

方舟健客

方舟云康控股有限公司

Fangzhou Inc.

股份代號 Stock Code : 06086

2024

INTERIM REPORT
中期報告

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Definitions and Glossary of Technical Terms

“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of our Company
“CDM”	the establishment of an integrated system of intervention and management for chronic disease throughout different stages of the continuum of chronic disease care, ultimately strengthening disease control, preventing disease deterioration, and controlling the overall medical cost
“China” or “the PRC”	the People’s Republic of China, and for the purposes of this interim report only, except where the context requires otherwise, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Class A Ordinary Share(s)”	class A ordinary share(s) in the share capital of our Company with a par value of US\$0.00002 each, conferring a holder of a Class A Ordinary Share one vote per share on any resolution tabled at our Company’s general meeting
“Class B Ordinary Share(s)”	class B ordinary share(s) in the share capital of our Company with a par value of US\$0.00002 each, conferring weighted voting rights in our Company such that a holder of a Class B Ordinary Share is entitled to twenty votes per share on any resolution tabled at our Company’s general meeting
“Company”, “our Company” or “the Company”	Fangzhou Inc. (方舟云康控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on September 26, 2019
“Concert Deed”	the deed of act-in-concert entered into by Mr. Xie and Mr. Zhou on September 26, 2019, further information on which is set out in “History, Reorganization and Corporate Structure – Concert Party Arrangement” of the Prospectus
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the contractual arrangements, namely Fangzhou Yunkang and its subsidiaries (each a “ Consolidated Affiliated Entity ”), details of which are set out in the section headed “History, Reorganization and Corporate Structure” of the Prospectus
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules

Definitions and Glossary of Technical Terms

“Crescent Point”	Crescent China Investment Management Ltd., a private equity manager incorporated in the British Virgin Islands on October 28, 2020 and regulated by the British Virgin Islands Financial Services Commission, which is ultimately controlled by Mr. David McKee Hand, our non-executive Director; or where the context requires, in respect of certain historical events, Crescent Fund Management Pte. Ltd., an investment manager incorporated in Singapore on December 17, 2012 and licensed by the Monetary Authority of Singapore
“Crescent Point Vehicles”	Crescent Trident Singapore Pte. Ltd., Asia-Pac E-Commerce Opportunities Pte. Ltd., CP Pharmatech Singapore Pte. Ltd. and Tech-Med Investments (S) Pte. Ltd.
“Director(s)”	the director(s) of our Company
“Global Offering”	the offer for subscription and placing of the Shares as described in the Prospectus
“GMV”	gross merchandise volume, the total value of all orders placed, regardless of whether the services or products are performed or delivered or whether the products are returned
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company, its subsidiaries and the Consolidated Affiliated Entities from time to time, and where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“H2H”	hospital-to-home
“H2H service platform”	the platforms where we offer H2H services, which are online medical services forming the primary part of our comprehensive medical services. These platforms include the Jianke Doctor App (健客醫生), Jianke Hospital App (健客醫院) and certain of our WeChat mini programs
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

Definitions and Glossary of Technical Terms

“Jianke Platform”	the platforms where we offer certain of our services, including Jianke Doctor App (健客醫生), Jianke Hospital App (健客醫院), Jianke Online Pharmacy App (健客網上藥店), the website of Jianke.com and WeChat official accounts and mini programs. The aforementioned mobile applications and the website were at times historically operated by Guangdong Jianke Medicine Co., Ltd. (廣東健客醫藥有限公司) under license and authorization from Guangdong Fangzhan Technology Co., Ltd. (廣東方展科技有限公司)
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	July 9, 2024, being the date on which dealings in the Shares first commenced on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM (formerly known as the Growth Enterprise Market) of the Stock Exchange
“MAU”	monthly active users and, in relation to us, the number of active users who access our services on the Jianke Platform at least once during a calendar month
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
“Mr. Xie”	Mr. XIE Fangmin (謝方敏), an executive Director, chairman of the Board and chief executive officer of our Company
“Mr. Zhou”	Mr. ZHOU Feng, an executive Director and chief strategy officer of our Company
“Preferred Share(s)”	preferred share(s) in the share capital of our Company with a par value of US\$0.00002 each, including the series A preferred shares, series A-1 preferred shares, series B preferred shares, series C preferred shares, series D preferred shares and series D+ preferred shares
“Prospectus”	the prospectus issued by our Company on June 28, 2024
“Reporting Period”	six months ended June 30, 2024
“RMB”	Renminbi, the lawful currency of the PRC

Definitions and Glossary of Technical Terms

“RSU Scheme”	the restricted share unit scheme adopted by our Company on January 1, 2020
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). as amended, supplemented or otherwise modified from time to time
“SKU”	stock keeping unit
“Share(s)” or “Ordinary Share(s)”	ordinary shares in the share capital of our Company with a par value of US\$0.00002 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the US
“%”	per cent

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. XIE Fangmin (謝方敏)
Mr. ZHOU Feng
Mr. ZOU Yuming (鄒宇鳴)

Non-executive Director

Mr. David McKee HAND

Independent Non-executive Directors

Dr. WANG Haizhong (王海忠)
(Appointed on June 27, 2024)
Ms. KANG Wei (康韋)
(Appointed on June 27, 2024)
Mr. ZHU Xiaolu (朱小路)
(Appointed on June 27, 2024)

AUDIT COMMITTEE

Mr. ZHU Xiaolu (朱小路) *(Chairman)*
Dr. WANG Haizhong (王海忠)
Ms. KANG Wei (康韋)

REMUNERATION COMMITTEE

Ms. KANG Wei (康韋) *(Chairlady)*
Mr. ZHU Xiaolu (朱小路)
Mr. David McKee HAND

NOMINATION COMMITTEE

Mr. XIE Fangmin (謝方敏) *(Chairman)*
Mr. ZHU Xiaolu (朱小路)
Dr. WANG Haizhong (王海忠)

JOINT COMPANY SECRETARIES

Mr. ZOU Yuming (鄒宇鳴)
Ms. Ng Sau Mei (伍秀薇)
(appointed with effect from August 28, 2024)
Ms. FUNG Po Ting (馮寶婷)
(resigned with effect from August 28, 2024)

AUTHORIZED REPRESENTATIVES

Mr. XIE Fangmin (謝方敏)
Mr. ZHOU Feng

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Floor 1-2, 4th Street
Building S, Kehui Jingu
No. 99, Science Avenue
Luogang Science City
Huangpu District
Guangzhou
Guangdong Province
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

COMPANY'S WEBSITE

investors.jianke.com

STOCK CODE

6086

HONG KONG LEGAL ADVISOR

Kirkland & Ellis

26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITOR

KPMG

Certified Public Accountants
8/F, Prince's Building
10 Chater Road
Central
Hong Kong

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Conyers Trust Company (Cayman) Limited

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

**Computershare Hong Kong Investor
Services Limited**

Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Key Highlights

FINANCIAL SUMMARY

Condensed Consolidated Statements of Profit or Loss

	For the six months ended June 30,	
	2024 RMB'000 (unaudited)	2023 RMB'000 (unaudited)
Revenue	1,322,821	1,291,014
Cost of sales	(1,057,272)	(1,044,009)
Gross profit	265,549	247,005
Loss before taxation	(818,707)	(153,834)
Loss and total comprehensive income for the period attributable to equity shareholders of the Company	(818,725)	(153,896)
Non-HKFRS measures		
Adjusted net profit (non-HKFRS measure) ¹	15,055	3,042
Attributable to:		
Equity shareholders of our Company	(818,725)	(153,896)

Condensed Consolidated Statements of Financial Position

	As of	As of
	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
Non-current assets	59,493	54,014
Current assets	512,728	467,354
Non-current liabilities	2,028,184	1,940,889
Current liabilities	532,638	481,942
Net liabilities	(1,988,601)	(1,901,463)

1 We define adjusted net profit (non-HKFRS measure) as loss and total comprehensive income for the period after excluding the effects of (i) equity settled share-based transactions; (ii) listing expenses; (iii) changes in the carrying amount of preferred shares liability; and (iv) foreign exchange from preferred shares liability. For details, see "Management Discussion and Analysis – Financial Review – Non-HKFRS measure: Adjusted Net Profit and Adjusted Net Profit Margin" in this interim report.

FINANCIAL AND BUSINESS HIGHLIGHTS

- Adjusted net profit of the Group for the first half of 2024 increased by 395.0% compared to the same period in 2023, as we continued to deploy and enhance technologies across our platform to improve operating efficiency
- Significant progress across all our platforms in implementing payment through social healthcare insurance
- As of June 30, 2024, our platform reached 45.6 million registered users, nearly 217 thousand registered doctors, and collaborated with over 1,500 suppliers and more than 800 pharmaceutical companies

Management Discussion and Analysis

BUSINESS REVIEW

We are the largest online chronic disease management platform in China in terms of average MAU in 2023, according to CIC. Leveraging our chronic disease management platform, we are dedicated to providing tailored medical care and precision medicine for a growing population of chronic disease patients, with a view towards extending our services to a wider range of disease areas.

To address the needs of patients with chronic diseases for convenient and accessible medical care services, we provide comprehensive medical services and online retail pharmacy services through our Jianke Platform. Our comprehensive medical services include follow-up physician consultations and e-prescription services conducted by registered physicians and in-house medical professionals through our H2H service platform. We also provide online retail pharmacy services, offering a wide range of pharmaceutical and healthcare products directly to our customers. Our comprehensive medical services and online retail pharmacy services are supported by our chronic disease management service center and robust pharmaceutical supply chain.

In addition, our platform's large and active user base enables us to effectively connect and engage with physicians and patients, providing them with targeted medical knowledge and content. By leveraging this powerful network effect, our platform facilitates the delivery of customized content and marketing solutions to pharmaceutical companies, enabling them to better inform physicians and patients about chronic disease conditions and raise broader public awareness.

Our Online Chronic Disease Management Platform

We remain focused on growing our platform's user base and engagement levels, and as of June 30, 2024, we reached 45.6 million registered users. Our Jianke Platform also achieved an average of 8.9 million MAUs for the 12 months ended June 30, 2024, demonstrating sustained user engagement and platform activity. The number of registered physicians on our H2H service platform grew to nearly 217 thousand as of June 30, 2024. Approximately 59.3% of our registered physicians were affiliated with Class III hospitals, and approximately 38.8% held a title of associate chief physician or above, demonstrating the high caliber of medical professionals on our platform.

In addition, our commitment to patient-centric care remains a top priority. The professionals in our CDM service center play a vital role in delivering comprehensive support to patients, encompassing consultation follow-up, prescription consultations, patient education, medication reminders, and drug refill notifications.

Our repeat purchase rate among paying users remained robust at 85.8% for the 12 months ended June 30, 2024, underscoring our success in fostering user loyalty and platform stickiness.

Consistent with prior periods, prescription drug GMV constituted a significant portion of our total GMV, representing 81.8% for the six months ended June 30, 2024.

During the Reporting Period, we have made significant progress across our business segments:

- *Comprehensive Medical Services:* To address the needs of chronic disease patients for convenient online payment using social healthcare insurance and help improve affordability, we implemented an online medical insurance payment system for our Internet hospital services. Leveraging the Group's Guangzhou Qishi Internet Hospital (廣州啟石互聯網醫院), we established an online payment channel, allowing insured patients to use medical insurance funds, including unified accounts (醫保統籌基金) and individual accounts (醫保個人賬戶), for outpatient prescription drugs related to common outpatient disease conditions covered by medical insurance. Through the Fangzhou Jianke Internet Healthcare Platform (方舟健客互聯網醫療平台), insured patients are able to engage in online follow-up consultations, receive e-prescriptions and make payment using their medical insurance, while gaining access to a broader selection of prescription drugs.
- *Online Retail Pharmacy Services:* Within our online retail pharmacy services segment, we also see an opportunity to better serve patients by facilitating convenient online payment using social healthcare insurance. During the Reporting Period, our online retail pharmacy service platform introduced a real-time settlement function for drugs listed in the social healthcare insurance "dual-channel" catalog. Chronic disease patients are now able to use the Fangzhou Jianke Medical Insurance Assistant Mini Program (方舟健客醫保助手小程序) within Guangdong Medical Insurance (粵醫保) to pay for hospital-issued dual-channel prescriptions using unified or individual medical insurance accounts. In addition, pharmacies on the Fangzhou Jianke Online Drug Service Platform (方舟健客線上藥品服務平台) were selected among the first batch of designated retail pharmacies in Guangzhou for online drug purchases covered by social healthcare insurance, allowing patients to purchase medications online and make payment using their individual medical insurance accounts.
- *Customized Content and Marketing Solutions:* During the Reporting Period, our customized content and marketing solutions gained greater visibility and recognition, as we continued to grow the number of patients, physicians, and pharmaceutical company partners on our platform.

Our Robust Pharmaceutical Supply Chain

As of June 30, 2024, our robust pharmaceutical supply chain encompassed collaborations with over 1,500 suppliers and more than 800 pharmaceutical companies, ranging from multinational corporations to domestic industry leaders. These partnerships provide us with consistent access to a broad range of pharmaceutical products, enabling us to offer over 213,000 drug SKUs to our users. Of these, approximately 61.7% were prescription drug SKUs, reflecting our strong position in this category, which is consistently a significant contributor to our overall GMV.

Management Discussion and Analysis

Future Prospects

In the second half of 2024, we will further strengthen our leading position in online CDM through the following strategies:

- 1. Enhance connectivity between physicians and patients and increase user engagement on our platform.** We continue to expand our physician operations team to provide enhanced support for registered physicians, particularly those newly registered who may be less familiar with our platform's features and functionality. We are implementing additional targeted approaches to encourage physician activity by segmenting our registered physicians based on factors such as geographic region, years of medical experience, professional rank, hospital grade, and platform activity level. We also continue to introduce tools tailored to physicians' usage patterns and preferences, including AI-enabled service tools, which are designed to enhance their efficiency, and facilitate more effective interaction with their patients.
- 2. Continue to grow our high-quality user base.** While maintaining our user growth, we will continue to employ a variety of technologies across our platform to enhance user experience, maintain user loyalty, improve user retention rates, and sustain a broad base of highly active users.
- 3. Continue to strengthen our supply chain system and broaden our product offerings to better satisfy the needs of our users.** We aim to further expand our product offerings through collaboration with new and existing pharmaceutical company partners to target market segments with significant patient demand. In order to better meet the diverse needs of our customers, we will continue to broaden our platform, strengthen collaboration in a range of medical specialties including cardiology, neurology, infectious disease, dermatology, psychiatry and gynecology.
- 4. Continue to attract talent while developing the expertise of our team members to support our continued growth.** We plan to continue recruiting top-tier talent with a range of backgrounds relevant to our business, including AI, healthcare, CDM, and the pharmaceutical industry. Our recruitment strategy includes a mix of campus recruitment programs and experienced hires, with a focus on offering attractive benefits and competitive compensation packages to attract employees.

FINANCIAL REVIEW

Revenue

During the Reporting Period, we generated our revenue primarily from (i) online retail pharmacy services; (ii) comprehensive medical services; (iii) wholesale; and (iv) customized content and marketing solutions. The following table sets forth the breakdown of our revenue from contracts with customers by major products or service lines for the periods indicated.

	For the six months ended June 30,			
	2024		2023	
	RMB'000 (unaudited)	%	RMB'000 (unaudited)	%
Online retail pharmacy services	673,745	50.9	614,709	47.6
Comprehensive medical services	320,735	24.2	612,000	47.4
Wholesale	278,960	21.1	29,611	2.3
Customized content and marketing solutions	49,381	3.8	34,694	2.7
Total	1,322,821	100.0	1,291,014	100.0

Our revenue increased by 2.5% from RMB1,291.0 million for the six months ended June 30, 2023 to RMB1,322.8 million for the six months ended June 30, 2024, primarily reflecting the increase in revenue from online retail pharmacy services, wholesale and customized content and marketing solutions which was partially offset by a decrease in revenue from comprehensive medical services.

Online Retail Pharmacy Services

Revenue from online retail pharmacy services primarily represents revenue from sales of pharmaceutical and healthcare products on our online retail pharmacy service platform, third-party platforms and our offline retail pharmacies.

Revenue generated from online retail pharmacy services increased by 9.6% from RMB614.7 million for the six months ended June 30, 2023 to RMB673.7 million for the six months ended June 30, 2024, driven by the increased sales volume of our pharmaceutical and healthcare products which benefited from the continued growth in our user base and strength in our operations and supply chain. At the same time, our increased business scale enabled us to negotiate more favorable procurement terms and offer more competitive pricing on a range of products while preserving our overall gross profit margins.

Comprehensive Medical Services

Revenue from comprehensive medical services primarily consists of (i) revenue from online consultation services provided by physicians to patients, e-prescription services and sales of pharmaceutical and other products on our H2H service platform; and (ii) revenue from physician consultations and sales of pharmaceutical products through offline hospitals.

Management Discussion and Analysis

Revenue generated from comprehensive medical services decreased by 47.6% from RMB612.0 million for the six months ended June 30, 2023 to RMB320.7 million for the six months ended June 30, 2024. In the first half of 2024, as we gained greater recognition in the market, we shifted our focus towards achieving improved profitability and a more sustainable development path for this business segment, increasing gross margins to 22.8% from 15.6% for the corresponding period of 2023. We believe this shift provides a solid foundation for our future growth.

Wholesale

Wholesale revenue primarily consists of revenue from wholesale of pharmaceutical products to third-party distributors.

Revenue generated from wholesale increased by 842.1% from RMB29.6 million for the six months ended June 30, 2023 to RMB279.0 million for the six months ended June 30, 2024. In the first half of 2024, due to the market environment in the pharmaceutical industry, we were able to leverage our long-standing supply chain relationships to identify significant opportunities to source products at favorable prices.

Customized Content and Marketing Solutions

Revenue from customized content and marketing solutions mainly comprises income generated from the customized content and marketing services we offered to pharmaceutical companies.

Revenue from customized content and marketing solutions increased by 42.3% from RMB34.7 million for the six months ended June 30, 2023 to RMB49.4 million for the six months ended June 30, 2024, primarily due to our ongoing marketing efforts aimed at reaching more enterprise customers and expanding our customer base for this business segment.

Cost of Sales

Our cost of sales primarily consists of (i) procurement costs for pharmaceutical and other healthcare products; (ii) medical service costs directly related to registered physicians in providing online consultations and cost of sales in relation to the operations of our offline hospital; (iii) staff costs, representing wages, benefits and bonuses of our sales and marketing personnel for our customized content and marketing solutions and staff of our offline hospital; (iv) content production costs in connection with our customized content and marketing solutions; and (v) others, mainly representing depreciation and amortization.

Our cost of sales remained relatively stable at RMB1,057.3 million for the six months ended June 30, 2024, as compared to RMB1,044.0 million for the six months ended June 30, 2023.

Gross Profit and Gross Profit Margin

Our gross profit increased by 7.5% from RMB247.0 million for the six months ended June 30, 2023 to RMB265.5 million for the six months ended June 30, 2024 as our business scale increased. Our overall gross profit margin improved to 20.1% for the six months ended June 30, 2024, as compared to 19.1% for the six months ended June 30, 2023. This was primarily the result of our on-going efforts to enhance our supply chain management and optimize procurement prices, while maintaining our competitive pricing strategy.

Other Net Loss

Other net loss or income primarily consist of (i) government grants, which mainly represent incentives and subsidies received from local governments for the purpose of encouraging business development; (ii) foreign exchange gain or loss primarily in connection with changes in present value of redemption amount of Preferred Shares denominated in US dollars; and (iii) other gain or loss, mainly representing interest income from cash deposits and our donations.

Our other net loss decreased by 84.8% from RMB63.4 million for the six months ended June 30, 2023 to RMB9.6 million for the six months ended June 30, 2024, primarily reflecting the decrease in foreign exchange loss in connection with the changes in present value of redemption amount of Preferred Shares denominated in US dollars.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) advertising and platform service fees, which mainly represent advertising and marketing fees we paid to third-party online platforms to promote our brand and services; (ii) service fees to registered physicians as compensation for their activities on our platform, including the number of hours spent online on our platform, and their contribution to our live streaming and academic community and patient community services; (iii) logistics expenses for engaging third-party couriers for delivery services; (iv) staff costs, representing wages, benefits and bonuses of our CDM service center staff and our sales and marketing personnel for our comprehensive medical services and online retail pharmacy services; (v) outsourcing expenses charged by outsourcing agencies in connection with the outsourced support staff for our operations, such as customer service personnel and warehouse workers; (vi) telecommunication expenses in relation to our promotional activities, such as messaging services used in the user registration process; (vii) share-based compensation to our sales and marketing personnel; and (viii) others, including utilities and depreciation and amortization.

Our selling and distribution expenses remained relatively stable at RMB171.1 million for the six months ended June 30, 2024, as compared to RMB175.9 million for the six months ended June 30, 2023. Our selling and distribution expenses as a percentage of revenue decreased slightly from 13.6% for the six months ended June 30, 2023 to 12.9% for the six months ended June 30, 2024.

Administrative Expenses

Our administrative expenses primarily consist of (i) research and development costs, including staff costs of R&D personnel, outsourcing expenses for our R&D activities, depreciation of right-of-use assets, and share-based compensation to our R&D personnel; (ii) staff costs, representing wages, benefits and bonuses of our administrative personnel; (iii) professional service fees, which primarily represent fees paid to professional parties, including auditors, lawyers and consultants in connection with past rounds of financing and the Listing; (iv) handling fees that we paid to third-party payment platforms in relation to our sales of pharmaceutical and other products; (v) business expenses, including business development fees, office expenses and travel expenses incurred in our daily operations; (vi) technical service fees paid to third-party service providers for online technical support solutions; (vii) share-based compensation to our administrative personnel; (viii) depreciation of right-of-use assets; (ix) outsourcing expenses for certain administrative functions; and (x) others, including rent and utility expenses, telecommunication expenses related to administrative activities, and depreciation and amortization.

Management Discussion and Analysis

Our administrative expenses increased by 840.8% from RMB88.3 million for the six months ended June 30, 2023 to RMB831.1 million for the six months ended June 30, 2024. Our administrative expenses as a percentage of revenue increased from 6.8% for the six months ended June 30, 2023 to 62.8% for the six months ended June 30, 2024. This increase in our administrative expenses was primarily due to expenses incurred from our RSU Scheme.

Recognition of Impairment Losses

Our recognition of impairment losses, mainly represent impairment losses recognized on trade receivables from enterprise customers for our customized content and marketing solution services, amounted to RMB113 thousand and RMB63 thousand for the six months ended June 30, 2023 and June 30, 2024, respectively.

Finance Costs

Our finance costs mainly represent (i) changes in the carrying amount of preferred shares liability, which were recognized in relation to the present value of redemption amount of our convertible redeemable Preferred Shares; and (ii) interest on lease liabilities and bank loans.

Our finance costs remained relatively stable at RMB72.4 million for the six months ended June 30, 2024, as compared to RMB73.0 million for the six months ended June 30, 2023.

Income Tax Expenses

For the six months ended June 30, 2024, we recorded RMB18 thousand in income tax expenses, compared to RMB62 thousand for the six months ended June 30, 2023.

Loss and Total Comprehensive Income for the Period

As a result of the foregoing, our loss and total comprehensive income for the period increased from RMB153.9 million for the six months ended June 30, 2023 to RMB818.7 million for the six months ended June 30, 2024.

Non-HKFRS measure: Adjusted Net Profit and Adjusted Net Profit Margin

We believe that the presentation of non-HKFRS measures, namely adjusted net loss/profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure), facilitates comparisons of operating performance from year to year and provides useful information for investors to understand and evaluate our consolidated results of operations in the same manner as our management by eliminating the impact of certain items. The use of adjusted net profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure) has limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We define adjusted net profit (non-HKFRS measure) as loss and total comprehensive income for the period after excluding the effects of (i) equity settled share-based transactions; (ii) listing expenses; (iii) changes in the carrying amount of preferred shares liability; and (iv) foreign exchange from preferred shares liability. We account for the compensation cost from equity settled share-based transactions with employees, which is a non-cash item and does not result in cash outflow. In addition, we eliminate the impact of changes in the carrying amount of preferred shares liability and foreign exchange differences associated with our Preferred Shares, primarily because these are non-cash items in nature. The convertible redeemable Preferred Shares will be automatically converted into Ordinary Shares upon the completion of the Global Offering, upon which the carrying amount of the financial liabilities will be transferred to share capital and capital reserve. We define adjusted net profit margin (non-HKFRS measure) as adjusted net profit (non-HKFRS measure) divided by revenue for the period and multiplied by 100%.

The following table reconciles our adjusted net profit (non-HKFRS measure) for the six months ended June 30, 2024, compared to the six months ended June 30, 2023:

	Six months ended June 30,	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss and total comprehensive income for the period	(818,725)	(153,896)
Add:		
Equity settled share-based transactions	731,587	3,119
Listing expenses	18,524	13,013
Changes in the carrying amount of preferred shares liability	71,327	72,342
Foreign exchange from preferred shares liability	12,342	68,464
Adjusted net profit (non-HKFRS measure)	15,055	3,042
Adjusted net profit margin (non-HKFRS measure)	1.1%	0.2%

Property, Plant and Equipment

Our property, plant and equipment consist of (i) right-of-use assets; (ii) furniture, fixtures and other equipment; (iii) leasehold improvement; (iv) machinery and equipment; and (v) motor vehicles.

Our property, plant and equipment increased by RMB5.3 million to RMB57.0 million as of June 30, 2024, compared to RMB51.6 million as of December 31, 2023, primarily due to an increase in right-of-use assets from the addition of new leases.

Intangible Assets

Our intangible assets consist of computer software, licenses and trademarks. Our intangible assets remained relatively stable at RMB2.5 million and RMB2.3 million as of June 30, 2024 and December 31, 2023, respectively.

Management Discussion and Analysis

Inventories

Our inventories mainly consist of pharmaceutical and healthcare products. Our inventories remained relatively stable at RMB140.4 million as of June 30, 2024, compared to RMB136.0 million as of December 31, 2023.

Trade and Other Receivables

Fluctuations of our trade receivables primarily reflected the volume of business that we provided to enterprise customers. Our trade receivables remained relatively stable at RMB27.9 million as of June 30, 2024 as compared to RMB24.1 million as of December 31, 2023.

Our other receivables primarily represented rebates from suppliers and deposits in connection with our procurement of pharmaceutical and other products. Our other receivables increased to RMB97.2 million as of June 30, 2024, as compared to RMB77.0 million as of December 31, 2023, primarily due to the increase in receivables for refunds from upstream suppliers related to purchase returns.

Prepayments

Our prepayments primarily represent prepayments to service providers for renovation, decoration, online promotional and advertising services provided to us and prepayments for our procurement of pharmaceutical and other products. Our prepayments decreased to RMB9.7 million as of June 30, 2024, compared to RMB18.5 million as of December 31, 2023, primarily due to the relatively high balance of prepayments to upstream suppliers at the end of 2023 that we made in order to ensure the stability of our supply chain over the first quarter in 2024, which included the traditional Chinese New Year holidays.

Trade and Other Payables

Our trade and bills payables primarily represent payables to our suppliers, which are normally settled within 30 to 75 days. Our other payables primarily consist of (i) staff cost payables; (ii) other tax payables; (iii) deposits from suppliers for the procurement of pharmaceutical products; and (iv) other payables and accrued charges, primarily representing rent payables, payables to registered physicians and payables to suppliers for online promotional and advertising services and logistics services.

Our trade and other payables increased to RMB480.6 million as of June 30, 2024, compared to RMB440.5 million as of December 31, 2023, primarily due to the increase in payables during the Reporting Period resulted from the expansion in business scale.

Contract Liabilities

Our contract liabilities represent (i) payments we receive in advance from customers for sales of pharmaceutical and healthcare products, which are recognized as revenue when the products are delivered and control is transferred to the customers; and (ii) advance payments from our customers' loyalty points program, which are recognized as revenue when users make payments by these loyalty points or when these loyalty points expire. Our contract liabilities increased to RMB23.4 million as of June 30, 2024, compared to RMB19.9 million as of December 31, 2023, primarily reflecting the increase in advance payments received from customers.

Liquidity and Capital Resources

During the Reporting Period, we primarily financed our operations through cash inflow from operating activities and equity financing. As of June 30, 2024, we had cash and cash equivalents of RMB138.4 million, compared to RMB146.3 million as of December 31, 2023. We monitor and maintain a level of cash and cash equivalents we believe adequate to finance our operations and mitigate the effects of fluctuations in cash flows.

Our Directors believe that we have sufficient working capital to meet our present and future cash requirements for the second half of 2024, taking into account our anticipated improvement in operating cash flows, management of working capital, efforts to obtain more favorable credit terms from suppliers and net proceeds from the Global Offering.

Bank Loans

As of June 30, 2024, the repayment schedule of bank loans was within one year and the balances were unsecured. Our bank loans during the Reporting Period were denominated in RMB and were primarily used to supplement our working capital. We had bank loans of RMB10.0 million with the interest rate of 3.4% or 3.45% and RMB5.0 million with the interest rate of 3.69% as of June 30, 2024 and December 31, 2023, respectively.

Lease Liabilities

We recognized right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases and leases of low value assets. Our lease liabilities increased from RMB44.7 million as of December 31, 2023 to RMB50.2 million as of June 30, 2024, primarily due to the new office leases and renewal of warehouse leases.

Capital Commitments

As of June 30, 2024 and December 31, 2023, we had no material capital commitments.

Contingent Liabilities

As of June 30, 2024, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group that is likely to have a material and adverse effect on our business, financial condition or results of operations.

Capital Expenditures

Our capital expenditures primarily consist of purchases of property, plant and equipment and intangible assets. Our capital expenditures were RMB2.6 million for the six months ended June 30, 2024 and RMB2.6 million for the six months ended June 30, 2023.

We expect our capital expenditures in 2024 will primarily be used to purchase property, plant and equipment and intangible assets. We plan to fund our planned capital expenditures with our cash balance.

Management Discussion and Analysis

Key Financial Ratios

The following table sets forth the key financial ratios for the periods indicated:

	As of June 30, 2024	As of December 31, 2023
Gross profit margin ⁽¹⁾	20.1%	20.0%
Net loss margin ⁽²⁾	(61.9)%	(8.1)%
Adjusted net profit margin (non-HKFRS measure) ⁽³⁾	1.1%	0.2%
Current ratio ⁽⁴⁾	1.0	1.0
Quick ratio ⁽⁵⁾	0.7	0.7

Notes:

- (1) Gross profit margin is calculated using gross profit divided by revenue for the period/year and multiplied by 100%.
- (2) Net loss margin is calculated using net loss divided by revenue for the period/year and multiplied by 100%.
- (3) Adjusted net profit margin (non-HKFRS measure) is calculated using the adjusted net profit (non-HKFRS measure) divided by revenue for the period/year and multiplied by 100%.
- (4) Current ratio is calculated by using current assets divided by current liabilities as of the same date.
- (5) Quick ratio is calculated by using current assets less inventories and divided by current liabilities as of the same date.

Material Investments

We did not make any material investments during the six months ended June 30, 2024. In addition, there is no plan of our Group for material investments or additions of material capital assets as of the date of this interim report.

Material Acquisitions and Disposals

We did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures during the six months ended June 30, 2024.

Foreign Exchange Risk and Hedging

Our Group's financial statements were expressed in RMB, but our Group undertook certain transactions in foreign currencies, which exposed us to foreign currency risk. We currently do not hold any financial instruments for hedging purposes. Our Group manages our currency risks by closely monitoring the movement of the foreign currency rates and considers hedging significant foreign currency exposure should the need arise.

Pledge of Assets

As at June 30, 2024, our Group pledged a restricted deposit of RMB62.2 million in a margin account to secure bills payable. Other than that, the Group did not have any charge on assets.

Employees and Remuneration

As of June 30, 2024, our Group had 515 employees. The total remuneration cost incurred by our Group for the six months ended June 30, 2024 was RMB805.3 million, as compared to RMB75.9 million for the six months ended June 30, 2023.

The following table sets forth the number of full-time employees by function as of June 30, 2024.

	Number of employees	% of total
General and administrative personnel	99	19.2%
Research and development personnel	119	23.1%
Operational personnel	118	22.9%
Sales and marketing personnel	112	21.8%
In-house medical professionals	67	13.0%
Total	515	100.0%

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including, among other things, pension, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance and housing provident fund through a PRC government-mandated benefit contribution plan. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our staff, up to a maximum amount specified by the local government from time to time.

We are committed to establishing a competitive and fair remuneration. In order to effectively motivate our employees, we continually refine our remuneration and incentive policies through market research. We conduct performance evaluation for our employees every year to provide feedback on their performance. Compensation for our staff typically consists of base salary and performance-based bonus.

Our Company has also adopted the RSU Scheme to provide incentives for our employees. Please refer to the section headed “Statutory and General Information – D. RSU Scheme” in Appendix IV to the Prospectus for further details.

Gearing Ratio

Our Group monitored its capital sufficiency using gearing ratio. As of June 30, 2024 and December 31, 2023, our Group’s gearing ratio (total liabilities/total assets) was 4.5 and 4.6, respectively.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF OUR COMPANY OR ANY OF OUR ASSOCIATED CORPORATIONS

As the Shares of our Company were not listed on the Stock Exchange as of June 30, 2024, Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO were not applicable to the Directors or chief executives of our Company.

As of the date of this interim report, the interests and/or short positions (as applicable) of our Directors and chief executives in the shares, underlying shares and debentures of our Company or any of its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding of Shares ⁽¹⁾
Mr. Xie	Interest in controlled corporations ⁽²⁾	276,605,527 (L)	20.64%
	Interest of a party to an agreement ⁽³⁾	236,624,057 (L)	17.65%
	Interest of a party to an agreement ⁽⁶⁾	138,430,610 (L)	10.33%
	Interest in a controlled corporation ⁽⁷⁾	116,875,898 (L)	8.72%
Mr. Zhou	Interest in controlled corporations ⁽⁴⁾	236,624,057 (L)	17.65%
	Interest of a party to an agreement ⁽³⁾	276,605,527 (L)	20.64%
	Interest of a party to an agreement ⁽⁶⁾	138,430,610 (L)	10.33%
	Interest in a controlled corporation ⁽⁷⁾	116,875,898 (L)	8.72%
Mr. ZOU Yuming	Beneficial owner ⁽⁸⁾	3,500,000 (L)	0.26%
	Interest in a controlled corporation ⁽⁶⁾	20,000,000 (L)	1.49%
Mr. David McKee HAND	Interest in controlled corporations ⁽⁵⁾	437,443,815 (L)	32.64%
Dr. WANG Haizhong	Beneficial owner ⁽⁹⁾	100,000 (L)	0.01%
Ms. KANG Wei	Beneficial owner ⁽⁹⁾	100,000 (L)	0.01%
Mr. ZHU Xiaolu	Beneficial owner ⁽⁹⁾	100,000 (L)	0.01%

(L) denotes a long position

Notes:

- (1) The calculation is based on the total number of 1,340,267,457 Shares in issue as of the date of this interim report.
- (2) Fangrong Management Limited is wholly owned by Mr. Xie. Each of Fangzhan Holdings L.P. and Xingyu Holdings L.P. is controlled by Mr. Xie. Therefore, Mr. Xie is deemed to be interested in the 265,538,362, 5,481,985 and 5,585,180 Shares held by Fangrong Management Limited, Fangzhan Holdings L.P. and Xingyu Holdings L.P., respectively, under the SFO.
- (3) Mr. Xie and Mr. Zhou are parties to the Concert Deed, according to which Mr. Xie and Mr. Zhou confirmed and agreed that they have acted and will continue to act in concert and collectively for all material management affairs and the arrival and/or execution of all commercial decisions, including but not limited to financial and operational matters, of our Group since the date of the Concert Deed, and they have cast and will continue to cast unanimous vote collectively for or against all resolutions in all Board and Shareholders' meetings and discussions of our Group. Therefore, Mr. Xie and Mr. Zhou are deemed to be jointly interested in the aggregate number of Shares held by each other.

- (4) Each of Celaeno Group Limited and Silica Brothers Corp. is controlled by Mr. Zhou. Therefore, Mr. Zhou is deemed to be interested in the 186,158,297 and 50,465,760 Shares held by Celaeno Group Limited and Silica Brothers Corp., respectively, under the SFO.
- (5) Each of Crescent Point Vehicles is advised by Crescent Point, which is ultimately controlled by Mr. David McKee HAND.
- (6) Effective immediately before the Listing, Mr. Xie and Mr. Zhou were entitled to exercise the voting rights attached to 138,430,610 Shares, representing approximately 10.33% of the issued Shares as of the date of this interim report, held by Tech-Med Investments (S) Pte. Ltd. pursuant to the deed of voting proxy executed by Tech-Med Investments (S) Pte. Ltd. on June 12, 2024. For details, see “History, Reorganization and Corporate Structure – Deed of Voting Proxy” of the Prospectus.
- (7) Asia Tech Investments Ltd. is a platform holding the underlying incentive shares granted to our Directors and senior management in the total amount of 116,875,898 Class A Ordinary Shares under the RSU Scheme. Approximately 51.34% and 48.41% of interest in Asia Tech Investments Ltd. were held by Mr. Xie and Mr. Zhou, respectively. Therefore, each of Mr. Xie and Mr. Zhou is deemed to be interested in the Shares held by Asia Tech Investments Ltd. in accordance with SFO.
- (8) In May 2024, 3,500,000 and 20,000,000 Shares underlying the restricted share units (“**RSUs**”) were allotted and issued to Mr. ZOU Yuming and Torano Investments Limited (a company wholly owned by Mr. ZOU Yuming to hold certain Shares underlying the RSUs granted to him), respectively, pursuant to the RSU Scheme.
- (9) Representing RSUs granted under the RSU Scheme.

As of the date of this interim report, save as disclosed above, so far as is known to any Director or the chief executive of our Company, none of the Directors nor the chief executives of our Company had any interests or short positions in the shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interests or short positions (as applicable) which he/she is taken or deemed to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to our Company and the Stock Exchange.

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As stated above, the Shares of our Company were not listed on the Stock Exchange as of June 30, 2024. Accordingly, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable to the substantial shareholders of our Company.

As of the date of this interim report, so far as our Directors are aware, the persons who held interests and/or short positions in the Shares or underlying Shares which would be required to be notified to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by our Company pursuant to Section 336 of the SFO were set out in the table below:

Name of Shareholder	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding of Shares ⁽¹⁾
Mr. Xie	Interest in controlled corporations ⁽²⁾	276,605,527 (L)	20.64%
	Interest of a party to an agreement ⁽³⁾	236,624,057 (L)	17.65%
	Interest of a party to an agreement ⁽⁹⁾	138,430,610 (L)	10.33%
	Interest in a controlled corporation ⁽¹⁰⁾	116,875,898 (L)	8.72%
Mr. Zhou	Interest in controlled corporations ⁽⁴⁾	236,624,057 (L)	17.65%
	Interest of a party to an agreement ⁽³⁾	276,605,527 (L)	20.64%
	Interest of a party to an agreement ⁽⁹⁾	138,430,610 (L)	10.33%
	Interest in a controlled corporation ⁽¹⁰⁾	116,875,898 (L)	8.72%
Celaeno Group Limited	Beneficial owner ⁽⁴⁾	186,158,297 (L)	13.89%
Fangrong Management Limited	Beneficial owner ⁽²⁾	265,538,362 (L)	19.81%
Asia Tech Investments Ltd.	Beneficial owner ⁽¹⁰⁾	116,875,898 (L)	8.72%
Crescent ACSO Investment Management Ltd	Interest in controlled corporations ⁽⁵⁾	115,165,045 (L)	8.59%
Crescent Trident Singapore Pte. Ltd.	Beneficial owner ⁽⁵⁾	115,165,045 (L)	8.59%
Crescent Point	Investment manager ⁽⁶⁾	437,443,815 (L)	32.64%
Danai Rojanavanichkul	Interest in controlled corporations ⁽⁶⁾⁽⁷⁾	264,582,255 (L)	19.74%
Veneto Holdings Ltd.	Interest in controlled corporations ⁽⁶⁾⁽⁷⁾	264,582,255 (L)	19.74%
Tech-Med Cayman III Ltd.	Interest in controlled corporations ⁽⁷⁾	138,430,610 (L)	10.33%
Tech-Med Investments (S) Pte. Ltd. ⁽¹⁰⁾	Beneficial owner ⁽⁷⁾	138,430,610 (L)	10.33%
CP Pharmatech Singapore Pte. Ltd.	Beneficial owner ⁽⁶⁾	126,151,645 (L)	9.41%
Mr. David McKee HAND	Interest in controlled corporations ⁽⁵⁾	437,443,815 (L)	32.64%

(L) denotes a long position

Notes:

- (1) The calculation is based on the total number of 1,340,267,457 Shares in issue as of the date of this interim report.
- (2) Fangrong Management Limited is wholly owned by Mr. Xie. Each of Fangzhan Holdings L.P. and Xingyu Holdings L.P. is controlled by Mr. Xie. Therefore, Mr. Xie is deemed to be interested in the 265,538,362, 5,481,985 and 5,585,180 Shares held by Fangrong Management Limited, Fangzhan Holdings L.P. and Xingyu Holdings L.P., respectively, under the SFO.

- (3) Mr. Xie and Mr. Zhou are parties to the Concert Deed, according to which Mr. Xie and Mr. Zhou confirmed and agreed that they have acted and will continue to act in concert and collectively for all material management affairs and the arrival and/or execution of all commercial decisions, including but not limited to financial and operational matters, of our Group since the date of the Concert Deed, and they have cast and will continue to cast unanimous vote collectively for or against all resolutions in all Board and Shareholders' meetings and discussions of our Group. Therefore, Mr. Xie and Mr. Zhou are deemed to be jointly interested in the aggregate number of Shares held by each other.
- (4) Each of Celaeno Group Limited and Silica Brothers Corp. is wholly owned by Mr. Zhou. Therefore, Mr. Zhou is deemed to be interested in 186,158,297 and 50,465,760 Shares held by Celaeno Group Limited and Silica Brothers Corp., respectively, under the SFO.
- (5) Crescent Trident Singapore Pte. Ltd. is controlled by Crescent ACSO Investment Management Ltd, which is ultimately controlled by Mr. David McKee HAND.
- (6) CP Pharmatech Singapore Pte. Ltd. is controlled by Veneto Holdings Ltd., which is in turn ultimately controlled by Danai Rojanavanichkul.
- (7) Tech-Med Investments (S) Pte. Ltd. is controlled by Tech-Med Cayman III Ltd., which is in turn controlled by Veneto Holdings Ltd., and is in turn ultimately controlled by Danai Rojanavanichkul.
- (8) Each of Crescent Point Vehicles is advised by Crescent Point, which is ultimately controlled by Mr. David McKee HAND.
- (9) Effective immediately before the Listing, Mr. Xie and Mr. Zhou were entitled to exercise the voting rights attached to 138,430,610 Shares, representing approximately 10.33% of the issued shares as of the date of this interim report, held by Tech-Med Investments (S) Pte. Ltd. pursuant to the deed of voting proxy executed by Tech-Med Investments (S) Pte. Ltd. on June 12, 2024. For details, see "History, Reorganization and Corporate Structure – Deed of Voting Proxy" of the Prospectus.
- (10) Asia Tech Investments Ltd. is a platform holding the underlying incentive shares granted to our Directors and senior management in the total amount of 116,875,898 Class A Ordinary Shares under the RSU Scheme. Approximately 51.34% and 48.41% interest of Asia Tech Investments Ltd. were held by Mr. Xie and Mr. Zhou, respectively. Therefore, each of Mr. Xie and Mr. Zhou is deemed to be interested in the Shares held by Asia Tech Investments Ltd. in accordance with SFO.

As of the date of this interim report, save as disclosed above, the Directors and the chief executives of our Company are not aware of any other person (other than the Directors or chief executives of our Company) who had an interest or short position in the Shares or underlying Shares which would be required to be notified to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by our Company pursuant to Section 336 of the SFO.

Corporate Governance and Other Information

USE OF PROCEEDS FROM GLOBAL OFFERING

On July 9, 2024, the Shares of our Company were listed on the Main Board of the Stock Exchange. The net proceeds from the Global Offering were approximately HK\$67.09 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, which will be used in accordance with the intended use of net proceeds as disclosed in the Prospectus by our Company. For details, please refer to the section headed “Future Plans and Use of Proceeds” in the Prospectus.

Since the Listing Date and up to the date of this interim report, our Company has not utilized any net proceeds from the Global Offering. There has been no change in the intended use of net proceeds disclosed in the Prospectus, and our Company plans to gradually utilize the net proceeds in accordance with such intended purposes taking into account our business needs. We expect that approximately HK\$10.0 million to HK\$20.0 million, accounting for approximately 14.9% to 29.8% of the net proceeds of the Global Offering, will be utilized during the year ending December 31, 2024 and plan to utilize the balance of net proceeds of the Global Offering by the end of 2029. The expected timeline for utilizing the net proceeds from the Global Offering is based on the best estimate of future progress of regulatory approvals and market conditions made by our Company and subject to changes in accordance with our actual business operations and markets conditions. The table below sets out the details of the use of the net proceeds of the Company.

Use of Proceeds	Amount of net proceeds for the relevant use (HK\$ million)	Percentage of total net proceeds (%)	Amount of proceeds unutilized as of the date of this interim report	Expected timeframe for unutilized net proceeds
Business expansion	45.21	67.4	45.21	within 2027-2029
– Promoting brand awareness	11.61	17.3	11.61	
– Enhancing user growth and engagement, and maintaining a highly active user base	14.42	21.5	14.42	
– Attracting and retaining talents, talents, especially those with extensive experience in media and technology-powered medical services and insights in the fields of chronic disease management	15.50	23.1	15.50	
– Expanding product offerings and enhancing supply chain capabilities	3.69	5.5	3.69	
Research and development activities	10.73	16.0	10.73	by 2029
– recruiting a team of approximately 40 software engineers by 2028, of which 70% are senior software engineers and the remainder are junior software engineers	4.70	7.0	4.70	

Corporate Governance and Other Information

Use of Proceeds	Amount of net proceeds for the relevant use (HK\$ million)	Percentage of total net proceeds (%)	Amount of proceeds unutilized as of the date of this interim report	Expected timeframe for unutilized net proceeds
– (i) improve the application of AI technology and big data analysis capabilities in CDM to more accurately capture user habits throughout their activities, from seeking consultations, purchasing pharmaceutical products to their preferences for viewing content on our platform, thereby improving user experience and improving the conversion rate of paying users on our platform; (ii) optimize our infrastructure in various technological areas, such as (a) computer vision, to improve the efficiency of order identification and processing and user information management, (b) natural language processing, to optimize the question-answering engine of our AI medical assistant, and (c) search-based recommendation algorithms to deliver the most relevant information catered to the users' evolving needs; (iii) improve stability of the system to withstand the increasing pressure as we scale our online operations; and (iv) optimize the functions of our WeChat mini programs and perform routine system upgrade and maintenance	6.04	9.0	6.04	
Potential investments and acquisitions or strategic alliances with other stakeholders in the value chain of the online CDM industry	7.78	11.6	7.78	by 2029
Working capital and general corporate purposes	3.35	5.0	3.35	by 2029
Total	67.09	100.0	67.09	

Corporate Governance and Other Information

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S LISTED SECURITIES

As our Company's Shares were not listed on the Stock Exchange during the six months ended June 30, 2024, neither our Company nor any of its subsidiaries purchased, sold or redeemed any of our Company's listed securities (including sale of treasury Shares, if any) during the Reporting Period.

Neither our Company nor any of its subsidiaries purchased, redeemed or sold any of our Company's listed securities (including sale of treasury Shares, if any) since the Listing Date and up to the date of this interim report.

RSU SCHEME

The RSU Scheme was approved and adopted by the Board on January 1, 2020, to attract, retain and motivate our senior management, employees, advisors and such other participants through the grant of awards (the "Awards") for their contribution to the growth and profits of our Group, and to allow such senior management, employees, advisors and other persons to participate in the growth and profitability of our Group. A summary of the principal terms of the RSU Scheme is set out in the section headed "Statutory and General Information — D. RSU Scheme" in Appendix IV to the Prospectus.

In May 2024, (i) a total of 98,288,750 Shares were allotted and issued to Endeavor Cloud Limited, Fast Goal International Limited and Gaoxin Thrive Limited to hold the Shares underlying the RSUs granted to the grantees who are neither Directors nor other core connected persons of our Company pursuant to the RSU Scheme; (ii) 5,453,428 Shares were allotted and issued to Asia Tech Investments Ltd. to hold the Shares underlying the RSUs granted to certain Directors pursuant to the RSU Scheme; and (iii) 3,500,000 and 20,000,000 Shares underlying the RSUs were allotted and issued to Mr. ZOU Yuming and Torano Investments Limited (a company wholly owned by Mr. Zou to hold certain Shares underlying the RSUs granted to him), respectively, pursuant to the RSU Scheme.

As of the date of this interim report, RSUs in respect of an aggregate of 238,664,648 Shares had been granted pursuant to the RSU scheme to our six Directors and senior management, 164 other employees^(Note), and business consultants who made contributions to our Group. No further Awards will be granted under the RSU Scheme after the Listing. As disclosed in the Prospectus, the terms of the RSU Scheme will not be subject to the provisions of Chapter 17 of the Listing Rules upon Listing. The following table summarizes the number of the RSUs granted to the Directors and senior management of the Company under the RSU Scheme as of June 30, 2024:

Name	Position	Number of Shares underlying the RSUs granted	Approximate percentage of issued Shares
Mr. Xie	Chairman of the Board, executive Director and chief executive officer	60,000,000	4.48%
Mr. Zhou	Executive Director and chief strategy officer	56,575,898	4.22%
Mr. ZOU Yuming	Executive Director and chief financial officer	23,500,000	1.75%
Ms. KANG Wei	Independent non-executive Director	100,000	0.01%
Mr. ZHU Xiaolu	Independent non-executive Director	100,000	0.01%
Dr. WANG Haizhong	Independent non-executive Director	100,000	0.01%

Note: Employed by the Company at the time of RSU grant.

CONTRACTUAL ARRANGEMENTS

The Board has reviewed the overall performance of the Contractual Arrangements and believes that our Group complied with the Contractual Arrangements in all material respects during the Reporting Period and up to the date of this interim report. Please refer to the section headed “Contractual Arrangements” of the Prospectus for details.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company’s corporate governance practices are based on the principles and code provisions set forth in the Corporate Governance Code. As the Shares of our Company were not yet listed on the Stock Exchange as of June 30, 2024, the principles and code provisions of the Corporate Governance Code were not applicable to our Company during the Reporting Period.

We have adopted certain corporate governance measures in compliance with the Corporate Governance Code. We aim to achieve a high standard of corporate governance, which is crucial to safeguard the interests of the Shareholders. From the Listing Date to the date of this interim report, our Company has complied with all applicable code provisions set out in the Corporate Governance Code, except for the following:

Pursuant to code provision C.2.1 in the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Xie is currently serving as the chairman of the Board as well as the chief executive officer of our Company. As Mr. Xie is the founder of our Group and has been managing our Group’s business since its establishment, our Directors consider that vesting the roles of chairman and chief executive officer in Mr. Xie 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 have implemented 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 has 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 as necessary, taking into account the circumstances of our Group as a whole.

Save as disclosed above, as of the date of this interim report 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 the code provisions in the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE

Our Company has adopted the Model Code as its code of conduct regarding Directors’ dealing in our Company’s securities. As the Shares of our Company were not yet listed on the Stock Exchange as of June 30, 2024, the Model Code was not applicable to our Company during the Reporting Period. Having made specific enquiries to all of the Directors, all Directors confirmed that they have fully complied with all relevant requirements set out in the Model Code from the Listing Date to the date of this interim report.

Corporate Governance and Other Information

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CHANGES IN DIRECTORS' INFORMATION PURSUANT TO RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

Mr. Xie received a doctorate degree in management from the University Institute of Lisbon in Lisbon, Portugal in July 2024. Save as disclosed above, there was no change in the Board and the chief executive officer of our Company, and the information of Directors and chief executive officer since the date of the Prospectus and up to the date of this interim report which is required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules.

REVIEW OF THE INTERIM REPORT BY THE AUDIT COMMITTEE

We have established the Audit Committee with terms of reference in compliance with Rule 3.21 of the Listing Rules as well as paragraph D.3 of part 2 of the Corporate Governance Code. The Audit Committee consists of three independent non-executive Directors, namely, Mr. ZHU Xiaolu, Dr. WANG Haizhong and Ms. KANG Wei. The chairman of the Audit Committee is Mr. ZHU Xiaolu, who has the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The interim results of the Group have been reviewed by the Audit Committee.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Company and overseeing the audit process.

The members of the Audit Committee have reviewed this interim report and was satisfied that the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters including the review of the unaudited interim results of the Group for the six months ended June 30, 2024. The unaudited interim results of the Group for the six months ended June 30, 2024 have been reviewed by the Company's external auditor, KPMG, 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 Hong Kong Institute of Certified Public Accountants.

MATERIAL LITIGATION

Our Company was not involved in any material litigation or arbitration during the six months ended June 30, 2024. The Directors are also not aware of any material litigation or claims that are pending or threatened against our Group since the Listing Date and up to the date of this interim report.

PUBLIC FLOAT

We have applied to the Stock Exchange to request the Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules, and the Stock Exchange has granted our Company a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules, pursuant to which the public float of our Company may fall below 25% of the total issued share capital (excluding treasury Shares) of our Company. For details of the relevant waiver, see "Waivers from Strict Compliance with the Listing Rules – Waiver in relation to Public Float" in the Prospectus.

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended June 30, 2024.

EVENTS AFTER THE END OF THE REPORTING PERIOD

1. Immediately prior to the completion of the Global Offering, each issued Class A Ordinary Share, Class B Ordinary Share and Preferred Share shall be converted into Ordinary Share on a one-to-one basis.

On the Listing Date, our Company's Shares were listed on the Main Board of the Stock Exchange.

2. Ms. Fung Po Ting has tendered her resignation as the joint company secretary of the Company (the "**Joint Company Secretary**") and the agent for the acceptance of service of process and notices on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Process Agent**") due to other work arrangements, with effect from August 28, 2024. Ms. Ng Sau Mei has been appointed as the Joint Company Secretary and the Process Agent in replacement of Ms. Fung Po Ting, with effect from August 28, 2024. Mr. Zou Yuming will continue to serve as the other Joint Company Secretary. For details, please refer to the Company's announcement dated August 28, 2024.

After the Reporting Period and up to the date of this interim report, save as disclosed in this interim report, there were no other significant events occurred which have a material adverse impact on the performance and value of our Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Our business, financial condition and results of operations could be materially and adversely affected by certain risks and uncertainties. For details, please see the section headed "Risk Factors" of the Prospectus.

By order of the Board
Fangzhou Inc.
Mr. XIE Fangmin
Chairman

Hong Kong, August 28, 2024

Report on Review of Condensed Consolidated Financial Statements

REVIEW REPORT TO THE BOARD OF DIRECTORS OF FANGZHOU INC.

INTRODUCTION

We have reviewed the interim financial report set out on pages 33 to 52 which comprises the condensed consolidated statement of financial position of Fangzhou Inc. (the “Company”) and its subsidiaries (together as “the Group”) as of June 30, 2024 and the related condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of changes in equity and condensed consolidated statement of cash flow for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at June 30, 2024 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

August 28, 2024

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2024 – unaudited
(Expressed in RMB)

	Note	Six months ended June 30,	
		2024 RMB'000	2023 RMB'000
Revenue	3	1,322,821	1,291,014
Cost of sales		(1,057,272)	(1,044,009)
Gross profit		265,549	247,005
Other net loss	4	(9,639)	(63,409)
Selling and distribution expenses		(171,055)	(175,945)
Administrative expenses	5(c)	(831,050)	(88,338)
Impairment losses on trade receivables	5(c)	(63)	(113)
Loss from operations		(746,258)	(80,800)
Finance costs	5(a)	(72,449)	(73,034)
Loss before taxation	5	(818,707)	(153,834)
Income tax	6	(18)	(62)
Loss and total comprehensive income for the period attributable to equity shareholders of the Company		(818,725)	(153,896)
Loss per share			
Basic and diluted (in RMB)	7	(1.27)	(0.28)

The accompanying notes form part of this interim financial report.

Condensed Consolidated Statement of Financial Position

at June 30, 2024 – unaudited
(Expressed in RMB)

	Note	At June 30, 2024 RMB'000	At December 31, 2023 RMB'000
Non-current assets			
Property, plant and equipment	8	56,968	51,639
Intangible assets	9	2,450	2,275
Other non-current assets		75	100
		59,493	54,014
Current assets			
Inventories	10	140,418	136,045
Trade and other receivables	11	125,019	101,142
Other current assets		36,936	34,761
Prepayments		9,710	18,474
Restricted bank deposits	12	62,226	30,615
Cash and cash equivalents	13	138,419	146,317
		512,728	467,354
Current liabilities			
Trade and other payables	14	480,623	440,451
Contract liabilities		23,419	19,873
Bank loans		10,005	5,005
Lease liabilities		17,252	15,346
Other current liabilities		1,324	1,252
Current taxation		15	15
		532,638	481,942
Net current liabilities		(19,910)	(14,588)
Total assets less current liabilities		39,583	39,426

Condensed Consolidated Statement of Financial Position

at June 30, 2024 – unaudited
(Expressed in RMB)

	Note	At June 30, 2024 RMB'000	At December 31, 2023 RMB'000
Non-current liabilities			
Lease liabilities		32,994	29,368
Convertible redeemable preferred shares	16	1,995,190	1,911,521
		2,028,184	1,940,889
NET LIABILITIES		(1,988,601)	(1,901,463)
CAPITAL AND RESERVES			
Share capital	17	104	86
Reserves		(1,988,705)	(1,901,549)
TOTAL DEFICIT		(1,988,601)	(1,901,463)

Approved and authorized for issue by the Board of Directors on August 28, 2024.

XIE Fangmin
Chief Executive Officer

Zou Yuming
Chief Financial Officer

The accompanying notes form part of this interim financial report.

Condensed Consolidated Statement of Changes in Equity

for the six months ended June 30, 2024 – unaudited
(Expressed in RMB)

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Share held for the RSU Incentive plan RMB'000	Share-based payments reserve RMB'000	Accumulated losses RMB'000	Total deficit RMB'000
Balance at January 1, 2023		86	30,075	(785,509)	(8)	9,604	(964,156)	(1,709,908)
Changes in equity for the six months ended June 30, 2023								
Loss and total comprehensive income for the period		-	-	-	-	-	(153,896)	(153,896)
Equity settled share-based transactions	15(c)	-	-	-	-	3,119	-	3,119
Shares vested under the RSU Incentive Plan	17(d)(i)	-	3,522	-	-	(3,522)	-	-
Balance at June 30, 2023		86	33,597	(785,509)	(8)	9,201	(1,118,052)	(1,860,685)
Changes in equity for the six months ended December 31, 2023								
Loss and total comprehensive income for the period		-	-	-	-	-	(42,892)	(42,892)
Equity settled share-based transactions		-	-	-	-	2,114	-	2,114
Shares vested under the RSU Incentive Plan	17(d)(i)	-	3,396	-	-	(3,396)	-	-
Balance at December 31, 2023		86	36,993	(785,509)	(8)	7,919	(1,160,944)	(1,901,463)
Balance at January 1, 2024		86	36,993	(785,509)	(8)	7,919	(1,160,944)	(1,901,463)
Changes in equity for the six months ended June 30, 2024								
Loss and total comprehensive income for the period		-	-	-	-	-	(818,725)	(818,725)
Issuance of ordinary shares	17(b)	18	-	-	(18)	-	-	-
Equity settled share-based transactions	15(c)	-	-	-	-	731,587	-	731,587
Shares vested under the RSU Incentive Plan	17(d)(i)	-	727,603	-	24	(727,627)	-	-
Balance at June 30, 2024		104	764,596	(785,509)	(2)	11,879	(1,979,669)	(1,988,601)

The accompanying notes form part of this interim financial report.

Condensed Consolidated Statement of Cash Flow

for the six months ended June 30, 2024 – unaudited
(Expressed in RMB)

	Note	Six months ended June 30,	
		2024 RMB'000	2023 RMB'000
Operating activities			
Cash generated from operations		31,381	30,261
Income tax paid		(19)	(51)
Net cash generated from operating activities		31,362	30,210
Investing activities			
Repayments of borrowings by related parties		–	12,032
Payments for purchases of property, plant and equipment and intangible assets		(2,560)	(2,608)
Proceeds from sales of property, plant and equipment		–	3
Proceeds from disposal of other non-current assets		–	10,000
Net cash (used in)/generated from investing activities		(2,560)	19,427
Financing activities			
Proceeds from bank loans		16,000	5,000
Payments of restricted bank deposits		(69,226)	(21,000)
Proceeds from maturity of restricted bank deposits		37,615	25,000
Repayments of bank loans		(11,000)	(10,000)
Capital element of lease rentals paid		(9,302)	(7,900)
Interest element of lease rentals paid		(863)	(616)
Interest paid		(260)	(230)
Net cash used in financing activities		(37,036)	(9,746)
Net (decrease)/increase in cash and cash equivalents		(8,234)	39,891
Cash and cash equivalents at the beginning of the period		146,317	134,907
Effect of foreign exchange rate changes		336	3,258
Cash and cash equivalents at the end of the period	13	138,419	178,056

The accompanying notes form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorized for issue on August 28, 2024.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the historical financial information for the years ended December 31, 2021, 2022 and 2023 (the “Historical Financial Information”) as disclosed in Appendix I to the prospectus of the Company dated June 28, 2024. (the “Prospectus”) in connection with the initial listing of shares of the Company (the “Listing”) on the Main Board of the Hong Kong Stock Exchange.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (together as “the Group”) since the Historical Financial Information as disclosed in Appendix I to the Prospectus. The condensed consolidated interim financial statement and notes thereon do not include all of the information required for a full set of financial statement prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG 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. KPMG’s independent review report to the Board of Directors is included on page 32.

The financial information relating to the financial year ended December 31, 2023 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from the Historical Financial Information.

The Group recorded net current liabilities of RMB19,910,000 and net liabilities of RMB1,988,601,000 as at June 30, 2024. The net liabilities position was primarily caused by the convertible redeemable preferred shares totalling RMB1,995,190,000 as at June 30, 2024. The convertible redeemable preferred shares have been automatically and irrevocably converted into ordinary shares after the Listing on July 9, 2024. The Group also received the gross proceeds of approximately HKD194,680,000. Accordingly, the directors of the Company are of the opinion that no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group’s ability to continue as a going concern.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS and a number of amendments to HKFRSs that are first effective for the current accounting period. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are online retail pharmacy services, comprehensive medical services, wholesale and customized content and marketing solutions.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended June 30,	
	2024 RMB'000	2023 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Online retail pharmacy services	673,745	614,709
Comprehensive medical services	320,735	612,000
Wholesale	278,960	29,611
Customized content and marketing solutions	49,381	34,694
	1,322,821	1,291,014

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is set out as below:

	Six months ended June 30,	
	2024 RMB'000	2023 RMB'000
Disaggregated by timing of revenue recognition		
– Point in time	1,273,440	1,236,653
– Over time	49,381	54,361
	1,322,821	1,291,014

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

No revenue from individual customer contributes over 10% of total revenue of the Group for the period (six month ended June 30, 2023: nil).

The Group applies the practical expedient in paragraph 121 of HKFRS 15 of not disclosing the transaction price allocated to the remaining performance obligation as the original expected duration of all the contracts of the Group are within one year or less.

(b) Segment Reporting

The Group manages its businesses by divisions. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented three reportable segments. The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

(i) Segment results

	Six months ended June 30,	
	2024 RMB'000	2023 RMB'000
Disaggregated by segment		
Online retail pharmacy services		
Revenue	673,745	614,709
Gross profit	149,101	122,260
Comprehensive medical services		
Revenue	320,735	612,000
Gross profit	73,212	95,707
Wholesale		
Revenue	278,960	29,611
Gross profit	6,355	703
Customized content and marketing solutions		
Revenue	49,381	34,694
Gross profit	36,881	28,335
Reportable segment gross profit derived from the Group's external customers	265,549	247,005

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment Reporting (Continued)

(ii) Reconciliations of reportable segment profit

	Six months ended June 30,	
	2024 RMB'000	2023 RMB'000
Disaggregated by segment		
Reportable segment profit derived from the Group's external customers	265,549	247,005
Other net loss	(9,639)	(63,409)
Selling and distribution expenses	(171,055)	(175,945)
Administrative expenses	(831,050)	(88,338)
Impairment losses on trade receivables	(63)	(113)
Finance costs	(72,449)	(73,034)
Loss before taxation	(818,707)	(153,834)

(iii) Geographic information

Analysis of the Group's revenue and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 99% of the Group's loss before taxation for the six months ended June 30, 2024 (six months ended June 30, 2023: over 99%) are generated from the PRC market.

4 OTHER NET LOSS

	Six months ended June 30,	
	2024 RMB'000	2023 RMB'000
Foreign exchange loss (i)	(12,004)	(65,203)
Others	2,154	1,739
Government grants	211	55
	(9,639)	(63,409)

Note:

- (i) The foreign exchange gain or loss primarily resulted from the translation of the convertible redeemable preferred shares which denominated in USD as disclosed in note 16.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended June 30,	
	2024	2023
	RMB'000	RMB'000
(a) Finance costs		
Interest on lease liabilities (note 8(b))	863	616
Interest on bank loans	259	76
Changes in the carrying amount of preferred shares liabilities (note 16)	71,327	72,342
	72,449	73,034
(b) Staff costs (including directors' emoluments)		
Salaries, contributions to defined contribution retirement plan and other benefits	73,709	72,787
Equity settled share-based transactions (note 15)	731,587	3,119
	805,296	75,906
(c) Other items		
Amortization		
– intangible assets (note 9)	436	388
Depreciation (note 8)		
– property, plant and equipment	2,020	1,723
– right-of-use assets	9,543	7,412
	11,563	9,135
Recognition of impairment losses		
– trade receivables	63	113
Research and development costs	22,174	22,427
Listing expense	18,524	13,013
Cost of inventories	1,033,154	1,027,412

During the six months ended June 30, 2024, administrative expenses includes staff costs and listing expense of RMB787,456,000 (six months ended June 30, 2023: RMB57,342,000), which amounts are also included in the respective total amounts disclosed separately above or in note 5 for each of these types of expenses.

During the six months ended June 30, 2024, research and development costs includes staff costs, depreciation and amortization of RMB22,103,000 (six months ended June 30, 2023: RMB21,856,000), which amounts are also included in the respective total amounts disclosed separately above or in note 5 for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended June 30,	
	2024 RMB'000	2023 RMB'000
Current tax		
Provision for the period	18	62

(i) The Cayman Islands income tax

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

(ii) Hong Kong income tax

For the subsidiary in Hong Kong, the first HKD2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. No Hong Kong profits tax on the subsidiary has been provided as there was no assessable profit arising in Hong Kong during the reporting period.

(iii) The PRC corporate income tax

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the Corporate Income Tax Law of the PRC and the respective regulations except for Guangzhou Fangzhou Information Technology Co., Ltd. ("Fangzhou Information") and Guangzhou Fangzhou Media Co., Ltd. ("Fangzhou Media"). Fangzhou Information was certified as "High and New Technology Enterprises" ("HNTE") and entitled to the preferential income tax rate of 15% for the three calendar years since December 31, 2022.

Fangzhou Media was eligible as a small low-profit enterprise and entitled to a tax relief policy. The portion of annual taxable income amount of a small low-profit enterprise, which does not exceed RMB1 million, shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares as below:

	For the six months ended June 30,	
	2024	2023
Net loss attributable to ordinary equity shareholders of the Company (RMB'000)	818,725	153,896
Weighted average number of ordinary shares at June 30 (shares)	646,397,522	557,398,568

(b) Diluted loss per share

For the six months ended June 30, 2024 and 2023, the Company's redeemable convertible preferred shares issued to investors as disclosed in note 16 and restricted share units as disclosed in note 15 were not included in the calculation of diluted loss per share, as their effect would have been anti-dilutive. Accordingly, diluted loss per share for the six months ended June 30, 2024 and 2023 were the same as basic loss per share of the respective periods.

8 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount of property, plant and equipment

	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Leasehold improvement RMB'000	Right-of-use assets RMB'000	Total RMB'000
Cost:						
At January 1, 2023	2,748	1,402	6,141	9,354	47,329	66,974
Addition	1,412	-	1,856	1,677	35,325	40,270
Disposals	(4)	-	(689)	(1,638)	(17,618)	(19,949)
At December 31, 2023 and January 1, 2024	4,156	1,402	7,308	9,393	65,036	87,295
Addition	-	63	1,065	902	15,035	17,065
Disposals	(3)	-	-	-	(8,134)	(8,137)
At June 30, 2024	4,153	1,465	8,373	10,295	71,937	96,223
Accumulated depreciation:						
At January 1, 2023	(2,102)	(610)	(3,238)	(6,647)	(23,117)	(35,714)
Charge for the year	(167)	(347)	(1,394)	(1,683)	(15,929)	(19,520)
Written back on disposals	4	-	684	1,633	17,257	19,578
At December 31, 2023 and January 1, 2024	(2,265)	(957)	(3,948)	(6,697)	(21,789)	(35,656)
Charge for the period (note 5(c))	(117)	(171)	(817)	(915)	(9,543)	(11,563)
Written back on disposals	3	-	-	-	7,961	7,964
At June 30, 2024	(2,379)	(1,128)	(4,765)	(7,612)	(23,371)	(39,255)
Net book value:						
At June 30, 2024	1,774	337	3,608	2,683	48,566	56,968
At December 31, 2023	1,891	445	3,360	2,696	43,247	51,639

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Right-of-use assets

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	Six months ended June 30, 2024 RMB'000
Depreciation charge of right-of-use assets by class of underlying assets:	
– Pharmacies	730
– Warehouses	3,335
– Offices	5,164
– Dormitories	314
	9,543
Expense relating to short-term leases	110
Interest on lease liabilities (note 5(a))	863

9 INTANGIBLE ASSETS

	Computer software RMB'000	License RMB'000	Trademark RMB'000	Total RMB'000
Cost:				
At January 1, 2023	1,287	2,720	131	4,138
Additions	608	15	–	623
Disposals	(14)	–	–	(14)
At December 31, 2023 and January 1, 2024	1,881	2,735	131	4,747
Additions	580	31	–	611
At June 30, 2024	2,461	2,766	131	5,358
Accumulated amortization:				
At January 1, 2023	(165)	(1,514)	(8)	(1,687)
Charge for the year	(165)	(620)	(10)	(795)
Written back on disposals	10	–	–	10
At December 31, 2023 and January 1, 2024	(320)	(2,134)	(18)	(2,472)
Charge for the period (note 5(c))	(120)	(311)	(5)	(436)
At June 30, 2024	(440)	(2,445)	(23)	(2,908)
Carrying amounts:				
At June 30, 2024	2,021	321	108	2,450
At December 31, 2023	1,561	601	113	2,275

10 INVENTORIES

	At June 30, 2024 RMB'000	At December 31, 2023 RMB'000
Pharmaceutical and healthcare products	140,418	136,045

11 TRADE AND OTHER RECEIVABLES

As at the end of the reporting period, the ageing analysis of trade receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	At June 30, 2024 RMB'000	At December 31, 2023 RMB'000
Within 3 months	20,883	17,012
Over 3 months but within 6 months	4,573	5,160
Over 6 months but within 1 year	2,092	1,336
Over 1 year	310	588
Trade receivable, net of loss allowance	27,858	24,096
Other receivables	97,161	77,046
	125,019	101,142

Trade receivables are generally due within 180 days from the date of billing.

12 RESTRICTED BANK DEPOSITS

As at June 30, 2024, deposits with bank of RMB62,226,000 (December 31, 2023: RMB30,615,000) were pledged as securities for bills payable.

13 CASH AND CASH EQUIVALENTS

	At June 30, 2024 RMB'000	At December 31, 2023 RMB'000
Cash on hand	48	52
Cash at bank	115,632	129,436
Cash equivalents placed at payment platforms	22,739	16,829
	138,419	146,317

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14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors, based on the invoice date, is as follows:

	At June 30, 2024 RMB'000	At December 31, 2023 RMB'000
Within 1 month	171,178	181,163
1 to 3 months	129,662	110,683
Over 3 months but within 6 months	37,291	842
Over 6 months but within 1 year	320	169
Over 1 year but within 2 years	120	87
Total trade and bills payables	338,571	292,944
Staff cost payables	45,354	53,829
Other tax payables	18,743	20,480
Deposits	1,569	1,444
Other payables and accrued charges	76,386	63,039
	480,623	440,451

15 EQUITY SETTLED SHARE-BASED TRANSACTIONS

RSU Incentive Plan

On January 1, 2020, the board of the Company approved the restricted share units incentive plan (the "RSU Incentive Plan") which is a share-based incentive plan to reward, retain and motivate the Group's eligible persons as approved by the Board or the authorized administrator of the RSU Incentive Plan. Under the RSU Incentive Plan, the Directors of the Company are authorized, at their discretion, to grant restricted share of the Company to eligible persons on a fair and reasonable basis with reference to the performance of the Company and contribution of the individuals.

The shares granted would vest on specific dates, on condition that eligible persons remain in service without any performance requirements. Once the vesting conditions underlying the respective shares are met, the shares are considered duly and validly issued to the eligible persons. Unless approved by the board of the Company, any transfer of restricted shares prior to the Listing shall be void.

15 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)(a) *Movements in RSUs granted are as follows:*

	Number of shares
Outstanding as of January 1, 2023	14,350,012
Shares vested during the year	(6,948,763)
Outstanding as of December 31, 2023 and January 1, 2024	7,401,249
Cancellation during the period	(1,596,250)
Granted on April 1, 2024	178,865,898
Shares vested during the period	(172,018,084)
Outstanding as of June 30, 2024	12,652,813

(b) *Fair value of shares and assumptions*

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The estimate of the fair value of the shares granted is measured based on equity allocation method.

Grant date	April 1, 2024
Fair value at measurement date (USD)	0.5963
Expected volatility	51.3%
Expected dividend yield	–
Risk-free interest rate	4.7%

The expected volatility was referenced to the average of daily historical share price volatility of comparable companies operating in similar industry of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

(c) *Equity settled share-based transactions expenses recognized in the consolidated statement of profit or loss and other comprehensive income:*

	Six months ended June 30,	
	2024	2023
	RMB'000	RMB'000
Administrative expenses	726,770	1,902
Selling and distribution expenses	4,817	1,217
	731,587	3,119

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(Expressed in RMB unless otherwise indicated)

16 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, the Company has completed several rounds of financing arrangements by issuing convertible redeemable preferred shares (“Preferred Shares”). The movement of the financial liabilities arising from the Preferred Shares during the period are as follows:

	Present value of redemption amount RMB'000
At January 1, 2023	1,737,882
Changes in the carrying amount of preferred shares liabilities:	
– Changes in present value of redemption amount	143,176
Exchange differences	30,463
At December 31, 2023 and January 1, 2024	1,911,521
Changes in the carrying amount of preferred shares liabilities (note 5(a)):	
– Changes in present value of redemption amount	71,327
Exchange differences	12,342
At June 30, 2024	1,995,190

17 CAPITAL AND RESERVES

(a) Authorized share capital

The authorized share capital of the Company was USD50,000 divided into 2,500,000,000 shares of a nominal value of USD0.00002 each.

(b) Issued share

The Company adopted a dual-class share structure effective immediately prior to the completion of Global Offering. Holders of the Class A Ordinary Shares and Class B Ordinary Shares will have the same rights except for voting rights. In respect of matters requiring the votes of shareholders, the holders of Class B Ordinary Shares are entitled to twenty votes per share, while the holders of Class A Ordinary Shares are entitled to one vote per share. Each preferred share entitles the holder to exercise such number of votes as equals the whole number of Ordinary Shares into which such holder’s collective preferred shares are convertible immediately prior to the Global Offering, respectively, on any resolution tabled at the Company’s general meetings. The weighted voting rights structure will be cancelled upon Listing.

17 CAPITAL AND RESERVES (Continued)

(b) Issued share (Continued)

In May 2024, the Company allotted and issued 127,242,178 Class A Ordinary Shares of par value of USD0.00002 each to the platforms for RSU Incentive Plan. Details of the changes in the Company's issued ordinary shares:

	Number of ordinary shares issued	Nominal value of ordinary shares USD'000	Nominal value of ordinary shares RMB'000
Ordinary shares, Issued			
At January 1, 2023, December 31, 2023 and January 1, 2024	617,562,340	12	86
Issued during this period	127,242,178	3	18
At June 30, 2024	744,804,518	15	104

(c) Dividends

During the six months ended June 30, 2024, the entities comprising the Group did not declare nor pay dividends to the equity shareholders (six months ended June 30, 2023: nil).

(d) Nature and purposes of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and the fair value of vested shares of the Company in equity settled share-based transactions.

(ii) Other reserves

The balance of other reserves mainly represent the reserve arising from reorganization.

(iii) Share-based payments reserve

The share-based payments reserve represents the portion of the grant date fair value of shares granted to the eligible persons of the Group.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments carried at amortized cost are not materially different from their fair values as at December 31, 2023 and June 30, 2024.

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(Expressed in RMB unless otherwise indicated)

19 SUBSEQUENT EVENT

On July 9, 2024, the Company completed its Listing on the Main Board of the Hong Kong Stock Exchange. Upon completion of the Listing, the Company issued 23,800,000 shares at the initial offer price of HKD8.18 each and received the gross proceeds of approximately HKD194,680,000. The convertible redeemable preferred shares as disclosed in note 16 have been automatically and irrevocably converted into ordinary shares after the Listing.

Save as disclosed in this report and as of the date of this report, the Company is not aware of any other material subsequent events that might affect the Group since June 30, 2024 and up to the date of this report.

方舟健客

方舟云康控股有限公司
Fangzhou Inc.