21,976	21,977
Share options exercised (note (e)) . .	—	17,191,534	11	98,618	98,629
Transfer from convertible redeemable preferred shares (note (f)) . . . . .	9,371,885	—	6	217,810	217,816
At 30 June 2021 . . . . .	9,371,885	116,883,328	31	667,657	667,688

Notes:

- (a) Pursuant to a series of share subscription agreements dated April 27, 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 the Historical Financial Information 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 RMB127,948,000.
- (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 the Historical Financial Information.
- (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 RMB21,977,000.
- (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) Upon the submission of the first listing application to the Hong Kong Exchange on 10 June 2021, the redemption rights embedded in the Preferred Shares automatically terminated and the Preferred Shares were transferred to share capital and share premium accounts in the equity, with the fair value of RMB217,816,000.
- (g) During the six months ended 30 June 2021, the Group received the cash consideration of RMB250,558,000 for issuing ordinary shares above.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the History Financial Information.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 30. SHARE OPTION SCHEME

## (a) 2015 Equity Incentive Plan (the "Plan")

On 27 April 2015 ("Adoption Date"), the Company adopted the Plan for the purpose of attracting and retaining the best available personnel for positions of substantial responsibility, providing additional incentives to eligible participants who contribute to the success of the Company's business. Eligible participants of the Plan may include officers, directors and employees of the Company or its subsidiaries and any person who is engaged by the Company or its subsidiaries to render bona fide consulting or advisory services to such entity. The Plan shall remain in force for 10 years from the Adoption Date, unless otherwise cancelled or amended.

The maximum aggregate number of shares that may be issued under the Plan shall not exceed 14,090,909 ordinary shares. Subject to any restriction contained in the Plan, each award agreement shall specify the date when all or any installment of the option is to become exercisable. Any option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as may be determined by the Board and as set forth in the award agreement; provided, however, that an option shall not be exercised for a fraction of a share. The exercise price for each share under the share option plan is USD0.35. The term of each Option will be stated in the award agreement, provided, however, that the term will be no more than ten years from the date of grant thereof. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the Plan as an equity-settled plan.

*Settlement of share-based payment arrangements*

In 2020, the Group settled previously awarded share options under the Plan not yet vested, by allowing them to vest immediately, which was treated as an acceleration of vesting, and the Group recognizes immediately the amount of remaining share options originally unvested after 31 December 2020, that would otherwise have been recognized for services received over the remainder of the vesting period.

*Movements in share options*

The following share options were outstanding under the Plan during the Relevant Periods:

	Weighted average exercise exercise price	Number of options
	USD	
At 1 January 2018 . . . . .	0.35	14,571,424
Granted during the year . . . . .	0.35	1,515,110
At 31 December 2018 and 1 January 2019. . . . .	0.35	16,086,534
Granted during the year . . . . .	0.35	585,000
At 31 December 2019 and 1 January 2020 . . . . .	0.35	16,671,534
Granted during the year . . . . .	0.35	520,000
At 31 December 2020 and 1 January 2021. . . . .	0.35	17,191,534
Exercised during the period. . . . .	0.35	(17,191,534)
At 30 June 2021 . . . . .		—

The fair value of the share options granted during the year ended 31 December 2018, 2019 and 2020 were RMB12,007,000, RMB5,405,000 and RMB6,924,000. Furthermore, the Group recognized a share option expense of RMB3,313,000, RMB9,243,000, RMB15,361,000 and nil during the year ended 31 December 2018, 2019 and 2020 and 30 June 2021.

A total of 17,191,534 share options were exercised during the period ended 30 June 2021 under the Plan, 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.

At the end of the reporting period, there was no share options outstanding under the Plan.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 30. SHARE OPTION SCHEME (continued)

## (a) 2015 Equity Incentive Plan (the "Plan") (continued)

*Fair value of options*

The fair value of equity-settled share options granted during the Relevant Periods, was estimated as at the date of grant using a Binomial Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Year ended 31 December		
	2018	2019	2020
Dividend yield (%) . . . . .	0.00	0.00	0.00
Expected volatility (%) . . . . .	36.57-37.26	37.23-37.87	38.47-43.20
Risk-free interest rate (%) . . . . .	3.32-3.71	3.16-3.35	2.84-3.22
Expected life of options (year) . . . . .	10	10	10
Weighted average share price (RMB per share) . . . . .	10.81	11.47	15.75

Significant judgements on parameters, such as dividend yield and expected life of option are required to be made by the management and the expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The share price is estimated value of ordinary shares as at the the valuation dates.

## (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 discounted cashflow models, taking into account the terms and conditions on which the options were granted, and the extent to which the doctors have rendered services to date.

*Movements in share*

The following share were outstanding under the Incentive Arrangement during the Relevant Periods:

	Number of shares	Weighted average fair value	Fair value of shares
		RMB'000	RMB'000
At 1 January 2018 . . . . .	2	552.5	1,105
Granted during the year . . . . .	24	362.5	8,700
Remeasurement . . . . .	—	—	3,008
At 31 December 2018 and 1 January 2019 . . . . .	26	492.8	12,813
Granted during the year . . . . .	11	381.8	4,200
Remeasurement . . . . .	—	—	7,838
At 31 December 2019 and 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
Remeasurement . . . . .	—	—	702
At 30 June 2021 . . . . .	40	820.2	32,808

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 30. SHARE OPTION SCHEME (continued)

## (b) Cash-settled Share-based Payment Arrangements (the "Incentive Arrangement") (continued)

The carrying amount of the liability relating to the phantom shares, including in the non-current other payables, at 31 December 2018, 2019, 2020 and 30 June 2021 were RMB12,813,000, RMB24,851,000, RMB32,106,000 and RMB32,808,000, respectively.

*Fair value of shares*

The fair value of the phantom shares was developed 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. 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:

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
Discount rate (%) . . . . .	13.24%	12.22%	11.75%	11.04%

## (c) Pre-IPO Share-based Payment Plan (the "Pre-IPO Share Option Plan")

Pursuant to the resolution of the shareholders of the Company on 31 March 2021, the Company adopted a new incentive plan, Pre-IPO Share Option Plan, for the purpose of providing incentives to eligible participants who generate superior returns to the shareholders through their outstanding performance. Eligible participants of the Pre-IPO Share Option Plan include any directors, senior management and employees of the Company and its subsidiaries, and core experts (network physicians) providing services to the Company, who the Board considers, in its sole discretion, have contributed to the Group. The Pre-IPO Share Option Plan became effective on 31 March 2021 and, unless otherwise cancelled or amended, will remain in force for the period ending on the latest practicable date for ascertaining certain information contained in the prospectus of the Company to be issued in connection with the global offering prior to the printing of this prospectus (inclusive of the date).

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Plan at any time shall not exceed 16,382,286 Shares, representing 6.47% of the total issued Shares immediately following the completion of the Global Offering (without taking into account any shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options).

Subject to the provisions of this Pre-IPO Share Option Plan, it shall be subject to the administration of the Board or the Committee whose decision as to all matters arising from or in relation to this Pre-IPO Share Option Plan or its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to this Pre-IPO Share Option Plan.

The offer of a grant of share options 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 years upon the date on which it becomes exercisable after which it will lapse. 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 HKD1.00 is payable by a grantee upon acceptance of the grant of the options.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share options that have not been exercised. Shares allotted and issued on the exercise of any share options will be subject to all provisions of the articles of association of the Company (as amended from time to time) and will rank equally in all respects with the Shares in issue on the date of allotment and issuance. They will not rank for any rights attaching to shares by reference to a record date preceding the date of allotment and issuance.

As at 30 June 2021, no option has been granted or agreed to be granted under the Pre-IPO Share Option Plan.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****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 subscription price of RMB15.53 each. The Awarded Shares are vested upon the grant without any other performance target required. As at 30 June 2021, all awarded shares are 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 grant date, taking into consideration of 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 Relevant Periods are presented in the consolidated statements 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.

Other reserve

The other reserve represents any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interests in subsidiaries. Details of the movements in other reserve are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to appropriate 10% of its net profits after tax, as determined under the Chinese Accounting Standards, to the statutory surplus reserves until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Group, the statutory surplus reserves may be used either to offset losses, or to be converted to increase the share capital of the subsidiaries provided that the balance after such conversion is not less than 25% of the registered capital of them. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

Share options reserve

The share options reserve comprises the fair value of equity-settled share-based payment granted, detailed disclosed in note 30 to the Historical Financial Information. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profits should the related options expire or be forfeited.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies whose functional currency is not RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the Historical Financial Information.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 32. RESERVES (continued)

## STATEMENTS OF CHANGES IN EQUITY OF THE COMPANY

	Share capital	Share option reserve	Share premium	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018. . . . .	—	33,665	—	3,498	(362,055)	(324,892)
Loss for the year. . . . .	—	—	—	—	(102,710)	(102,710)
Other comprehensive loss for the year:						
Exchange differences on translation of the Company's operations . . . . .	—	—	—	(17,068)	—	(17,068)
Total comprehensive loss for the year. . . . .	—	—	—	(17,068)	(102,710)	(119,778)
Equity-settled share option arrangements . . . . .	—	3,195	—	—	—	3,195
At 31 December 2018 and 1 January 2019 . . . . .	—	36,860	—	(13,570)	(464,765)	(441,475)
Loss for the year. . . . .	—	—	—	—	(215,793)	(215,793)
Other comprehensive loss for the year:						
Exchange differences on translation of the Company's operations . . . . .	—	—	—	(8,079)	—	(8,079)
Total comprehensive loss for the year. . . . .	—	—	—	(8,079)	(215,793)	(223,872)
Equity-settled share option arrangements. . . . .	—	9,166	—	—	—	9,166
At 31 December 2019 and 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 period . . . . .	—	—	—	—	(261,810)	(261,810)
Other comprehensive loss for the period:						
Exchange differences on translation of the Company's operations . . . . .	—	—	—	27,517	—	27,517
Total comprehensive loss for the period. . . . .	—	—	—	27,517	(261,810)	(234,293)
Issue of ordinary shares . . . . .	25	(61,875)	449,847	—	—	387,997
Transfer from convertible redeemable preferred shares . . . . .	6	—	217,810	—	—	217,816
At 30 June 2021 . . . . .	31	—	667,657	59,339	(1,286,144)	(559,117)

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 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.

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period . . . . .	33,267	12,783	1,161	121
Provision accrued during the year/period . . . . .	12,783	1,161	121	–
Payment during the year/period . . . . .	(33,267)	(12,783)	(1,161)	–
At the end of the year/period . . . . .	12,783	1,161	121	121

## 34. BUSINESS COMBINATION

2018

## (a) Acquisitions of Shanghai Duzhuang and Shanghai Jinyue

On 1 January 2018, the Group acquired a 100% equity interests in Shanghai Duzhuang Out-patient Co., Ltd. (“上海都莊門診有限公司”, “Shanghai Duzhuang”) and Shanghai Jinyue Out-patient Department Co., Ltd. (“上海金悅門診部有限公司”, “Shanghai Jinyue”), unlisted companies from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisitions satisfied by cash of RMB27,000,000 in total at the acquisition date.

## (b) Acquisition of Shanghai Tongbaokang

On 31 January 2018, the Group acquired a 100% equity interests in 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) (formerly known as “Shanghai Tongbaokang Chinese Medicine Clinic Co., Ltd. (上海同保康中醫門診有限公司)”, “Shanghai Tongbaokang”), a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB7,400,000 at the acquisition date.

## (c) Acquisition of Ningbo Tongjuntang

On 1 February 2018, the Group acquired a 100% equity interests in Ningbo Tongjuntang, a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB16,500,000 at the acquisition date and a contingent consideration, which is payable dependent on the amount of actual revenue during the year subsequent to the acquisition. The fair value of contingent consideration recognized on the acquisition date was RMB1,145,000 which was determined using the discounted cash flow model and Monte Carlo simulation model and is within level 3 fair value measurement. The fair value change of contingent consideration from the acquisition date to 31 December 2018 was RMB978,000, which was recognized in profit or loss in 2018.

## (d) Acquisition of Suzhou Daru

On 1 August 2018, the Group acquired a 100% equity interests in Suzhou Daru Clinic Co, Ltd. (“蘇州大儒診所”, “Suzhou Daru”), a sole proprietorship from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB7,000,000 at the acquisition date.

## (e) Acquisition of Shenzhen Xiangzhu

On 31 October 2018, the Group acquired a 100% equity interests in Shenzhen Gushengtang Xiangzhu Out-patient Department (深圳固生堂香竹門診部) (formerly known as “Shenzhen Xiangzhu Out-patient Department (深圳香竹門診部)”, “Shenzhen Xiangzhu”), a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB5,500,000 at the acquisition date.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 34. BUSINESS COMBINATION (continued)

2018 (continued)

## (e) Acquisition of Shenzhen Xiangzhu (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired (note 33(a)~(e)) as at the dates of acquisition were as follows:

	<i>Note</i>	<b>Fair value recognized on acquisitions</b>
		<i>RMB'000</i>
Inventories . . . . .		258
Trade receivables . . . . .		3,259
Prepayments, other receivables and other assets . . . . .		2,642
Cash and cash equivalents . . . . .		2,274
Trade payables . . . . .		(1,717)
Other payables and accruals . . . . .		(7,406)
Total identifiable net liabilities at fair value. . . . .		(690)
Goodwill on acquisition. . . . .	16	65,068
Fair value of consideration which will be satisfied by:		
Cash . . . . .		63,400
Contingent consideration. . . . .		978
		64,378

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	<b>2018</b>
	<i>RMB'000</i>
Cash considerations . . . . .	63,400
Less: cash paid in 2017 . . . . .	(17,750)
cash paid in 2019 . . . . .	(13,560)
cash paid in 2020 . . . . .	(640)
cash and cash equivalents acquired. . . . .	(2,274)
	29,176
Add: cash paid in 2018 for acquisition in previous years . . . . .	20,813
Net outflow of cash and cash equivalents included in cash flows from investing activities . . . . .	49,989

Since the acquisition, the subsidiaries as aforementioned contributed RMB40,270,000 to the Group's revenue and a net loss of RMB8,569,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. Had the combination taken place at 1 January 2018, the revenue and loss of the Group would have been RMB50,799,000 and RMB4,677,000 respectively.

2019

## (f) Acquisitions of Guangzhou Dayi

On 1 April 2019, the Group acquired a 100% equity interests in Guangzhou Dayi Information Technology Co., Ltd. ("廣州達醫信息科技有限公司", "Guangzhou Dayi"), a unlisted companies from an independent third party. It mainly engaged in the provision of online 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 satisfied by cash of RMB3,070,000 at the acquisition date.

## (g) Acquisition of Shanghai Zhen'antang

On 31 August 2019, the Group acquired a 100% equity interests in Shanghai Zhen'antang Chinese Medicine Clinic ("上海真安堂中醫門診部", "Shanghai Zhen'antang"), a sole proprietorship from independent third parties. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB16,000,000 at the acquisition date.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 34. BUSINESS COMBINATION (continued)

2019 (continued)

## (g) Acquisition of Shanghai Zhen'antang (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired (note 33(f)~(g)) as at the dates of acquisition were as follows:

	Note	Fair value recognized on acquisitions
		<i>RMB'000</i>
Trade receivables . . . . .		798
Prepayments, other receivables and other assets . . . . .		306
Cash and cash equivalents . . . . .		1,553
Trade payables . . . . .		(1,531)
Other payables and accruals . . . . .		(3,568)
Total identifiable net liabilities at fair value. . . . .		(2,442)
Goodwill on acquisition. . . . .	16	18,442
Fair value of consideration satisfied by cash . . . . .		16,000

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	<b>2019</b>
	<i>RMB'000</i>
Cash considerations . . . . .	16,000
Less: cash paid in 2020 . . . . .	(2,400)
cash to be paid in 2021 . . . . .	(8,000)
cash and cash equivalents acquired. . . . .	(1,553)
	4,047
Add: cash paid in 2019 for acquisition in previous years . . . . .	17,827
Net outflow of cash and cash equivalents included in cash flows from investing activities . . . . .	21,874

Since the acquisition, the subsidiaries as aforementioned contributed RMB5,325,000 to the Group's revenue and a net loss of RMB742,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019. Had the combination taken place at 1 January 2019, the revenue and loss of the Group would have been RMB15,977,000 and RMB5,217,000 respectively.

2020

## (h) Acquisition of Guangzhou Yuexin

On 30 April 2020, the Group acquired a 100% equity interests in Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. (廣州市越秀區固生門診部有限公司, formerly known as Guangzhou Yuexin Specialty Out-patient Co., Ltd. ("廣州悅心普通專科門診有限公司", "Guangzhou Yuexin")), a unlisted companies 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 explore its online market in Chinese medicine service. The acquisition satisfied by cash of RMB3,500,000 at the acquisition date.

## (i) Acquisition of Shanghai Zhongyida

On 30 April 2020, the Group acquired a 100% equity interests in Shanghai Zhongyida TCM Out-patient Department Co., Ltd. ("上海眾益達中醫門診有限公司", "Shanghai Zhongyida"), a unlisted companies 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 explore its online market in Chinese medicine service. The acquisition satisfied by cash of RMB7,200,000 at the acquisition date.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 34. BUSINESS COMBINATION (continued)

2020 (continued)

## (j) Acquisition of Suzhou Tong'an

On 31 August 2020, the Group acquired a 100% equity interests 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 mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition 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 interests in Bailu from independent third parties. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition 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 recognized, with the detailed information disclosed in note 21 to these Historical Financial Information and the fair value of contingent consideration recognized on the acquisition date was RMB7,085,000.

## (l) Acquisition of Zhenjiang Manshan

On 31 August 2020, the Group acquired a 100% equity interests 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 mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB2,200,000 at the acquisition date.

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 recognized on acquisitions
		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 assets at fair value . . . . .		17,338
Goodwill on acquisition . . . . .	16	82,477
Fair value of consideration which will be satisfied by:		
Cash . . . . .		106,900
Contingent consideration . . . . .	21	(7,085)
		99,815

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 year . . . . .	(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 aforementioned 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.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 34. BUSINESS COMBINATION (continued)

2021

## (m) Acquisitions of Shanghai Shenhua

On 1 January 2021, the Group acquired a 100% equity interests in Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd. (上海浦東新區神華中醫門診部有限公司), "Shanghai Shenhua", unlisted companies from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisitions satisfied by cash of RMB8,148,000 in total at the acquisition date.

## (n) Acquisition of Beijing Kunlun

On 13 January 2021, the Group acquired a 100% equity interests in Beijing Kunlun Hospital Co., Ltd. ("北京市昆侖醫院有限公司", "Beijing Kunlun"), a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB5,000,000 at the acquisition date.

## (o) Acquisition of Ningbo Liuting

On 28 February 2021, the Group acquired a 100% equity interests in Ningbo Liuting, a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition 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 Historical Financial Information and the fair value of contingent consideration recognized on the acquisition date was RMB932,000.

## (p) Acquisition of Fuzhou Xiulichun

On 30 April 2021, the Group acquired a 100% equity interests in Fuzhou Xiulichun, a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition 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 Historical Financial Information and the fair value of contingent consideration recognized on the acquisition date was RMB309,000.

## (q) Acquisition of Lianjiang Xiulichun

On 30 April 2021, the Group acquired a 100% equity interests in Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司, formerly known as Lianjiang Xiulichun TCM Out-patient Co., Ltd. ("連江袖里春中醫門診有限公司", "Lianjiang Xiulichun")), a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition satisfied by cash of RMB3,000,000 at the acquisition date.

## (r) Acquisition of Shanghai Wanlian

On 30 April 2021, the Group acquired a 100% equity interests in Shanghai Wanlian, a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition 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 Historical Financial Information and the fair value of contingent consideration recognized on the acquisition date was RMB294,000.

## (s) Acquisition of Beijing Zhonghai

On 30 June 2021, the Group acquired a 100% equity interests in Beijing Zhonghai, a unlisted company from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisitions were part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition 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 Historical Financial Information and the fair value of contingent consideration recognized on the acquisition date was RMB373,000.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 34. BUSINESS COMBINATION (continued)

2021 (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired (note 33(m)–(s)) as at the dates of acquisition were as follows:

	Notes	Fair value recognized on acquisitions
		<i>RMB'000</i>
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
Fair value of consideration which will be satisfied by: . . . . .		
Cash . . . . .		124,673
Contingent consideration . . . . .	21	(1,908)
		122,765

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	<b>2021</b>
	<i>RMB'000</i>
Cash considerations . . . . .	124,673
Less: prepayment in previous year . . . . .	(5,625)
cash to be paid in coming years . . . . .	(57,575)
cash and cash equivalents acquired . . . . .	(5,176)
	56,297
Add: cash paid in 2021 for acquisition in previous years . . . . .	52,350
Net outflow of cash and cash equivalents included in cash flows from investing activities . . . . .	108,647

Since the acquisition, the subsidiaries as aforementioned contributed RMB6,868,000 to the Group's revenue and a net loss of RMB 1,441,000 to the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2021. Had the combination taken place at 1 January 2021, the revenue and loss of the Group would have been RMB52,231,000 and RMB9,509,000, respectively.

## 35. DISPOSAL OF SUBSIDIARIES

2019

Pursuant to the share transfer agreement dated 14 May 2019 and 7 August 2019, the Group disposed 100% of its equity interests in Kunshan Gushengtang and Chengdu Gushengtang to third parties, for a consideration of RMB2,400,000 and RMB200,000, respectively (the "Disposals"). The consideration was determined by reference to the corresponding value of the equity interest disposed of on the date of Disposals.

	<i>RMB'000</i>
Goodwill (note 16) . . . . .	2,600
Loss on the disposals . . . . .	–
	2,600
Satisfied by:	
Cash . . . . .	2,600

An analysis of the net inflow of cash and cash equivalents in respect of the Disposals is as follows:

	<i>RMB'000</i>
Cash consideration/net outflow of cash and cash equivalents in respect of the Disposals . . . . .	2,600

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****36. 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 the Historical Financial Information.

**37. COMMITMENTS**

The Group had the following capital commitments at the end of the reporting period:

	Year ended 31 December			Six months ended 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for				
Leasehold improvement and equipment . . . . .	3,693	3,073	2,876	8,738

**38. 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 Relevant Periods.

**(a) Name and relationship of related parties**

Name	Relationship
Mr. Tu Zhiliang . . . . .	The executive director of the Company
Ms. Li Jie . . . . .	Key management of the Company
Mr. Yan Jun . . . . .	Key management of the Company
Mr. Qian Wei . . . . .	Key management of the Company
Mr. Zhang Yuwen . . . . .	Key management of the Company
Mr. Li Yanhui . . . . .	Key management of the Company
Ms. Chen Zhaoyuan . . . . .	Key management of the Company
Ms. Zhang Qiumin . . . . .	Key management of the Company

**(b) Significant related party transactions during the Relevant Periods were as follows:**

	Notes	Year ended 31 December			Six months ended 30 June
		2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
Loans to a director . . . . .	(i)	2,174	27,372	1,960	—
Loans to key management personnels . . . . .	(ii)	2,960	4,700	300	—
Interest income from loans . . . . .		1,081	1,707	1,943	547

**Notes:**

- (i) The Group entered into a loan agreement with Mr. Tu Zhiliang, in which the Group agreed to make 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 personnels are unsecured, interest-free and repayable on demand.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 38. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

## (c) Outstanding balances with related parties

As disclosed in the consolidated statements of financial position, the Group had outstanding balances with its related parties as at 31 December 2018, 2019, 2020 and 30 June 2021 as follows:

	Outstanding balance	Maximum amount outstanding during the year
	RMB'000	RMB'000
<b>31 December 2018</b>		
Prepayment, other receivables and other assets:		
Loans due from Mr. Tu Zhiliang. . . . .	21,150	21,150
Loans due from key management personnels . . . . .	3,263	3,263
<b>31 December 2019</b>		
Prepayment, other receivables and other assets:		
Loans due from Mr. Tu Zhiliang. . . . .	32,308	32,308
Loans due from key management personnels . . . . .	7,737	7,737
<b>31 December 2020</b>		
Prepayment, other receivables and other assets:		
Loans due from Mr. Tu Zhiliang. . . . .	34,268	34,268
Loans due from key management personnels . . . . .	6,176	6,176
<b>30 June 2021</b>		
Prepayment, other receivables and other assets:		
Loans due from Mr. Tu Zhiliang. . . . .	—	—
Loans due from key management personnels . . . . .	—	—

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 rate of 6% per annum and the loans due from key management personnels are interest-free.

The Group's outstanding balances with related parties were all settled as at 30 June 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:

	Year ended 31 December			Six months ended 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Short term employee benefits . . . . .	5,104	5,909	6,317	5,493
Share-based payments expense . . . . .	740	509	2,150	17,337
	5,844	6,418	8,467	22,830

## 39. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

## (a) Major non-cash transaction:

During the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB91,815,000, RMB47,008,000, RMB59,857,000 and RMB65,656,000, respectively, in respect of lease arrangements for office building.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 39. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities during the Relevant Periods is as follows:

	Interest-bearing bank loan	Lease liabilities	Convertible redeemable preferred share	Bonds payable
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018 . . . . .	12,750	98,821	683,225	–
Changes from financing cash flows:				
New bank loans . . . . .	46,265	–	–	–
Repayment of bank loans . . . . .	(36,925)	–	–	–
Interest paid . . . . .	(2,337)	(7,358)	–	–
Capital element of lease liabilities . . . . .	–	(27,165)	–	–
Other changes:				
New lease liabilities arising from additional leases during the year . . . . .	–	91,815	–	–
Fair value losses on the Preferred Shares . . . . .	–	–	35,757	–
Interest expenses . . . . .	2,337	7,358	–	144
Transfer from convertible bonds . . . . .	–	–	–	5,642
Exchange realignment . . . . .	–	–	38,629	–
As at 31 December 2018 . . . . .	22,090	163,471	757,611	5,786
As at 1 January 2019 . . . . .	22,090	163,471	757,611	5,786
Changes from financing cash flows:				
New bank loans . . . . .	12,122	–	–	–
Repayment of bank loans . . . . .	(16,157)	–	–	–
Interest paid . . . . .	(2,233)	(7,856)	–	(1,034)
Capital element of lease liabilities . . . . .	–	(31,636)	–	–
Repayment of advance from potential Shareholder . . . . .	–	–	–	(5,000)
Other changes:				
New lease liabilities arising from additional leases during the year . . . . .	–	47,008	–	–
Fair value losses on the Preferred Shares . . . . .	–	–	191,120	–
Interest expenses . . . . .	2,233	7,856	–	248
Exchange realignment . . . . .	–	–	14,626	–
As at 31 December 2019 . . . . .	18,055	178,843	963,357	–
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	–	–
Issuance 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
As at 1 January 2021 . . . . .	145,138	198,174	1,204,204	329,013
Changes from financing cash flows:				
New bank loans . . . . .	84,784	–	–	–
Issuance of Preferred Shares . . . . .	–	–	243,740	–
Repayment of bank loans . . . . .	(37,636)	–	–	–
Repayment of bond payables . . . . .	–	–	–	(329,013)
Interest paid . . . . .	(4,964)	(5,453)	–	(7,101)
Capital element of lease liabilities . . . . .	–	(30,359)	–	–
Other changes:				
New lease liabilities arising from additional leases during the year . . . . .	–	65,656	–	–
Fair value losses on the Preferred Shares . . . . .	–	–	330,744	–
Conversion into Preferred Shares from convertible bonds . . . . .	–	–	208,071	–
Interest expenses . . . . .	4,964	5,453	–	7,101
Transferred to equity . . . . .	–	–	(217,816)	–
Exchange realignment . . . . .	–	–	(33,644)	–
As at 30 June 2021 . . . . .	192,286	233,471	1,735,299	–

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 39. NOTES TO THE CONSOLIDATED STATEMENTS 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:

	Year ended 31 December			Six months ended 30 June
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Within operating activities . . . . .	24,223	18,038	7,131	1,554
Within financing activities . . . . .	34,523	49,492	46,112	35,812
	58,746	67,530	53,243	37,366

## 40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the Relevant Periods are as follows:

Financial assets

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss. . . . .	51,300	52,300	114,425	8,993
Financial assets at amortised cost				
Trade receivables . . . . .	54,100	42,345	56,576	60,328
Financial assets included in prepayments, other receivables and other assets . . . . .	57,365	69,297	85,449	45,820
Cash and cash equivalents . . . . .	92,710	138,117	249,994	486,203
	204,175	249,759	392,019	592,351
	255,475	302,059	506,444	601,344

Financial liabilities

	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at fair value through profit or loss (Designated as such upon initial recognition)				
Convertible bonds . . . . .	484,548	508,720	198,134	—
Convertible redeemable preferred shares . . . . .	757,611	963,357	1,204,204	1,735,299
	1,242,159	1,472,077	1,402,338	1,735,299
Financial liabilities at amortised cost				
Trade and bills payables . . . . .	146,227	121,104	113,110	133,786
Financial liabilities included in other payables and accruals . . . . .	67,997	53,356	125,966	133,150
Lease liabilities . . . . .	163,471	178,843	198,174	233,471
Bonds payable . . . . .	5,786	—	329,013	—
Interest-bearing bank loans and other borrowings . . . . .	22,090	18,055	145,138	192,286
	405,571	371,358	911,401	692,693
	1,647,730	1,843,435	2,313,739	692,693

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

	Carrying amounts				Fair values			
	31 December 2018	31 December 2019	31 December 2020	30 June 2021	31 December 2018	31 December 2019	31 December 2020	30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>								
Financial assets at fair value through profit or loss . . . . .	51,300	52,300	114,425	8,993	51,300	52,300	114,425	8,993
<b>Financial liabilities</b>								
Interest-bearing								
bank loans and								
other borrowings . . .	22,090	18,055	145,138	192,286	22,090	18,055	145,138	192,286
Convertible bonds . . .	484,548	508,720	198,134	—	484,548	508,720	198,134	—
Convertible redeemable preferred shares . . .	757,611	963,357	1,204,204	1,735,299	757,611	963,357	1,204,204	1,735,299
	1,264,249	1,490,132	1,547,476	1,927,585	1,264,249	1,490,132	1,547,476	1,927,585

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.

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:

- 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 2018, 2019, 2020 and 30 June 2021 were assessed to be insignificant.
- The fair values of wealth management products included in the financial assets at fair value through profit or loss are based on observable input of USD Libor (3 month).
- The fair value of contingent consideration included in the financial assets at fair value through profit or loss is measured using valuation technique of the discounted cash flow model using significant unobservable market inputs. For details please refer to note 21 to the historical financial information.
- 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 the Historical Financial Information.
- The fair values of convertible bonds is determined by the Binomial Model model using significant unobservable market inputs. Details of the method were disclosed in note 27 to the Historical Financial Information.

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.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018, 2019, 2020 and 30 June 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value of the input
Financial assets at fair value through profit or loss-contingent consideration . .	Scenario-based method	Discount rate	31 December 2020: 14.39%	1% increase/decrease in the discount rate would result in decrease/increase in the fair value by RMB104,000/RMB107,000.
			30 June 2021: 10.03%-12.05%	1% increase/decrease in the discount rate would result in decrease/increase in the fair value by RMB20,000/RMB20,000.
Convertible bonds . . . . .	Binomial Model	Risk-free interest rate	31 December 2018: 2.73%-2.96%	1% increase/decrease in the risk-free interest rate would result in decrease/increase in the fair value by RMB6,617,000/RMB8,376,000.
			31 December 2019: 2.36%-2.67%	1% increase/decrease in the risk-free interest rate would result in decrease/increase in the fair value by RMB2,441,000/RMB2,657,000.
Convertible bonds . . . . .	Binomial Model	Risk-free interest rate	31 December 2020: 2.57%-2.68%	1% increase/decrease in the risk-free interest rate would result in decrease/increase in the fair value by RMB613,000/RMB613,000.
		Volatility	31 December 2018: 35.20%-38.89%	10% increase/decrease in the volatility would result in increase/decrease in the fair value by RMB19,435,000/RMB17,943,000.
			31 December 2019: 36.05%-40.30%	10% increase/decrease in the volatility would result in increase/decrease in the fair value by RMB11,283,000/RMB10,202,000.
			31 December 2020: 50.91%-57.91%	10% increase/decrease in the volatility would result in increase/decrease in the fair value by RMB1,990,000/RMB2,025,000.
Convertible redeemable preferred shares . . . . .	Option-Pricing Method	Risk-free interest rate	31 December 2018: 2.73%-2.96%	1% increase/decrease in the risk-free interest rate would result in decrease/increase in the fair value by RMB1,704,000/RMB1,225,000.
			31 December 2019: 2.36%-2.67%	1% increase/decrease in the risk-free interest rate would result in decrease/increase in the fair value by RMB2,287,000/RMB2,357,000.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value of the input
			31 December 2020: 2.57%-2.68%	1% increase/decrease in the risk-free interest rate would result in increase/decrease in the fair value by RMB815,000/RMB839,000.
			30 June 2021: 1.30%-3.30%	1% increase/decrease in the risk-free interest rate would result in increase/decrease in the fair value by RMB109,000/RMB110,000.
		Volatility	31 December 2018: 35.20%-38.89%	1% increase/decrease in the volatility would result in decrease/increase in the fair value by RMB657,000/RMB509,000.
Convertible redeemable preferred shares . . . . .	Option-Pricing Method	Volatility	31 December 2019: 36.05%-40.30%	1% increase/decrease in the volatility would result in decrease/increase in the fair value by RMB378,000/RMB412,000.
			31 December 2020: 50.91%-57.91%	1% increase/decrease in the volatility would result in decrease/increase in the fair value by RMB340,000/RMB354,000.
			30 June 2021: 53.35%-55.35%	1% increase/decrease in the volatility would result in decrease/increase in the fair value by RMB7,000/RMB6,000.
		DLOM	31 December 2018: 19.00%-21.00%	5% increase/decrease in the DLOM would result in decrease/increase in the fair value by RMB48,554,000/RMB48,073,000.
			31 December 2019: 19.00%-21.00%	5% increase/decrease in the DLOM would result in decrease/increase in the fair value by RMB61,724,000/RMB61,475,000.
			31 December 2020: 11.73%-13.73%	5% increase/decrease in the DLOM would result in decrease/increase in the fair value by RMB76,849,000/RMB77,055,000.
			30 June 2021: 8.21%-10.21%	5% increase/decrease in the DLOM would result in decrease/increase in the fair value by RMB106,209,000/RMB106,199,000.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
<b>31 December 2018</b>				
Financial assets at fair value through profit or loss . . . . .	—	51,300	—	51,300
<b>31 December 2019</b>				
Financial assets at fair value through profit or loss . . . . .	—	52,300	—	52,300
<b>31 December 2020</b>				
Financial assets at fair value through profit or loss . . . . .	—	107,340	7,085	114,425
<b>30 June 2021</b>				
Financial assets at fair value through profit or loss . . . . .	—	—	8,993	8,993

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	
<b>31 December 2018</b>				
Convertible bonds . . . . .	—	—	484,548	484,548
Convertible redeemable preferred shares . . . . .	—	—	757,611	757,611
	—	—	1,242,159	1,242,159
<b>31 December 2019</b>				
Convertible bonds . . . . .	—	—	508,720	508,720
Convertible redeemable preferred shares . . . . .	—	—	963,357	963,357
	—	—	1,472,077	1,472,077
<b>31 December 2020</b>				
Convertible bonds . . . . .	—	—	198,134	198,134
Convertible redeemable preferred shares . . . . .	—	—	1,204,204	1,204,204
	—	—	1,402,338	1,402,338
<b>30 June 2021</b>				
Convertible redeemable preferred shares . . . . .	—	—	1,735,299	1,735,299

During the Relevant Periods, 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.



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 42. 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 profit before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in basis point	(Decrease)/increase in profit before tax
		<i>RMB'000</i>
Year ended 31 December 2018		
RMB . . . . .	100	(221)
RMB . . . . .	(100)	221
Year ended 31 December 2019		
RMB . . . . .	100	(180)
RMB . . . . .	(100)	180
Year ended 31 December 2020		
RMB . . . . .	100	(1,451)
RMB . . . . .	(100)	1,451
Period ended 30 June 2021		
RMB . . . . .	100	(1,923)
RMB . . . . .	(100)	1,923

*Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from the use of financial instruments denominated in US\$ to finance the Group's operations in the PRC and the fact that the repayment for those US\$-denominated financial instruments are based on the RMB-denominated assets generated by the Group's PRC operations. The following table demonstrates the sensitivity as at 31 December 2018, 2019, 2020 and 30 June 2021 to a reasonably possible change by 5% in the US\$ exchange rates against RMB, with all other variables held constant, of the Group's profit before tax.

	31 December			30 June
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
If RMB weakens against US\$ by 5%				
Decrease in profit before tax . . . . .	—	—	—	(27,706)
If RMB strengthens against US\$				
by 5%				
Increase in profit before tax . . . . .	—	—	—	27,706

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Credit risk*

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods.

	12-months ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	Total
	RMB'000	RMB'000	RMB'000
31 December 2018			
Trade receivables*	—	54,488	54,488
Financial assets included in prepayments, other receivables and other assets			
– Normal**	57,365	—	57,365
Cash and cash equivalents			
– Not yet past due	92,710	—	92,710
	150,075	54,488	204,563
31 December 2019			
Trade receivables*	—	42,895	42,895
Financial assets included in prepayments, other receivables and other assets			
– Normal**	69,297	—	69,297
Cash and cash equivalents			
– Not yet past due	138,117	—	138,117
	207,414	42,895	250,309
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
30 June 2021			
Trade receivables*	—	61,109	61,109
Financial assets included in prepayments, other receivables and other assets			
– Normal**	45,820	—	45,820
Cash and cash equivalents			
– Not yet past due	486,203	—	486,203
	532,023	61,109	593,132

\* 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 the historical financial information, 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”.

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 42. 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 Relevant Periods, based on the contractual undiscounted payments, is as follows:

**31 December 2018**

	On demand	Within 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . . . . .	85,126	61,101	—	146,227
Financial liabilities included in other payables and accruals . . . . .	—	67,997	—	67,997
Convertible bonds . . . . .	—	—	449,243	449,243
Convertible redeemable preferred shares . . . . .	—	—	403,431	403,431
Bonds payable . . . . .	—	6,034	—	6,034
Lease liabilities* . . . . .	—	34,833	155,406*	190,239
Interest-bearing bank loans and other borrowings . .	7,332	7,855	7,933	23,120
	92,458	177,820	1,016,013	1,286,291

\* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1-2 year	2-3 year	3-4 year	4-5 year	Over 5 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities with maturity over 1 year . . .	40,029	33,374	30,243	23,051	28,709	155,406

**31 December 2019**

	On demand	Within 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . . . . .	66,620	54,484	—	121,104
Financial liabilities included in other payables and accruals . . . . .	—	53,356	—	53,356
Convertible bonds . . . . .	—	—	488,243	488,243
Convertible redeemable preferred shares . . . . .	—	409,533	—	409,533
Lease liabilities* . . . . .	—	44,106	163,926*	208,032
Interest-bearing bank loans and other borrowings . .	—	16,647	2,060	18,707
	66,620	578,126	654,229	1,298,975

\* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1-2 year	2-3 year	3-4 year	4-5 year	Over 5 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities with maturity over 1 year . . .	43,272	36,524	28,930	27,137	28,063	163,926

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

31 December 2020

	On demand	Within 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	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 year	2-3 year	3-4 year	4-5 year	Over 5 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities with maturity over 1 year . . .	46,586	38,387	35,702	29,739	30,390	180,804

30 June 2021

	On demand	Within 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . . . . .	42,382	91,404	—	133,786
Financial liabilities included in other payables and accruals . . . . .	—	133,150	—	133,150
Convertible redeemable preferred shares . . . . .	626,552	—	—	626,552
Lease liabilities* . . . . .	—	65,663	228,661	294,324
Interest-bearing bank loans and other borrowings . .	—	103,662	105,236	208,898
	668,934	393,879	333,897	1,396,710

\* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1-2 year	2-3 year	3-4 year	4-5 year	Over 5 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities with maturity over 1 year . . .	55,625	47,518	42,164	28,935	54,419	228,661

## Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. In the opinion of the directors of the Group, the Group has operating profits and unutilised facilities of RMB471,933,000 as at 30 June 2021. 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 Group.

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)****43. SUBSEQUENT FINANCIAL STATEMENTS**

On 9 November 2021, a total of 16,382,286 share options ("Options") were granted to three grantees under the Pre-IPO Share Option Plan. The Options shall vest in accordance with the relevant timetables with an exercisable period ranging from 1 year to 10 years upon the date of vesting at an exercise price of USD0.35 (equivalent to RMB2.24) or RMB15.53 per share.

*The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the "Financial Information" section in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

#### **A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is to illustrate the effect of the Global Offering on the consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2021 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not provide a true picture of the consolidated net tangible assets attributable to owners of the Company had the Global Offering been completed as at 30 June 2021 or at any future date.

	Consolidated net tangible liabilities attributable to owners of the Company as 30 June 2021	Estimated net proceeds from the Global Offering	Estimated impact related to the changes of terms of convertible redeemable preference shares upon the Listing	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB (Note 4)	HK\$ (Note 5)
Based on an Offer						
Price of						
HK\$25.80 per						
Share . . . . .	(1,567,796)	509,663	1,735,299	677,166	2.94	3.58
Based on an Offer						
Price of HK\$27.40						
per Share . . . . .	(1,567,796)	544,060	1,735,299	711,563	3.09	3.77
Based on an Offer						
Price of						
HK\$29.00 per						
Share . . . . .	(1,567,796)	578,457	1,735,299	745,960	3.24	3.95

*Notes:*

- (1) The consolidated net tangible liabilities of the Group attributable to owners of the Company as at 30 June 2021 was equal to the audited deficiency in assets attributable to owners of the Company as at 30 June 2021 of RMB847,975,000 after deducting of goodwill and intangible assets of RMB688,615,000 and RMB31,206,000 as of 30 June 2021 set out in the Accountants' Report in Appendix I to this prospectus, respectively.



- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$25.80, HK\$27.40 or HK\$29.00 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and do not take into account any share which may be sold and offered upon exercise of the Over-allotment Option.
- (3) For the purpose of the unaudited pro forma financial information, considering the estimated impact related to the changes of terms of convertible redeemable preference shares upon the Listing, the unaudited pro forma adjusted net tangible assets attributable to the owners of the Company will be increased by RMB1,735,299,000, being the fair value of convertible redeemable preference shares as at 30 June 2021 set out in the Accountants' Report in Appendix I to this prospectus. Upon the Listing and the completion of the Global Offering, all the convertible redeemable preference shares will be automatically converted into the Shares, which will be reclassified from liabilities to equity. The amount that is reclassified from liabilities to equity will be the fair value of the convertible redeemable preference shares on that date of the Global Offering.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 230,396,458 Share are in issue assuming the Global Offering has been completed on 30 June 2021.
- (5) The unaudited pro forma adjusted consolidated net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8204 to HK\$1.00.
- (6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2021.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the pro forma financial information of the Group.*



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 Directors of GUSHENGTANG HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of GUSHENGTANG HOLDINGS LIMITED (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma adjusted consolidated net tangible assets as at 30 June 2021, and related notes as set out on pages II-1 and II-2 of the prospectus dated 30 November 2021 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in pages II-1 and II-2 to the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 30 June 2021 as if the transaction had taken place at 30 June 2021. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the period ended 30 June 2021, on which an accountants’ report has been published.

**Directors’ responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

*Ernst & Young*  
*Certified Public Accountants*  
Hong Kong  
30 November 2021

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the company laws of the Cayman Islands.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 May 2014 under the Cayman Companies Act. The Company's constitutional documents consist of its Memorandum and Articles of Association.

## **1. MEMORANDUM OF ASSOCIATION**

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on November 16, 2021. A summary of certain provisions of the Articles is set out below.

### **2.1 Shares**

#### **(a) *Classes of shares***

The share capital of the Company consists of ordinary shares.

#### **(b) *Variation of rights of existing shares or classes of shares***

Subject to the Cayman Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(c) *Alteration of capital***

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

**(d) *Transfer of shares***

Subject to the Cayman Companies Act and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.



The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(e) Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

***(f) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

***(g) Calls on shares and forfeiture of shares***

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

## **2.2 Directors**

### **(a) *Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. Every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, 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.

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 and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

**(b) *Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Act, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Act, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

**(c) *Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Act to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

**(d) Borrowing powers**

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Act, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**(e) Remuneration**

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

**(f) *Compensation or payments for loss of office***

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

**(g) *Loans and provision of security for loans to Directors***

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

**(h) *Disclosure of interest in contracts with the Company or any of its subsidiaries***

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.



A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

### **2.3 Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### **2.4 Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**2.5 Meetings of members****(a) *Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

**(b) *Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

**(c) *Annual general meetings***

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

**(d) *Notices of meetings and business to be conducted***

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 any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Act and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

**(e) *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(f) *Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(g) *Members' requisition for meetings***

Extraordinary general meetings shall be convened on the requisition of one or more members 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 of the Company 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.

## **2.6 Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Act (which include all sales and purchases of goods by the Company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Act or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**2.7 Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.



The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

## **2.8 Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

## **2.9 Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 of this Appendix.

## **2.10 Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and

- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

### **2.11 Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

## **3. COMPANY LAWS OF THE CAYMAN ISLANDS**

The Company was incorporated in the Cayman Islands as an exempted company on 8 May 2014 subject to the Cayman Companies Act. Certain provisions of the company laws of the Cayman Islands are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the company laws of the Cayman Islands, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### **3.1 Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**3.2 Share capital**

Under the Cayman Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Cayman Companies Act;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**3.3 Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**3.4 Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**3.5 Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**3.6 Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**3.7 Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**3.8 Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**3.9 Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**3.10 Taxation**

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**3.11 Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**3.12 Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**3.13 Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**3.14 Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands.

**3.15 Register of directors and officers**

Pursuant to the Cayman Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.



**3.16 Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**3.17 Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated, the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**3.18 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**3.19 Indemnification**

The Cayman Islands laws do not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**3.20 Economic Substance**

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act (2021 Revision) together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

**4. GENERAL**

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Cayman Companies Act. This letter, together with a copy of the Cayman Companies Act, is on display as referred to in the paragraph headed "Documents on display" in Appendix V. Any person wishing to have a detailed summary of the Cayman Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Act, as an exempted company with limited liability on May 8, 2014. Our Company has established a place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 10, 2021. Ms. Lau Jeanie (劉准羽) has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Act and its constitution comprises the Memorandum and Articles of Association. A summary of the Memorandum and Articles of Association and relevant aspects of the Cayman Companies Act is set forth in Appendix III to this prospectus.

**2. Changes in the share capital of our Company**

For details of changes in the share capital of our Company, see the section headed "History, Reorganization and Corporate Structure."

Save as disclosed herein and in the section headed "—3. Resolutions in writing of all our Shareholders passed on November 16, 2021" below, there has been no alteration in the share capital of our Company since its incorporation.

**3. Resolutions in writing of all our Shareholders passed on November 16, 2021**

Pursuant to the written resolutions passed by our Shareholders on November 16, 2021, it was resolved, among others:

- (a) our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon the listing of our Shares on the Stock Exchange;
- (b) conditional on (i) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Shares in issue and Shares to be issued (pursuant to the Global Offering and the exercise of the Over-allotment Option) and such listing and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange; (ii) the Offer Price being determined; (iii) the execution and delivery of the Underwriting Agreements; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Representatives (on behalf of the Underwriters)) and remaining unconditional and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:
  - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to effect the same (including but not limited to agreeing the structure of the Global Offering, increase or reduce the number of Shares initially offered for subscription in the Global Offering and agreeing the Offer Price range of the Global Offering and final Offer Price) and to allot and issue the Offer Shares pursuant to the Global Offering and the Over-allotment Option;

- (ii) the grant of the Over-allotment Option by the Company to the International Underwriters, exercisable by the Joint Representatives (on behalf of the International Underwriters);
  - (iii) the proposed Listing was approved and our Directors were authorized to implement the Listing; and
  - (iv) the Directors were authorized to issue the Prospectus and application forms by the Company pursuant to the Listing Rules, provided that the number of Offer Shares was duly determined by the Directors and transfer such number of Shares related to the Global Offering.
- (c) a general unconditional mandate was granted to our Directors to, *inter alia*, allot, issue and deal with Shares, securities convertible into Shares (the “**Convertible Securities**”) or options, warrants or similar rights to subscribe for any Shares or such convertible securities (the “**Options and Warrants**”) and to make or grant offers, agreements or options which might require such Shares, the Convertible Securities or the Options and Warrants to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares or the underlying Shares relating to the Convertible Securities or the Options and Warrants so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Plan).

This mandate does not cover Shares to be allotted, issued or dealt with under a rights issue or any scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders. Such mandate will remain in effect until:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest;

- (d) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Plan).

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will remain in effect until:

- (i) the conclusion of our next annual general meeting;

- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest; and

- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Plan)).

#### **4. Corporate reorganization**

The companies comprising our Group underwent the Reorganization in preparation for the Listing. For further details, please refer to the section headed “History, Reorganization and Corporate Structure—Reorganization.”

#### **5. Changes in the share capital of our subsidiaries**

A summary of the corporate information and the particulars of our subsidiaries are set out in the Accountants’ Report in Appendix I to this prospectus.

Save as disclosed below, there has been no alteration in the share capital or the registered capital of any of our Subsidiaries within the two years immediately preceding the date of this prospectus:

##### ***Guangdong Gushengtang***

On January 4, 2021, the registered capital of Guangdong Gushengtang was increased from RMB30,577,276 to RMB32,186,606.

On January 21, 2021, the registered capital of Guangdong Gushengtang was increased from RMB32,186,606 to RMB35,378,411.

On March 8, 2021, the registered capital of Guangdong Gushengtang was increased from RMB35,378,411 to RMB35,910,344.

On April 6, 2021, the registered capital of Guangdong Gushengtang was increased from RMB35,910,344 to RMB36,597,678.

##### ***Guangzhou Yuexiu***

On July 15, 2020, Guangzhou Yuexiu was established in the PRC with a registered capital of RMB100,000.

***Guangzhou Liwan***

On July 20, 2020, Guangzhou Liwan was established in the PRC with a registered capital of RMB100,000.

***Fuzhou Xiulichun***

On February 23, 2021, the registered capital of Fuzhou Xiulichun was increased from RMB1,000,000 to RMB13,000,000.

On March 24, 2021, the registered capital of Fuzhou Xiulichun was increased from RMB13,000,000 to RMB16,000,000.

***Lianjiang Xiulichun***

On June 10, 2020, Lianjiang Xiulichun was established in the PRC with a registered capital of RMB1,000,000.

On March 22, 2021, the registered capital of Lianjiang Xiulichun was increased from RMB1,000,000 to RMB3,000,000.

***Suzhou Tongan***

On June 28, 2020, Suzhou Tongan was established in the PRC with a registered capital of RMB1,000,000.

***Ningbo Manshan***

On October 9, 2020, the registered capital of Ningbo Manshan was increased from RMB600,000 to RMB2,200,000.

***Shanghai Zhenantang***

On August 7, 2020, Shanghai Zhenantang was established in the PRC with a registered capital of RMB16,000,000.

***Shanghai Shenhua***

On December 2, 2020, the registered capital of Shanghai Shenhua was increased from RMB2,500,000 to RMB7,500,000.

***Guangzhou Guyi***

On April 22, 2020, Guangzhou Guyi was established in the PRC with a registered capital of US\$3,000,000.

On January 10, 2021, the registered capital of Guangzhou Guyi was increased from US\$3,000,000 to US\$25,000,000.



***Wumianshan Investment Holdings***

On May 22, 2020, Wumianshan Investment Holdings was established in the PRC with a registered capital of US\$3,000,000.

***Blue Ocean***

On September 14, 2020, the registered capital of Blue Ocean was increased from RMB1,500,000 to RMB10,000,000.

***Gushengtang Food Trade***

On January 5, 2021, Gushengtang Food Trade was established in the PRC with a registered capital of RMB1,000,000.

***Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司)***

On February 9, 2021, Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司) was established in the PRC with a registered capital of RMB30,000,000.

***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)***

On February 24, 2021, the registered capital of 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) was increased from RMB5,000,000 to RMB8,000,000.

***Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司)***

On April 24, 2020, Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司) was established in the PRC with a registered capital of RMB1,000,000.

**6. Repurchase of Shares by our Company*****(a) Provisions of the Listing Rules***

The Listing Rules permit companies whose primary listings are on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

***(i) Shareholders' approval***

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(Note: Pursuant to the resolutions in writing of all our Shareholders passed on November 16, 2021, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorizing the repurchase by our Company on the Stock Exchange, or on any other stock exchange

on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following the completion of the Global Offering, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum and Articles of Association to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.)

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time.

(iii) *Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate nominal value of the company's shares in issue on the date the repurchase mandate is granted. A listed company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

The Listing Rules also prohibit a listed company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

A listed company is required to procure that the broker appointed by it to effect a repurchase of securities disclose to the Stock Exchange such information with respect to the repurchase made on behalf of the listed company as the Stock Exchange may require.

(iv) *Status of Repurchased Securities*

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for a listed company to announce its results

for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its securities on the Stock Exchange other than in exceptional circumstances.

(v) *Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year reviewed, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vi) *Core Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective close associates and a core connected person is prohibited from knowingly selling his securities to the company, on the Stock Exchange.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to receive the general authority from our Shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will be in the interest of our Company and our Shareholders. Such repurchases may, depending on market conditions, funding arrangements and other circumstances at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles of Association and the applicable laws of the Cayman Islands.

Any payment for the repurchase of Shares will be drawn from the profits or share premium of our Company or from the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorized by the Memorandum and Articles of Association and subject to the Companies Act of the Cayman Islands, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Memorandum and Articles of Association and subject to the Companies Act of the Cayman Islands, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, under the circumstances, have a material adverse effect in the opinion of our Directors on the working capital requirements of our Company or its gearing levels. However, there might be a material adverse impact on the working capital or gearing position of our Company as compared with the position disclosed in this prospectus in the event that the Repurchase Mandate is exercised in full.

**(d) *Share capital***

Exercise in full of the Repurchase Mandate, on the basis of 230,396,458 Shares in issue immediately after the listing of the Shares, could accordingly result in up to 23,039,646 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum and Articles of Association to be held; or
- (iii) the date on which the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

**(e) *General***

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Code**"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of the increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Code if the Repurchase Mandate is exercised. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances. No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of our business) have been entered into by us within the two years preceding the date of this prospectus and are or may be material:

- (1) a series D preference shares purchase agreement dated March 22, 2021 entered into by and among our Company, Gushengtang Hong Kong Limited (固生堂香港有限公司), Wumianshan Health Technology (Beijing) Co., Ltd. (五面山健康科技(北京)有限公司), Guangzhou Wumianshan Investment Holdings Co., Ltd. (廣州五面山投資控股有限公司) (“**Wumianshan Investment Holdings**”), Guangzhou Guyi Investment Holding Company Limited (廣州固益投資控股有限公司) (“**Guangzhou Guyi**”), 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) (“**Guangdong Gushengtang**”) and Chongqing GP Health Service Investment Fund LLP (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)), pursuant to which Chongqing GP Health Service Investment Fund LLP (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)) agreed to subscribe for 9,371,885 Series D Preferred Shares at a consideration of RMB150,000,000;
- (2) a fifth amended and restated shareholders’ agreement dated March 22, 2021 entered into by and among our Company, Wumianshan Health Technology (Beijing) Co., Ltd. (五面山健康科技(北京)有限公司), Wumianshan Investment Holdings, Guangzhou Guyi, Gushengtang Hong Kong Limited (固生堂香港有限公司), Guangdong Gushengtang, Tu Zhiliang (“**Mr. Tu**”), Wumianshan Ltd., Celestial City Investments Limited, Action Thrive Group Limited, New Enterprise Associates 14, L.P., NEA Ventures 2014, L.P., Yang Chenglu, Liumianshan Ltd., Xu Qinhua, Bamianshan Ltd., Li Mingrui, Lin Ruiyun, Zhang Wei, Wang Yi, Shen Mailan, Yan Jun (嚴峻) (“**Mr. Yan**”), Gushengtang Ltd., Han Pei, HI Equity Limited, Asia Ventures III L.P., F-Prime Capital Partners Healthcare Fund IV LP, Starr International Investments HK V, Limited, Long Hill Capital Venture Partners 1, L.P., and Chongqing GP Health Service Investment Fund LLP (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)), pursuant to which shareholder rights were agreed among the parties;
- (3) a series E preference shares purchase agreement dated March 29, 2021 entered into by and among our Company, Gushengtang Hong Kong Limited (固生堂香港有限公司), Wumianshan Health Technology (Beijing) Co., Ltd. (五面山健康科技(北京)有限公司), Wumianshan Investment Holdings, Guangzhou Guyi, Guangdong Gushengtang, Long Hill Capital Venture Partners 1 Plus, L.P., Long Hill Capital Venture Partners GST, L.P., New Enterprise Associates 14, L.P., Starr International Investments HK V, Limited, Wang Jian Guo Holdings Limited, GP SOE Reform Capital Limited, ERVC Healthcare IV, L.P. and F-Prime Capital Partners Healthcare Fund IV LP, pursuant to which Long Hill Capital Venture Partners 1 Plus, L.P., Long Hill Capital Venture Partners GST, L.P., ERVC Healthcare IV, L.P., F-Prime Capital Partners Healthcare Fund IV LP, Starr International Investments HK V, Limited, Wang Jian Guo Holdings Limited, New Enterprise Associates 14, L.P. and GP SOE Reform Capital Limited, agreed to subscribe for 13,340,767 Series E Preferred Shares in aggregate at a total consideration of USD37,730,000;

- (4) a sixth amended and restated shareholders' agreement dated March 29, 2021 entered into by and among our Company, Wumianshan Health Technology (Beijing) Co., Ltd. (五面山健康科技(北京)有限公司), Wumianshan Investment Holdings, Guangzhou Guyi, Gushengtang Hong Kong Limited (固生堂香港有限公司), Guangdong Gushengtang, Mr. Tu, Wumianshan Ltd., Celestial City Investments Limited, Action Thrive Group Limited, New Enterprise Associates 14, L.P., NEA Ventures 2014, L.P., Yang Chenglu, Liumianshan Ltd., Xu Qinhua, Bamianshan Ltd., Li Mingrui, Lin Ruiyun, Zhang Wei, Wang Yi, Shen Mailan, Mr. Yan, Gushengtang Ltd., Han Pei, HI Equity Limited, Asia Ventures III L.P., ERVC Healthcare IV, L.P., F-Prime Capital Partners Healthcare Fund IV LP, Starr International Investments HK V, Limited, Wang Jian Guo Holdings Limited, Long Hill Capital Venture Partners 1, L.P., Long Hill Capital Venture Partners 1 Plus, L.P., Long Hill Capital Venture Partners GST, L.P., Chongqing GP Health Service Investment Fund LLP (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)) and GP SOE Reform Capital Limited, pursuant to which shareholder rights were agreed among the parties;
- (5) a share subscription agreement dated April 27, 2021 entered into by and among our Company, Shiyimianshan Holdings Limited, Ershijiumianshan Holdings Limited, Shiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shisimianshan Holdings Limited, Shiwumianshan Holdings Limited, Ershisimianshan Holdings Limited, Duolaimeng Technology Holdings Limited, Yijiakang Technology Holdings Limited, Yijiajian Technology Holdings Limited and Yijiaan Technology Holdings Limited, pursuant to which Shiyimianshan Holdings Limited, Ershijiumianshan Holdings Limited, Shiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shisimianshan Holdings Limited, Shiwumianshan Holdings Limited, Ershisimianshan Holdings Limited, Duolaimeng Technology Holdings Limited, Yijiakang Technology Holdings Limited, Yijiajian Technology Holdings Limited and Yijiaan Technology Holdings Limited agreed to subscribe for 7,160,013 Shares in aggregate at a total consideration of RMB111,194,986.82;
- (6) a share subscription agreement dated April 27, 2021 entered into by and among our Company, Ershiliumianshan Holdings Limited, Qicaimeng Technology Holdings Limited and Start Right Ventures Limited, pursuant to which Ershiliumianshan Holdings Limited, Qicaimeng Technology Holdings Limited and Start Right Ventures Limited agreed to subscribe for 1,970,443 Shares in aggregate at a total consideration of RMB36,000,000;
- (7) a share subscription agreement dated April 27, 2021 entered into by and among our Company, Wumianshan Ltd., Shiermianshan Holdings Limited, Ershimianshan Holdings Limited, Shibamianshan Holdings Limited, Ershiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shijiumianshan Holdings Limited, Ershiwumianshan Holdings Limited, Duolaimeng Technology Holdings Limited and Shiqimianshan Holdings Limited, pursuant to which Wumianshan Ltd., Shiermianshan Holdings Limited, Ershimianshan Holdings Limited, Shibamianshan Holdings Limited, Ershiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shijiumianshan Holdings Limited, Ershiwumianshan Holdings Limited, Duolaimeng Technology Holdings Limited and Shiqimianshan Holdings Limited agreed to subscribe for 1,927,808 Shares in aggregate at a total consideration of RMB20,296,018.92;



- (8) an equity transfer framework agreement dated July 17, 2020 entered into by and among Guangdong Gushengtang, Zheng Xiang (鄭項) (“**Mr. Zheng**”), Nanjing Gongzhan Consultation Management Partnership (Limited Partnership) (南京共展諮詢管理合夥企業(有限合夥)) (“**Nanjing Gongzhan**”), Nanjing Yikang Information Technology Co., Ltd. (南京一康信息技術有限公司), Nanjing Baihui Yunyi Technology Co., Ltd. (南京百會雲醫科技有限公司), Nanjing Bailu TCM Clinic Co., Ltd. (南京白露中醫診所有限公司) and Nanjing Huajian Chinese Medicine Co., Ltd. (南京華健中醫藥有限公司), pursuant to which Guangdong Gushengtang agreed to acquire 100% equity interest of the relevant target entities and platforms from Mr. Zheng and Nanjing Gongzhan at a total consideration of RMB66,000,000, as further described in the section headed “History, Reorganization and Corporate Structure”;
- (9) an equity transfer framework agreement dated March 30, 2021 entered into by and among Guangdong Gushengtang, Zhou Lanjun (周蘭軍), Li Feifei (李飛飛), Zhang Guolong (張國龍), Zhuhai Hengqin Wangbao Investment Co., Ltd. (珠海橫琴旺寶投資有限公司) (“**Zhuhai Hengqin**”), Shanghai Sanguan Information Technology Co., Ltd. (上海三觀信息科技有限公司), Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司), Shanghai Wankang TCM Clinic Co., Ltd. (上海萬康中醫診所有限公司) and Shanghai Wanhua TCM Clinic Co., Ltd. (上海萬化中醫診所有限公司), pursuant to which Guangdong Gushengtang agreed to acquire 100% equity interest of the relevant target entities and platforms from Zhou Lanjun (周蘭軍), Li Feifei (李飛飛), Zhang Guolong (張國龍) and Zhuhai Hengqin at a total consideration of RMB34,500,000, as further described in the section headed “History, Reorganization and Corporate Structure”;
- (10) an exclusive operation services agreement dated November 26, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Information Technology Co., Ltd. (廣州固生堂信息技術有限公司) (“**Guangzhou Gushengtang Information Technology**”), as further described in the section headed “Contractual Arrangement”;
- (11) an exclusive option agreement dated November 26, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Information Technology, as further described in the section headed “Contractual Arrangement”;
- (12) an equity pledge agreement dated November 26, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Information Technology, as further described in the section headed “Contractual Arrangement”;
- (13) a shareholders’ rights entrustment agreement dated November 26, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Information Technology, as further described in the section headed “Contractual Arrangement”;
- (14) a power of attorney dated November 26, 2020 executed by Mr. Yan in favor of Guangzhou Guyi or other natural person(s) designated by Guangzhou Guyi, as further described in the section headed “Contractual Arrangement”;
- (15) a power of attorney dated November 26, 2020 executed by Mr. Zheng in favor of Guangzhou Guyi or other natural person(s) designated by Guangzhou Guyi, as further described in the section headed “Contractual Arrangement”;

- (16) an exclusive operation services agreement dated December 21, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Ningbo Gushengtang Pharmacy Co., Ltd. (寧波固生堂大藥房有限公司) (“**Ningbo Gushengtang Pharmacy**”), as further described in the section headed “Contractual Arrangement”;
- (17) an exclusive option agreement dated December 21, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Ningbo Gushengtang Pharmacy, as further described in the section headed “Contractual Arrangement”;
- (18) an equity pledge agreement dated December 21, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Ningbo Gushengtang Pharmacy, as further described in the section headed “Contractual Arrangement”;
- (19) a shareholders’ rights entrustment agreement dated December 21, 2020 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Ningbo Gushengtang Pharmacy, as further described in the section headed “Contractual Arrangement”;
- (20) a power of attorney dated December 21, 2020 executed by Mr. Yan in favor of Guangzhou Guyi or other natural person(s) designated by Guangzhou Guyi, as further described in the section headed “Contractual Arrangement”;
- (21) a power of attorney dated December 21, 2020 executed by Mr. Zheng in favor of Guangzhou Guyi or other natural person(s) designated by Guangzhou Guyi, as further described in the section headed “Contractual Arrangement”;
- (22) an exclusive operation services agreement dated January 19, 2021 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and 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) (“**Guangzhou Gushengtang Oncology Out-patient Department**”), as further described in the section headed “Contractual Arrangement”;
- (23) an exclusive option agreement dated January 19, 2021 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Oncology Out-patient Department, as further described in the section headed “Contractual Arrangement”;
- (24) an equity pledge agreement dated January 19, 2021 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Oncology Out-patient Department, as further described in the section headed “Contractual Arrangement”;
- (25) a shareholders’ rights entrustment agreement dated January 19, 2021 entered into by and among Guangzhou Guyi, Mr. Yan, Mr. Zheng and Guangzhou Gushengtang Oncology Out-patient Department, as further described in the section headed “Contractual Arrangement”;
- (26) a power of attorney dated January 19, 2021 executed by Mr. Yan in favor of Guangzhou Guyi or other natural person(s) designated by Guangzhou Guyi, as further described in the section headed “Contractual Arrangement”;
- (27) a power of attorney dated January 19, 2021 executed by Mr. Zheng in favor of Guangzhou Guyi or other natural person(s) designated by Guangzhou Guyi, as further described in the section headed “Contractual Arrangement”;

- (28) an exclusive operation services agreement dated April 6, 2021 entered into by and among Wumianshan Investment Holdings, Mr. Tu, Guangdong Gushengtang and Healthcare Capital Limited, as further described in the section headed “Contractual Arrangement”;
- (29) an exclusive option agreement dated April 6, 2021 entered into by and among Wumianshan Investment Holdings, Mr. Tu and Guangdong Gushengtang, as further described in the section headed “Contractual Arrangement”;
- (30) an equity pledge agreement dated April 6, 2021 entered into by and among Wumianshan Investment Holdings, Mr. Tu and Guangdong Gushengtang, as further described in the section headed “Contractual Arrangement”;
- (31) a shareholders’ rights entrustment agreement dated April 6, 2021 entered into by and among Wumianshan Investment Holdings, Mr. Tu and Guangdong Gushengtang, as further described in the section headed “Contractual Arrangement”;
- (32) a power of attorney dated April 6, 2021 executed by Mr. Tu in favor of Wumianshan Investment Holdings or other natural person(s) designated by Wumianshan Investment Holdings, as further described in the section headed “Contractual Arrangement”;
- (33) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang, Nanjing Gushengtang Huajian TCM Co., Ltd. (南京固生堂華健中醫藥有限公司), 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), Beijing Gushengtang TCM Hospital Co., Ltd. (北京固生堂中醫醫院有限公司), Beijing Kunlun Hospital Co., Ltd. (北京市昆侖醫院有限公司), Beijing Gushengtang Health Management Co., Ltd. (北京固生堂健康管理有限公司), Guangzhou Gushengtang Medical Services Co., Ltd. (廣州固生堂醫療服務有限公司), Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司), Guangzhou Guangyitang Health Management Co., Ltd. (廣州市廣醫堂健康管理有限公司), 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), Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. (廣州白雲區固生堂綜合門診部有限公司), 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), Guangzhou Haizhu District Gushengtang Baogang TCM Out-patient Department Co., Ltd. (廣州海珠區固生堂寶崗中醫門診部有限公司), Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. (廣州市越秀區固生門診部有限公司), Guangzhou Liwan District Gushengtang Medical Care Station Co., Ltd. (廣州市荔灣區固生堂醫療護理站有限公司), Foshan Gushengtang TCM Out-patient Department Co., Ltd. (佛山固生堂中醫門診部有限公司), Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. (佛山市順德區固生堂中醫門診部有限公司), Zhongshan Gushengtang Medical Investment Management Co., Ltd. (中山市固生堂醫療投資管理有限公司), 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), Shenzhen Gushengtang TCM Investment Development Co., Ltd. (深圳固生堂中醫投資發展有限公司), Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd. (無錫固生葆元春健康科技有限公司), Suzhou Gushengtang Taohuawu TCM Out-patient Department Co., Ltd. (蘇州固生堂桃花塢中醫門診部有限公司), Suzhou Gushengtang Shilu Clinic Co., Ltd. (蘇州固生堂石路診所有限公司), Suzhou Gushengtang Tongan Out-patient Department

- Co., Ltd. (蘇州固生堂同安門診部有限公司), Fuzhou Gushengtang General Out-patient Co., Ltd. (福州固生堂綜合門診有限公司), Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司), Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司), Shanghai Wanjia TCM Out-patient Co., Ltd. (上海萬嘉中醫門診有限公司), Shanghai Jinyue Out-patient Department Co., Ltd. (上海金悅門診部有限公司), 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), Shanghai Zhongyida TCM Out-patient Department Co., Ltd. (上海眾益達中醫門診部有限公司), Shanghai Zhenantang TCM Out-patient Department Co., Ltd. (上海真安堂中醫門診部有限公司), Shanghai Donglong Freight Forwarding Co., Ltd. (上海東龍貨運代理有限公司), Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd. (上海浦東新區神華中醫門診部有限公司), Shanghai Zhengshen Biotech Development Co., Ltd. (上海正神生物科技發展有限公司), Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd. (寧波海曙固生堂中醫門診有限公司), Ningbo Yinzhou Gushengtang Zhongyishoutang TCM Out-patient Department Co., Ltd. (寧波鄞州固生堂鐘益壽堂中醫門診部有限公司), Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (寧波江北文教固生堂中醫門診部有限公司), Ningbo Zhenhai Gushengtang Manshan TCM Out-patient Department Co., Ltd. (寧波鎮海固生堂滿山中醫門診部有限公司) and 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), as further described in the section headed “Contractual Arrangements”;
- (34) an exclusive option agreement dated November 4, 2021 entered into by and among Wumianshan Investment Holdings, Beijing Gushengtang Health Management Co., Ltd. (北京固生堂健康管理有限公司) and Beijing Zhonghai TCM Hospital Co., Ltd. (北京中海中醫醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (35) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Gushengtang Medical Services Co., Ltd. (廣州固生堂醫療服務有限公司), Guangzhou Liwan District Gushengtang General Out-patient Department Co., Ltd. (廣州荔灣區固生堂綜合門診部有限公司) and Guangzhou Tianhe District Gushengtang Wushan General Out-patient Department Co., Ltd. (廣州天河區固生堂五山綜合門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (36) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. (廣州市固生堂嶺南中醫館有限公司) and Guangzhou Yuexiu Gushengtang Health Services Care Station Co., Ltd. (廣州越秀固生堂衛生服務護理站有限公司), as further described in the section headed “Contractual Arrangements”;
- (37) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Guangyitang Health Management Co., Ltd. (廣州市廣醫堂健康管理有限公司) and Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. (廣州市固生堂嶺南中醫館有限公司), as further described in the section headed “Contractual Arrangements”;



- (38) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Zhongshan Gushengtang Medical Investment Management Co., Ltd. (中山市固生堂醫療投資管理有限公司) and Zhongshan Gushengtang TCM Out-patient Co., Ltd. (中山市固生堂中醫門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (39) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, 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), as further described in the section headed “Contractual Arrangements”;
- (40) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd. (無錫固生葆元春健康科技有限公司), Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春南禪寺中醫院有限公司) and Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春崇安寺中醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (41) an exclusive option agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Shanghai Donglong Freight Forwarding Co., Ltd. (上海東龍貨運代理有限公司) and Shanghai Duzhuang Out-patient Co., Ltd. (上海都莊門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (42) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Nanjing Gushengtang Huajian TCM Co., Ltd. (南京固生堂華健中醫藥有限公司), as further described in the section headed “Contractual Arrangements”;
- (43) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and 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), as further described in the section headed “Contractual Arrangements”;
- (44) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Beijing Gushengtang TCM Hospital Co., Ltd. (北京固生堂中醫醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (45) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Beijing Kunlun Hospital Co., Ltd. (北京市昆侖醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (46) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Beijing Gushengtang Health Management Co., Ltd. (北京固生堂健康管理有限公司), as further described in the section headed “Contractual Arrangements”;

- (47) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Gushengtang Medical Services Co., Ltd. (廣州固生堂醫療服務有限公司), as further described in the section headed “Contractual Arrangements”;
- (48) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司), as further described in the section headed “Contractual Arrangements”;
- (49) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Guangyitang Health Management Co., Ltd. (廣州市廣醫堂健康管理有限公司), as further described in the section headed “Contractual Arrangements”;
- (50) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and 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), as further described in the section headed “Contractual Arrangements”;
- (51) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Baiyun District Gushengtang General Out-patient Department Co., Ltd. (廣州白雲區固生堂綜合門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (52) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and 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), as further described in the section headed “Contractual Arrangements”;
- (53) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Haizhu District Gushengtang Baogang TCM Out-patient Department Co., Ltd. (廣州海珠區固生堂寶崗中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (54) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Yuexiu District Gusheng Out-patient Department Co., Ltd. (廣州市越秀區固生門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (55) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Guangzhou Liwan District Gushengtang Medical Care Station Co., Ltd. (廣州市荔灣區固生堂醫療護理站有限公司), as further described in the section headed “Contractual Arrangements”;
- (56) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Foshan Gushengtang TCM Out-patient Department Co., Ltd. (佛山固生堂中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;



- (57) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Foshan Shunde District Gushengtang TCM Out-patient Department Co., Ltd. (佛山市順德區固生堂中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (58) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Zhongshan Gushengtang Medical Investment Management Co., Ltd. (中山市固生堂醫療投資管理有限公司), as further described in the section headed “Contractual Arrangements”;
- (59) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shenzhen Gushengtang Yuanbo Out-patient Department (深圳固生堂園博門診部), as further described in the section headed “Contractual Arrangements”;
- (60) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shenzhen Gushengtang TCM Health Technology Co., Ltd. (深圳固生堂中醫健康科技有限公司), as further described in the section headed “Contractual Arrangements”;
- (61) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shenzhen Gushengtang TCM Investment Development Co., Ltd. (深圳固生堂中醫投資發展有限公司), as further described in the section headed “Contractual Arrangements”;
- (62) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd. (無錫固生葆元春健康科技有限公司), as further described in the section headed “Contractual Arrangements”;
- (63) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Suzhou Gushengtang Taohuawu TCM Out-patient Department Co., Ltd. (蘇州固生堂桃花塢中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (64) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Suzhou Gushengtang Shilu Clinic Co., Ltd. (蘇州固生堂石路診所有限公司), as further described in the section headed “Contractual Arrangements”;
- (65) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Suzhou Gushengtang Tongan Out-patient Department Co., Ltd. (蘇州固生堂同安門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (66) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Fuzhou Gushengtang General Out-patient Co., Ltd. (福州固生堂綜合門診有限公司), as further described in the section headed “Contractual Arrangements”;

- (67) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Lianjiang Gushengtang Out-patient Department Co., Ltd. (連江固生堂門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (68) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Fuzhou Xiulichun TCM Out-patient Co., Ltd. (福州袖里春中醫門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (69) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Wanjia TCM Out-patient Co., Ltd. (上海萬嘉中醫門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (70) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Jinyue Out-patient Department Co., Ltd. (上海金悅門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (71) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and 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), as further described in the section headed “Contractual Arrangements”;
- (72) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Zhongyida TCM Out-patient Department Co., Ltd. (上海眾益達中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (73) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Zhenantang TCM Out-patient Department Co., Ltd. (上海真安堂中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (74) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Donglong Freight Forwarding Co., Ltd. (上海東龍貨運代理有限公司), as further described in the section headed “Contractual Arrangements”;
- (75) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd. (上海浦東新區神華中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (76) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Shanghai Zhengshen Biotech Development Co., Ltd. (上海正神生物科技發展有限公司), as further described in the section headed “Contractual Arrangements”;

- (77) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd. (寧波海曙固生堂中醫門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (78) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Ningbo Yinzhou Gushengtang Zhongyishoutang TCM Out-patient Department Co., Ltd. (寧波鄞州固生堂鐘益壽堂中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (79) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (寧波江北文教固生堂中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (80) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and Ningbo Zhenhai Gushengtang Manshan TCM Out-patient Department Co., Ltd. (寧波鎮海固生堂滿山中醫門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (81) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangdong Gushengtang and 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), as further described in the section headed “Contractual Arrangements”;
- (82) an equity pledge agreement dated November 4, 2021 entered into by and among Wumianshan Investment Holdings, Beijing Gushengtang Health Management Co., Ltd. (北京固生堂健康管理有限公司) and Beijing Zhonghai TCM Hospital Co., Ltd. (北京中海中醫醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (83) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Gushengtang Medical Services Co., Ltd. (廣州固生堂醫療服務有限公司) and Guangzhou Liwan District Gushengtang General Out-patient Department Co., Ltd. (廣州荔灣區固生堂綜合門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (84) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Gushengtang Medical Services Co., Ltd. (廣州固生堂醫療服務有限公司) and Guangzhou Tianhe District Gushengtang Wushan General Out-patient Department Co., Ltd. (廣州天河區固生堂五山綜合門診部有限公司), as further described in the section headed “Contractual Arrangements”;
- (85) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. (廣州市固生堂嶺南中醫館有限公司) and Guangzhou Yuexiu Gushengtang Health Services Care Station Co., Ltd. (廣州越秀固生堂衛生服務護理站有限公司), as further described in the section headed “Contractual Arrangements”;

- (86) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Guangzhou Guangyitang Health Management Co., Ltd. (廣州市廣醫堂健康管理有限公司) and Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. (廣州市固生堂嶺南中醫館有限公司), as further described in the section headed “Contractual Arrangements”;
- (87) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Zhongshan Gushengtang Medical Investment Management Co., Ltd. (中山市固生堂醫療投資管理有限公司) and Zhongshan Gushengtang TCM Out-patient Co., Ltd. (中山市固生堂中醫門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (88) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, 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), as further described in the section headed “Contractual Arrangements”;
- (89) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd. (無錫固生葆元春健康科技有限公司) and Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春南禪寺中醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (90) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Wuxi Gusheng Baoyuanchun Health Technology Co., Ltd. (無錫固生葆元春健康科技有限公司) and Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd. (無錫固生堂葆元春崇安寺中醫院有限公司), as further described in the section headed “Contractual Arrangements”;
- (91) an equity pledge agreement dated November 8, 2021 entered into by and among Wumianshan Investment Holdings, Shanghai Donglong Freight Forwarding Co., Ltd. (上海東龍貨運代理有限公司) and Shanghai Duzhuang Out-patient Co., Ltd. (上海都莊門診有限公司), as further described in the section headed “Contractual Arrangements”;
- (92) a cornerstone investment agreement dated November 26, 2021 entered into among our Company, Boyu Capital Opportunities Master Fund, Merrill Lynch (Asia Pacific) Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, details of which are included in the section headed “Cornerstone Investors”;
- (93) a cornerstone investment agreement dated November 26, 2021 entered into among our Company, SAGE PARTNERS MASTER FUND, Merrill Lynch (Asia Pacific) Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, details of which are included in the section headed “Cornerstone Investors”;
- (94) a cornerstone investment agreement dated November 26, 2021 entered into among our Company, UBS ASSET MANAGEMENT (SINGAPORE) LTD. (as the investment advisor for and on behalf of Nineteen77 Global Multi-Strategy Alpha Master Limited), Merrill Lynch (Asia Pacific) Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, details of which are included in the section headed “Cornerstone Investors”;













(95) a cornerstone investment agreement dated November 26, 2021 entered into among our Company, Foresight Orient Global Superior Choice SPC – Global Superior Choice Fund 1 SP, Foresight Orient Global Superior Choice SPC – Vision Fund 1 SP, Merrill Lynch (Asia Pacific) Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, details of which are included in the section headed “Cornerstone Investors”; and

(96) the Hong Kong Underwriting Agreement.

## 2. Intellectual property rights of our Group

### Trademarks


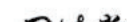

As of the Latest Practicable Date, we were the registered owner of and had the right to use the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Registration	Registration Number	Registered Owner	Class	Registration Date	Expiry Date
1..		PRC	31570470	Guangdong Gushengtang	32	May 7, 2019	May 6, 2029
2..		PRC	31561818	Guangdong Gushengtang	31	May 7, 2019	May 6, 2029
3..		PRC	31557641	Guangdong Gushengtang	33	May 7, 2019	May 6, 2029
4..		PRC	31526517	Guangdong Gushengtang	20	March 14, 2019	March 13, 2029
5..		PRC	30612925	Guangdong Gushengtang	29	April 28, 2019	April 27, 2029
6..		PRC	30595225	Guangdong Gushengtang	30	April 21, 2019	April 20, 2029
7..		PRC	30587990	Guangdong Gushengtang	32	April 21, 2019	April 20, 2029
8..	小固美方	PRC	29924858	Guangdong Gushengtang	32	March 7, 2019	March 6, 2029
9..	小固美方	PRC	29924853	Guangdong Gushengtang	31	March 7, 2019	March 6, 2029
10..	小固美方	PRC	29924549	Guangdong Gushengtang	29	March 7, 2019	March 6, 2029
11..	小固美方	PRC	29921787	Guangdong Gushengtang	33	March 7, 2019	March 6, 2029
12..	小固美方	PRC	29919939	Guangdong Gushengtang	30	March 7, 2019	March 6, 2029
13..		PRC	22849229	Guangdong Gushengtang	31	August 21, 2018	August 20, 2028
14..		PRC	21159832	Guangdong Gushengtang	44	June 28, 2018	June 27, 2028
15..		PRC	21159667	Guangdong Gushengtang	42	June 28, 2018	June 27, 2028
16..		PRC	21159368A	Guangdong Gushengtang	41	November 21, 2017	November 20, 2027
17..		PRC	21158972	Guangdong Gushengtang	9	June 28, 2018	June 27, 2028



## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

No.	Trademark	Place of Registration	Registration Number	Registered Owner	Class	Registration Date	Expiry Date
18..		PRC	21158830	Guangdong Gushengtang	5	October 28, 2017	October 27, 2027
19..		PRC	21158790	Guangdong Gushengtang	5	October 28, 2017	October 27, 2027
20..		PRC	21159098	Guangdong Gushengtang	35	October 28, 2018	October 27, 2028
21..		PRC	21158712	Guangdong Gushengtang	5	October 28, 2017	October 27, 2027
22..		PRC	53953319	Guangdong Gushengtang	44	September 14, 2021	September 13, 2031
23..		PRC	53931333	Guangdong Gushengtang	44	September 21, 2021	September 20, 2031
24..		Hong Kong	305565916	Guangdong Gushengtang	44	March 18, 2021	March 17, 2031

### Copyrights

As of the Latest Practicable Date, we have registered the following copyrights which are material in relation to our Group's business:

No.	Copyright	Registered owner	Registration number	Place of Registration	Registration Date
1..	Gushengtang Hospital Information Management Software (固生堂醫院信息化管理軟件)	Beijing Gushengtang TCM Health Technology Co., Ltd. (北京固生堂中醫養生健康科技股份有限公司)	2014SR167422	PRC	November 3, 2014
2..	Gushengtang Traditional Chinese Medicine Online Commodity Transaction Management System (固生堂中醫線上商品交易管理系統)	Guangdong Gushengtang	2017SR061056	PRC	February 28, 2017
3..	Gushengtang Traditional Chinese Medicine Doctor Mobile Work Management System (固生堂中醫醫生移動工作管理系統)	Guangdong Gushengtang	2017SR061104	PRC	February 28, 2017
4..	Gushengtang Traditional Chinese Medicine Doctor Service Evaluation System (固生堂中醫醫生服務評價系統)	Guangdong Gushengtang	2017SR061052	PRC	February 28, 2017
5..	Gushengtang Traditional Chinese Medicine User Online Consultation System (固生堂中醫用戶線上問診系統)	Guangdong Gushengtang	2017SR062151	PRC	March 1, 2017
6..	Gushengtang Traditional Chinese Medicine Official Website System (固生堂中醫官方網站系統)	Guangdong Gushengtang	2017SR062158	PRC	March 1, 2017
7..	Gushengtang Traditional Chinese Medicine Outpatient Store Registration Management System (固生堂中醫門店掛號管理系統)	Guangdong Gushengtang	2017SR124030	PRC	April 18, 2017



No.	Copyright	Registered owner	Registration number	Place of Registration	Registration Date
8 . .	Gushengtang Traditional Chinese Medicine Cloud Pharmacy Project Configuration Management System (固生堂中醫雲藥房項目配置管理系統)	Guangdong Gushengtang	2017SR123483	PRC	April 18, 2017
9 . .	Gushengtang Traditional Chinese Medicine WeChat Appointment System (固生堂中醫微信預約系統)	Guangdong Gushengtang	2017SR123469	PRC	April 18, 2017
10 . .	Gushengtang Traditional Chinese Medicine Doctor's Medical Record Management System (固生堂中醫醫生病歷管理系統)	Guangdong Gushengtang	2017SR128425	PRC	April 20, 2017
11 . .	Gushengtang Traditional Chinese Doctor Prescription of Chinese and Western Medicines Management System (固生堂中醫醫生中西成藥處方管理系統)	Guangdong Gushengtang	2017SR128894	PRC	April 20, 2017
12 . .	Gushengtang Traditional Chinese Medicine Store Charging Management System (固生堂中醫門店收費管理系統)	Guangdong Gushengtang	2017SR128427	PRC	April 20, 2017
13 . .	Gushengtang Traditional Chinese Medicine Cloud Pharmacy Dispensing Management System (固生堂中醫雲藥房配發藥管理系統)	Guangdong Gushengtang	2017SR129416	PRC	April 20, 2017
14 . .	Gushengtang Traditional Chinese Medicine Cloud Pharmacy Inventory Management System (固生堂中醫雲藥房庫存管理系統)	Guangdong Gushengtang	2017SR128885	PRC	April 20, 2017
15 . .	Gushengtang Traditional Chinese Medicine doctor work template (prescriptions and medical records) management system (固生堂中醫醫生工作模板(處方及病歷)管理系統)	Guangdong Gushengtang	2017SR128900	PRC	April 20, 2017
16 . .	Gushengtang Traditional Chinese Medicine Doctor Prescription Management System of Chinese Medicine Decoction Pieces (固生堂中醫醫生中藥飲片處方管理系統)	Guangdong Gushengtang	2017SR133159	PRC	April 22, 2017
17 . .	Baihuiyunyi Clinic System (百會雲醫診所系統)	Nanjing Baihui	2019SR0910658	PRC	September 2, 2019

### Domain Names

As of the Latest Practicable Date, we have registered the following domain names which are material in relation to our Group's business:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1 . .	gstyun.com	Guangzhou Lingnan	June 6, 2017	June 6, 2022
2 . .	gstzy.cn	Guangzhou Lingnan	April 3, 2013	April 3, 2022
3 . .	360gst.com	Guangzhou Lingnan	May 3, 2017	August 31, 2022
4 . .	GSTZY.HK	Gushengtang Hong Kong	August 4, 2021	August 4, 2022

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

#### (a) *Disclosure of interest—interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following the completion of the Global Offering (but without taking into account the exercise of the Over-allotment Option), the interest or short position of our Directors or chief executives of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

#### (i) *Interests in the Shares of our Company*

Name of Director/Chief Executive	Nature of interest	Number of Shares	Approximate percentage of interest in the total share capital of our Company
Mr. Tu <sup>(1)(2)(3)</sup> . . . . .	Interest in controlled corporations	30,043,777	13.04%
	Interest of a party to an agreement regarding interest in the Company	34,872,955	15.14%
	Protector and power holder of a discretionary trust	18,733,795	8.13%
Mr. Jiang Xiaodong (蔣曉冬) <sup>(4)</sup> . . .	Interest in controlled corporations	13,231,505	5.74%
Mr. Huang Jingsheng <sup>(5)(6)</sup> . . . . .	Trustee	300,000	0.13%
	Interest of spouse	936,094	0.41%

*Notes:*

- (1) 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.
- (2) 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, Yijia Kang Technology Holdings Limited, Yijiajian Technology Holdings Limited, Yijiale Technology Holdings Limited and Yijiaan Technology Holdings Limited. For details, see the section headed “History, Reorganization and Corporate Structure—Voting Arrangements.”
- (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, Mr. Tu is deemed to be interested in our Shares held by Dream True Limited.
- (4) The general partner of both of Long Hill Capital Plus and Long Hill Capital GST 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. Jiang Xiaodong (蔣曉冬) ultimately controls both of Long Hill Capital Venture Partners GP 1 Plus, Ltd. and Long Hill Capital Venture Partners GP 1, Ltd.  
As such, Jiang Xiaodong (蔣曉冬) is deemed to be interested in the 13,231,505 Shares held by Long Hill Capital Plus, Long Hill Capital GST and Long Hill Capital.

- (5) 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.
- (6) 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) *Interests in our associated corporation*

Name of Director/Chief Executive	Nature of interest	Name of associated corporation	Approximate percentage of shareholding
Mr. Tu . . . . .	Beneficial interest	Guangdong Gushengtang <sup>(1)</sup>	30%

*Notes:*

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

(b) *Disclosure of interest—interests and short positions discloseable under Divisions 2 and 3 of the Part XV of the SFO*

Save as disclosed in “Substantial Shareholders” of this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have an interest or short position in the Shares or underlying shares which are required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

As of the Latest Practicable Date, so far as is known to our Directors, the following person was interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any member of our Group other than us or had option in respect of such capital:

Name of shareholder	Name of member of our Group	Approximate percentage of shareholding
Mr. Tu . . . . .	Guangdong Gushengtang <sup>(1)</sup>	30%
Mr. Yang Chengxiang (楊承祥). . . . .	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)	10%
Mr. Yan Jun (嚴峻) . . . . .	Guangzhou Gushengtang Information Technology <sup>(1)</sup>	99%
	Guangzhou Gushengtang Oncology Out-patient Department <sup>(1)</sup>	99%
	Ningbo Gushengtang Pharmacy <sup>(1)</sup>	99%

*Notes:*

(1) Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy are subsidiaries of our Company by virtue of the Contractual Arrangements.

**2. Particulars of the service contract and letters of appointment**

Mr. Tu Zhiliang, being our executive Director, has entered into a service contract with our Company on November 16, 2021. The service contract is for an initial term of three years commencing from the Listing Date. The service contract may be renewed in accordance with our Memorandum and Articles of Association and the applicable laws, rules and regulations.

Each of Mr. Jiang Xiaodong, Mr. Huang Jingsheng, Mr. Xu Yongjiu, Mr. Liu Kanghua, Mr. Gao Jian, Ms. Jin Xu, Mr. Li Tie and Mr. Wu Taibing, being our non-executive Directors or independent non-executive Directors, has entered into a letter of appointment with our Company on November 16, 2021. Each letter of appointment is for an initial term of three years commencing from the Listing Date. The letters of appointment may be renewed in accordance with our Memorandum and Articles of Association and the applicable laws, rules and regulations.

**3. Directors' remuneration**

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to our Directors for the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 were RMB0.9 million, RMB0.8 million, RMB0.7 million and RMB0.6 million, respectively.

None of our Directors has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

Save as disclosed above, no other payments have been made or are payable in respect of the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, by any member of our Group to any of our Directors.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any members of our Group.

It is estimated that remuneration equivalent to approximately RMB1.7 million in aggregate will be paid to the Directors (inclusive of benefits in kind but exclusive of any discretionary bonuses) by our Company for the year ending December 31, 2021, based on the arrangements currently in force.

**4. Personal Guarantees**

Save as disclosed in “Contractual Arrangements”, “Financial Information” and “Relationship with Our Controlling Shareholders” of this prospectus, our Directors have not provided personal guarantees in favor of lenders in connection with banking facilities granted or to be granted to any member of our Group.

**5. Agency fees or commissions received**

No commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

**6. Disclaimers**

Save as disclosed herein:

- (a) none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed;
- (b) none of our Directors or any of the experts referred to under paragraph headed “E. Other Information—7. Qualification of Experts” in this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of any Shares which may be taken up under the Global Offering, so far as is known to our Directors or chief executive of our Company, no person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in the five largest customers or the five largest suppliers of our Group.

**D. PRE-IPO SHARE OPTION PLAN**

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

**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**

Our 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 our Board considers, in its sole discretion, have contributed to our Group, to take up options (the **"Options"**) to subscribe for Shares.

**3. Maximum number of Shares**

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Plan at any time shall not exceed 16,382,286 Shares, representing 7.11% of the total issued Shares immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options) (the **"Scheme Limit"**).

**4. Administration**

The Pre-IPO Share Option Plan shall be administered by the Board or the committee delegated by the Board.

In relation to the Pre-IPO Share Option Plan, subject to the provisions thereunder and the approval of any relevant authorities, the Board shall have the authority in its discretion to:

- (i) designate eligible participants to receive Options to be granted to each eligible participant;
- (ii) determine the number of Options to be granted and the number of Shares to which an Option will relate;



- (iii) determine the terms and conditions of any Option granted pursuant to the Pre-IPO Share Option Plan, including but not limited to the grant price or the subscription price, any restrictions or limitations on the Option, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Option and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Option, based in each case on such considerations as the Committee in its sole discretion determines;
- (iv) determine whether, to what extent, and pursuant to what circumstances an Option may be cancelled, forfeited, or surrendered;
- (v) prescribe the form of each grant letter, which need not be identical for each eligible participant;
- (vi) decide all other matters that must be determined in connection with an Option;
- (vii) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Pre-IPO Share Option Plan;
- (viii) interpret the terms of, and any matter arising pursuant to, the Pre-IPO Share Option Plan or the grant letter;
- (ix) amend terms and conditions of grant letter (other than the number of Options granted or the subscription price per Share subject to an Option);
- (x) setting any performance targets and/or key performance indicators in the grant letter which need to be met for the Option to be vested and exercisable; and
- (xi) make all other decisions and determinations that may be required pursuant to the Pre-IPO Share Option Plan.

#### **5. 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 Scheme 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.

#### **6. 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.

#### **7. Cancellation of Options granted**

Any cancellation of Options granted but not exercised must be approved by the Grantee concerned in writing. In the event that the Board elects to cancel any Options and issue new ones to the same Grantee, the issue of such new Options may only be made with the available unissued Options (excluding the cancelled Options) within the Scheme Limit.

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

The Pre-IPO Share Option Scheme will remain in force for the period ending on the latest practicable date for ascertaining certain information contained in this prospectus prior to the printing of this prospectus (inclusive of the date).

**9. Rights on ceasing of employment**

If the Grantee of an option is an eligible employee and ceases to be an eligible employee for any reason other than death, or on other grounds referred to in sub-paragraph (11) below before exercising his or her option in full, the Grantee may exercise the options then vested and exercisable at any time prior to or the date of cessation unless the Board otherwise determines, in whole or in part until the date that is 90 days after the Grantee's termination of employment or service to exercise his Options, which will be taken to be his/her last working day at or last day of service to the Group.

**10. Rights on death**

If the Grantee of an option ceases to be a participant by reason of his death, before exercising the option in full, the legal representative or beneficiary of the Grantee shall be entitled to exercise the option in whole or in part until the date that is 12 months after the Grantee's termination of employment to exercise the Grantee's Options to the extent that such Options were vested and exercisable on the date of death of the Grantee.

**11. Rights on dismissal**

If the Grantee of an option ceases to be a participant by reason of the termination of his employment or engagement on the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offense involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily, his option will lapse automatically.

**12. Rights on a takeover**

In the event a general offer by way of takeover, merger or otherwise in a like manner (other than by way of scheme of arrangement set out in sub-paragraph (13) below) is made to all the Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and the offer becomes or is declared unconditional in all respect prior to the vesting, the Option(s) will vest immediately to the extent specified in a notice given by the Company.

**13. Rights on scheme of arrangement**

In the event a privatization of the Company by way of scheme of arrangement is proposed to all the Shareholders (other than the offeror) and has been approved by the necessary number votes of Shareholders at the requisite court meeting and general meeting prior to the vesting, the Option(s) will vest immediately to the extent specified in a notice given by the Company.

**14. Rights on a compromise or arrangement**

If a compromise or arrangement between the Company and its Shareholders or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies and a notice is given by the Company to the Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement prior to the vesting, the Option(s) will vest immediately to the extent specified in a notice given by the Company.

**15. Rights on a voluntary winding-up**

In the event that an effective resolution is passed during the period of the Pre-IPO Share Option Plan for voluntarily winding-up of the Company (other than for the purpose of reconstruction, amalgamation or scheme of arrangement as set out above), prior to vesting, the Options will vest immediately to the extent specified in a notice given by the Company provided that all unexercised Options must be exercised and effected by no later than one (1) Business Day before the day of the proposed general meeting to be convened for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company (or to pass written resolutions of the Shareholders to the same effect).

**16. Adjustment**

In the event of an alteration in the capital structure of the Company while any Options remains exercisable or outstanding, whether by way of capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:

- (i) the number of Shares (without fractional entitlements) subject to the Options so far as unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the maximum number of Shares for which further Options may be granted under the Pre-IPO Share Option Plan.

any alteration thereof, as the auditors or a financial adviser engaged by the Company for such purpose shall, at the request of the Company, certify in writing, that to be in their opinion fair and reasonable, provided always that any such adjustments should give each Grantee the same proportion of the equity capital of the Company as that to which that Grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial adviser (as the case may be) in this sub-paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees. The costs of the auditors or financial adviser (as the case may be) shall be borne by the Company.

**17. Others**

The exercise of the Pre-IPO Share Options is conditional on the Stock Exchange granting or agreeing to grant approval of (subject to such condition as the Stock Exchange may impose) the listing of and permission to deal in such number of Shares to be issued pursuant to the exercise of any Options and the commencement of dealings in the Shares on the Stock Exchange. Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any Pre-IPO Share Options.

The Board (which expression shall, for the purpose of this sub-paragraph, exclude a duly authorized committee thereof) may amend or vary any of the provisions of the Pre-IPO Share Option Plan and/or the grant letter (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Pre-IPO Share Option Plan and/or the grant letter), which may or may not affect adversely any rights which have accrued to any Grantee at that date. Any such amendment or variation of provisions by the Board, if it affects adversely any rights of the Grantee, requires prior consent by and notice to the Grantee. The provisions of the Pre-IPO Share Option Plan and/or the grant letter cannot be altered to the advantage of Grantee without the prior approval of the Board.

**18. Outstanding options granted**

The grant of Option under the Pre-IPO Share Option Plan to the grantees as set out below was approved by the Board on June 28, 2021 (subject to the execution of the grant letters by any one of the Directors). The overall limit on the number of underlying Shares pursuant to the Pre-IPO Share Option Plan is 16,382,286 Shares, representing 7.11% of the total issued Shares immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the Pre-IPO Share Options). The Company will not grant further Options under the Pre-IPO Share Option Plan after the Listing.

The table below sets out the details of Options granted to three Grantees under the Pre-IPO Share Option Plan:

Name of Grantee(s)	Role	Address	Number of Shares under the Options granted	Exercise Price (per Share)	Date of grant	Vesting period	Approximate percentage of issued Shares immediately after completion of the Global Offering  (Note 1)
Mr. Tu . . . . .	Executive Director,	Flat 501, No. 132	818,711	RMB15.53	November 9, 2021	N/A <sup>(3)</sup>	4.92%
	the chairman of the	Huijing North Road,	8,815,348	RMB15.53		N/A <sup>(4)</sup>	
	Board, the chief executive officer, and one of our Controlling Shareholders	Tianhe District, Guangzhou, PRC	1,696,117	US\$0.35		N/A <sup>(3)</sup>	

Name of Grantee(s)	Role	Address	Number of Shares under the Options granted	Exercise Price (per Share)	Date of grant	Vesting period	Approximate percentage of issued Shares immediately after completion of the Global Offering  (Note 1)
Deng Shigang . . .	Chief financial officer	No. 135, Xingang West Road, Haizhu District, Guangzhou, PRC	1,094,504	US\$0.35	November 9, 2021	5 years <sup>(5)</sup>	0.48%
Yang Jun . . . . .	Vice president	Room 1209, Block B2, Lida Square, Yueken Road, Tianhe District, Guangzhou, PRC	3,957,606	US\$0.35	November 9, 2021	N/A <sup>(3)</sup>	1.72%

*Notes:*

- (1) Assuming the Over-allotment Option is not exercised and no Shares are issued under the Pre-IPO Share Option Plan.
- (2) 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.
- (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 officer 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.

Save and except as set out above, no other Options have been granted or agreed to be granted by the Company under the Pre-IPO Share Option Plan.

As of the Latest Practicable Date, all of the Options were not exercised and remained outstanding. Assuming full vesting and exercise of the outstanding Options, the shareholding percentage of our Shareholders immediately following the Listing would be diluted by approximately 6.64% as calculated based on 246,778,744 Shares then in issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) and the dilution effect on our earnings per Share would be 6.64%.

## **E. OTHER INFORMATION**

### **1. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

### **2. Litigation**

During the Track Record Period and up to the Latest Practicable Date, so far as our Directors are aware, no litigation or claim of material importance (to our Group's financial condition or results of operation) is pending or threatened against any member of our Group.

**3. Joint Sponsors and Joint Sponsors' fees**

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued as mentioned in this prospectus.

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The sponsor fee payable to the Joint Sponsors by our Company is US\$600,000.

**4. Preliminary expenses**

Our preliminary expenses incurred by us in relation to our incorporation were approximately RMB67,272 and have been paid by our Company.

**5. Promoter**

We do not have any promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this prospectus.

**6. Taxation of holders of Shares****(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.13% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(b) Cayman Islands**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(c) Consultation with professional advisors**

Intending holders of the Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercise of any rights attaching to them.



**7. Qualification of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Merrill Lynch (Asia Pacific) Limited. ....	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on future contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO
Haitong International Capital Limited. ....	A licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young. ....	Certified Public Accountants Registered Public Interest Entity Auditor
Tian Yuan Law Firm. ....	PRC legal advisors to our Company
Harney Westwood & Riegels. ....	Cayman Islands legal advisors to our Company
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. ....	Industry consultant

**8. Consents of experts**

Each of Merrill Lynch (Asia Pacific) Limited, Haitong International Capital Limited, Ernst & Young, Tian Yuan Law Firm, Harney Westwood & Riegels, Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its view, report and/or letter and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

**9. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**10. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**11. Miscellaneous**

- (a) within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of our subsidiaries had been issued or agreed to be issued or proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) save as disclosed in “History, Reorganization and Corporate Development” of this prospectus, no commissions, discounts, brokerages or other special terms had been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
  - (iii) no commission had been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) save as disclosed in this section and “History, Reorganization and Corporate Development” of this prospectus, no share or loan capital of our Company or any of our subsidiaries had been under option or agreed conditionally or unconditionally to be put under option;
- (c) there are no founder, management or deferred shares, convertible debt securities nor any debentures in our Company or any of our subsidiaries;
- (d) our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since June 30, 2021 (being the date to which the latest audited combined financial statements of our Group were made up);
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (f) our principal register of members will be maintained by our principal registrar, Harneys Fiduciary (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by Tricor Investor Services Limited. All transfer and other documents of title of the Shares must be lodged for registration with and registered by our share register in Hong Kong;
- (g) All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (h) no company within our Group is listed on any stock exchange or traded on any trading system at present, and our Group is not seeking or proposing to seek any listing of, or permission to deal in, the share or loan capital of our Company on any other stock exchange; and
- (i) there is no arrangement under which future dividends are waived or agreed to be waived.

**A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the **GREEN** Application Form;
- (b) the written consents referred to in “Statutory and General Information—Other Information—Consents of experts” in Appendix IV; and
- (c) a copy of each of the material contracts referred to in “Statutory and General Information—Further Information about Our Business—Summary of material contracts” in Appendix IV.

**B. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.gstzy.cn](http://www.gstzy.cn) up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the Accountants’ Report from Ernst & Young, Certified Public Accountants, the text of which is set out in “Appendix I—Accountants’ Report” to this prospectus;
- (c) the audited consolidated financial statements of the Group for each of the three years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021;
- (d) the independent reporting accountants’ assurance report on the compilation of pro forma financial information from Ernst & Young, Certified Public Accountants, the text of which is set out in “Appendix II—Unaudited Pro Forma Financial Information” to this prospectus;
- (e) the letter of advice prepared by Harney Westwood & Riegels, our legal advisors as to Cayman Islands laws, summarizing certain aspects of the Cayman Companies Act as referred to in “Appendix III—Summary of the Constitution of the Company and Cayman Companies Act” in this prospectus;
- (f) the Cayman Companies Act;
- (g) the material contracts referred to in the section headed “Appendix IV—Statutory and General Information—B. Further Information about Our Business—1. Summary of the material contracts” in this prospectus;
- (h) the service contract and letters of appointment with Directors, referred to in the section headed “Appendix IV—Statutory and General Information—C. Further Information about Our Directors and Substantial Shareholders” in this prospectus;
- (i) the industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., our industry consultant;
- (j) the written consents referred to in the section headed “Appendix IV—Statutory and General Information—E. Other Information—9. Consents of experts” in this prospectus; and
- (k) the legal opinion issued by Tian Yuan Law Firm, our legal advisor as to PRC laws, in respect of certain aspects of our Group and our property interests in the PRC.



**GUSHENG TANG HOLDINGS LIMITED**  
**固生堂控股有限公司**

