

## INDUSTRY OVERVIEW

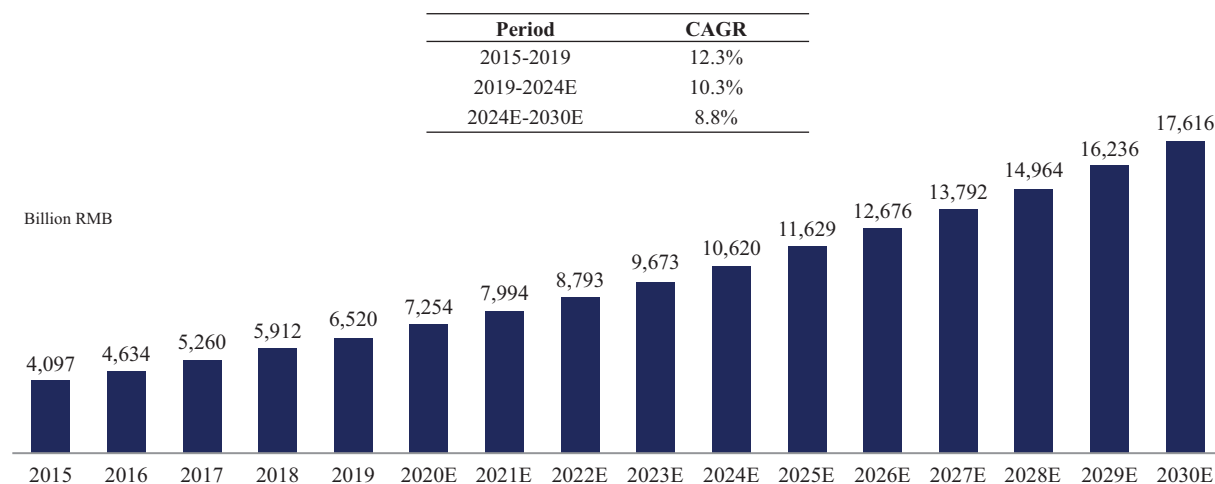
*The information and statistics set out in this section and other sections of this prospectus were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. In addition, we engaged Frost & Sullivan for preparing the Frost & Sullivan Report, an independent industry report in respect of the Global Offering. We believe that the sources of the information in this section and other sections of this prospectus are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us, the Joint Representatives, the Joint Global Coordinators, Joint Sponsors, Joint Bookrunners, Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering except Frost & Sullivan, and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report that would qualify, contradict or have a material impact on the information in this Section.*

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

### Overview of the Healthcare Industry in China

China is a major healthcare economy with sizable and steadily increasing healthcare expenditure. According to the Frost & Sullivan Report, China's total healthcare expenditure ranked the second highest globally, reaching RMB6,520 billion in 2019, and is forecasted to reach RMB10,620 billion and RMB17,616 billion by 2024 and 2030, respectively, representing a CAGR of 10.3% from 2019 to 2024 and a CAGR of 8.8% from 2024 to 2030.

#### Total Healthcare Expenditure in China, 2015-2030E



According to the Frost & Sullivan Report, the following factors are drivers for the growth of China's healthcare expenditure:

- *An aging population.* China's population is expected to increase at a CAGR of 0.3% from 2019 to 2024 and 0.3% from 2024 to 2030 with the size of population aged 65 and above expected to reach 309.3 million, or 21.5% of the total population in 2030, from 12.6% in

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2019. China's demographic shift is expected to create significant demand for healthcare products and healthcare services, particularly as elderly population generally have a greater need for medication and disease management.

- *Rising per capita disposable income.* Along with economic growth and urbanization, Chinese residents' disposable income has continued to expand. From 2015 to 2019, annual per capita disposable income increased from RMB21,966 to RMB30,733, representing a CAGR of 8.8%. Healthcare consumption is expected to take up an increasingly meaningful portion in an individual's spending, estimated to reach 27.7% of the total per capita consumption expenditure by 2030, according to the Frost & Sullivan Report.
- *Increasing prevalence of chronic disease.* Lifestyle and age related chronic diseases spending has consistently taken up a significant portion of the total healthcare expenditure in China. 69.6% of the total healthcare expenditure in 2019 was for the treatment and management of chronic diseases and this proportion is expected to further increase to 84.4% by 2030, according to the Frost & Sullivan Report. Such a trend is predominantly driven by a fast-growing underlying patient pool, for example, the number of HBV, stroke and diabetes cases in China is expected to grow at a CAGR of 11.1%, 4.5% and 2.7% between 2019 and 2024, respectively, according to the Frost & Sullivan Report.
- *Growing health awareness.* Individuals are increasingly demanding more control over the management of their health and wellbeing, driven by shifting demographics, rising prevalence of chronic diseases, as well as technology advancement that have enabled more diseases to be preventable or detectable at an earlier stage. COVID-19 outbreak has further accelerated such a trend by highlighting the importance of preventative care. As a result, per capita healthcare expenditure is expected to increase from RMB4,657 in 2019 to RMB7,471 and RMB12,191 in 2024 and 2030 respectively.

### ***Significant growth potential for "Internet + healthcare"***

With substantial demand for healthcare on the rise, China's healthcare industry is simultaneously undergoing unprecedented supply side reforms, which are expected to transform the circulation of pharmaceutical products and provision of healthcare services by promoting the development of out-hospital channels and accelerating the rate of digitalization. Multiple policies favorable to "Internet + healthcare" have been published in recent years, including:

- Policies that removed regulatory uncertainty and demonstrated government's recognition of online retail pharmacy as an important channel, including permitting online prescription and online sales of prescription drugs;
- Policies that shifted pharmaceutical companies and healthcare product manufacturers' distribution strategies towards more transparent and efficient channels, including prescription outflow, assessment of the proportion revenue from drug sale of hospitals, centralized procurement of drugs, two-invoice system, and enhanced supervision of pharmaceutical companies' marketing expenses;
- Policies that fostered a favorable environment for the expansion of online consultation, including the legalization and standardization of online consultation, support from medical insurances for reimbursement of online consultation and policies encouraging offline hospitals' establishment of online hospitals; and
- Policies that cultivated user habit by facilitating "Internet + healthcare" in response to the COVID-19 outbreak.

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For further details of the policies outlined, see “Regulations.”

According to the Frost & Sullivan Report, these policies have resulted in positive changes that are expected to create long-lasting benefits to China’s healthcare industry. First, sales of pharmaceutical products generated by out-of-hospital channels have recorded rapid increase with the proportion distributed online markedly outpaced in growth. Between 2015 and 2019, out-hospital pharmaceutical market expanded at a CAGR of 10.8% with online sales recording a CAGR of 30.4%. Second, more people have begun to use online consultations in China, particularly since the outbreak of COVID-19. For example, the number of online consultation that took place in online hospitals under the administration of the National Health Commission has increased 17 times during the first quarter of 2020 over the same period of 2019, according to the Frost & Sullivan Report.

### **Overview of the Digital Health and Wellness Market in China**

#### ***Overview of the health and wellness market in china***

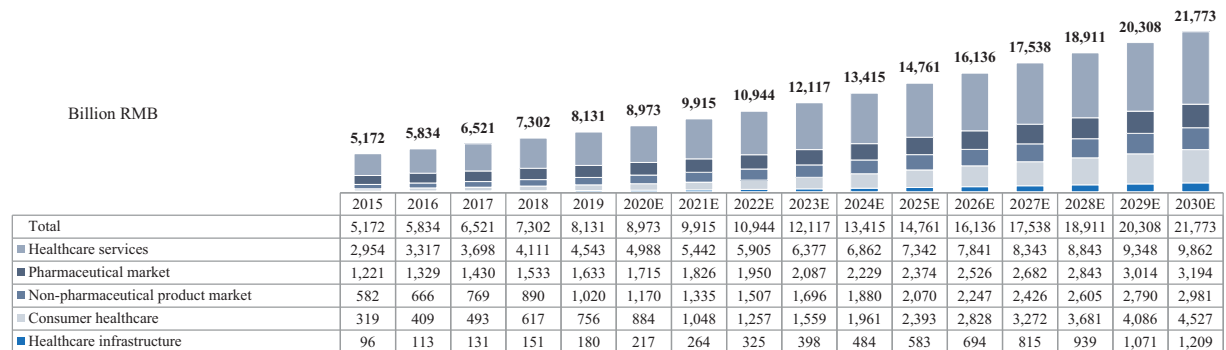
The health and wellness market in China represents a significant component of the healthcare industry, encompassing products and services related to the maintenance, recovery and enhancement of health. It mainly consists of five sub-segments: (i) pharmaceutical market, (ii) non-pharmaceutical product market, (iii) healthcare services, (iv) consumer healthcare, and (v) healthcare infrastructure. Pharmaceutical market refers to the sales of pharmaceutical products, which include OTC and prescription drugs. Non-pharmaceutical product market refers to the combination of medical device market and nutrition product market. Consumer healthcare refers to market-oriented medical services, including aesthetic medicines, dental services, genetic sequencing, physical exams, vaccination and motherhood services. Healthcare services refer to medical or remedial care or service, including provisions of inpatient and outpatient testing and treatment of human diseases or dysfunction as well as the dispensing of drugs or medical devices for treatment. Healthcare infrastructure refers to a set of fundamental facilities and systems for healthcare purposes, such as health systems, disease control systems, and relevant supportive systems and facilities for healthcare service providers, pharmaceutical companies and healthcare product suppliers.

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According to the Frost & Sullivan Report, the market size of the health and wellness industry in China reached RMB8,131 billion in 2019 and is expected to increase to RMB21,773 billion in 2030, at a CAGR of 9.4%. The following diagram sets forth the historical and forecasted market size of the health and wellness market in China from 2015 to 2030.

### Breakdown of China Health and Wellness Market, 2015-2030E

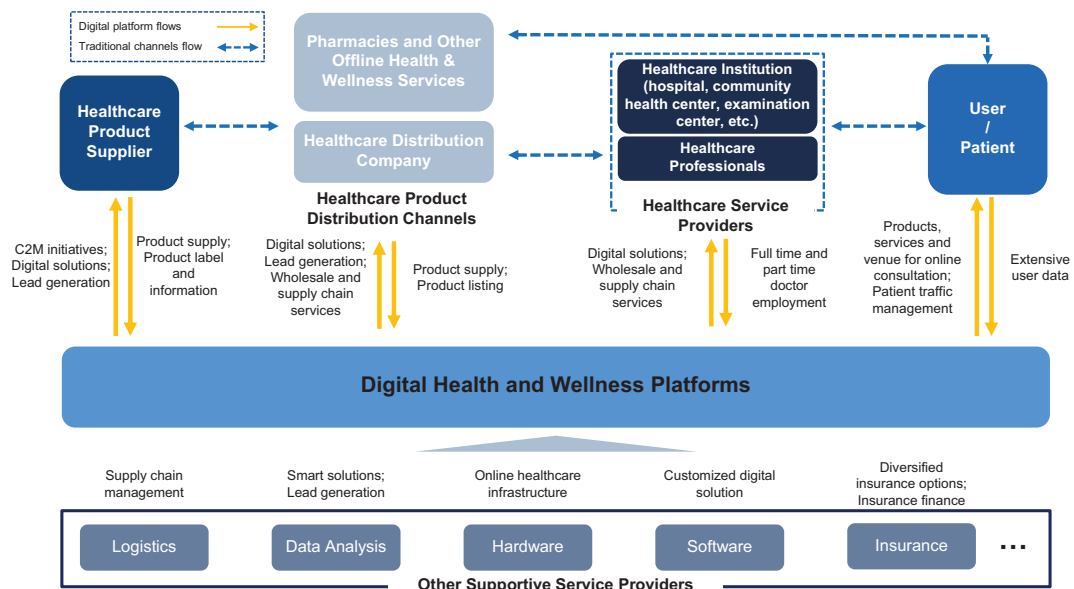
CAGR	Pharmaceutical market	Non-pharmaceutical product market	Healthcare services	Consumer healthcare	Healthcare infrastructure	Total
2015-2019	7.5%	15.1%	11.4%	24.0%	16.8%	12.0%
2019-2024E	6.4%	13.0%	8.6%	21.0%	21.9%	10.5%
2024E-2030E	6.2%	8.0%	6.2%	15.0%	16.5%	8.4%



Source: Frost & Sullivan Report

### Overview of the Digital Health and Wellness Market in China

The advancement and availability of digital technology, such as big data, cloud storage and artificial intelligence, have qualitatively transformed the way healthcare products and services are provided. The digital health and wellness market mainly consists of online retail pharmacy, online consultation, online consumer healthcare, digital healthcare infrastructure and others. The following diagram sets forth the value chain of digital health and wellness market in China. Supported by innovative solutions from logistics to digital insurance, digital health and wellness platforms are able to serve and empower each of the existing stakeholders in the traditional healthcare value chain.



Source: Frost & Sullivan Report

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Currently, the Chinese healthcare industry is still in the early phase of digitalization. In 2019, only 2.4% of China's pharmaceutical products were distributed through out-hospital online retail pharmacy. Similarly, in 2019, online consultation accounted for 6.0% of total consultation volume in terms of outpatient visits in China. Furthermore, the proportion of digitalization in the Chinese health and wellness market represented 3.3% of the total healthcare expenditure in China in 2019.

However, driven by "Internet+healthcare" related policies and the continued advancement of technology, and accelerated by the COVID-19 outbreak, offline participants in the health and wellness market are increasingly focused on their digitalization strategies. For example, the total number of online hospitals increased at a rate of 317.6% from 119 in December 2018 to 497 in April 2020 and in the first quarter of 2020, the number of newly established digital health and wellness companies exceeded 11,000. Moreover, growth of digitalization in one area can trigger the growth in other aspects of health and wellness because of the inherent interconnectedness between healthcare products and services. With the emergence of more online hospitals, demand for online consultation and pharmaceutical products will ensue, which will in turn drive traffic online to further accelerate the rate of digitalization, according to the Frost & Sullivan Report.

Set forth below is a summary of the key drivers of the Chinese digital health and wellness market by major sub-segments, according to the Frost & Sullivan Report.

*Online retail pharmacy:* According to the Frost & Sullivan Report, online retail pharmacy refers to the sales of pharmaceutical and healthcare products including drugs, medical devices and nutrition products through Internet and other modern information technologies. The categories of online retail pharmacies include direct sales, marketplace and online-to-offline omnichannel initiative. Besides us, main participants include AliHealth, Jianke.com and Ping An Good Doctor.

- *Burgeoning out-hospital retail pharmacy market due to increased prescription outflow.* Prescription outflow continues to be a direct focus of the ongoing supply side reform, which is expected to significantly increase the scale of retail pharmacies both offline and online. It is estimated that up to 87.6% of China's out-patient drug sales can be circulated outside of hospitals and up to 32.5% of this amount can be distributed online, indicating strong market potential for prescription outflow in China, according to the Frost & Sullivan Report.
- *Increased penetration of online retail pharmacy.* Chinese consumers are well versed in online retail platforms. According to the Frost & Sullivan Report, 25.8% of the total retail sales of consumer goods were distributed online in 2019. In contrast, only 7.6% of pharmaceutical products were distributed online as a proportion of out-hospital pharmaceutical product sales and 16.8% of medical devices were distributed online as a proportion of medical device retail sales in 2019. The standardized nature of healthcare products and the recurring demand for chronic disease related purchases are expected to quickly expand the online penetration of such healthcare products. It is expected that 27.5% of pharmaceutical products will be distributed online via out-hospital pharmaceutical product sales channel and 40.9% of medical device will be distributed online via medical device retail sales channel by 2030.
- *Inefficiency of offline pharmacies.* Healthcare consumers continue to demand for access to quality healthcare products at affordable prices; however, traditional offline retail

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pharmacies are highly fragmented, which has weakened their bargaining power in pricing negotiations. At the same time they are prone to inefficiency and relatively high operating costs. The average inventory turnover days of the top 5 offline pharmacies in China in 2019 were 86.1 days, compared with 33.8 days in the United States, according to the Frost & Sullivan Report. As a result, consumers are increasingly drawn to online retail pharmacies while more offline pharmacies are trying to leverage the online traffic by collaborating with online channels to offer omnichannel initiative.

- *Superior user experience of online platforms.* Online retail pharmacies are capable of offering superior experience that allows users to access a wide range of quality products and complementary healthcare services from consultation to prescription renewal. This may better cater to users' needs for quality and convenience, effectively generating trust and stickiness. According to the Frost & Sullivan Report, Chinese consumers approach health and wellness expenditure in a less impulsive way and tend to remain loyal to the platforms and brands that they trust.

*Online consultation:* According to the Frost & Sullivan Report, online consultation refers to healthcare services conducted through Internet hospitals, including online consultation and chronic disease management. Besides us, main providers of online consultation include AliHealth and Ping An Good Doctor.

- *Unequal distribution of offline medical resources.* China's medical resources are concentrated in large Class III hospitals which only accounted for 8% of the total number of hospitals in China but serviced 52% of the total outpatient visits in 2019. Class III hospitals are concentrated in more affluent cities and provinces. The severe inversion and uneven distribution of medical resources and diagnosis demands have caused poor patient experience. For instance, on average, diagnosis time only accounted for 4.4% (8 minutes) out of the 3 hours people spent on an outpatient visit in 2019, according to the Frost & Sullivan Report. In contrast, online consultation is highly efficient and can offer patients easily accessible quality medical resources regardless of where they are. More importantly, online consultation is expected to become a critical component in achieving a hierarchical diagnosis system in China by effectively channeling the right patients online or offline, as a way to further alleviate the current burden on China's healthcare system.
- *Ever expanding service capabilities and presence.* Through two-way referral with offline medical institutions and the advancement of online medical technology, more and better healthcare services are offered online. Online consultation is expected to expand presence cross the entire consultation chain covering services from preventive care to after care while integrating healthcare resources online and offline.

*Online consumer healthcare:* According to the Frost & Sullivan Report, online consumer healthcare refers to the market-oriented medical services transacted through the Internet and executed offline, including aesthetic medicines, dental services, genetic sequencing, physical exams and vaccination appointments, and motherhood services. There is a large number of participants focusing on different aspects of online consumer healthcare. Besides us, main participants include Soyoung, Meibei and Gengmei.

- *Rise of preventative care.* As individuals become increasingly focused on personal health and wellbeing especially since the COVID-19 outbreak, demand for services such as

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physical examinations, vaccination appointments, genetic testing and personal diagnosis tools are expected to increase. This is further supported by more accurate early detection and diagnosis of serious diseases, such as cancers, which can effectively lower the patient cost burden.

- *More precise and efficient user targeting.* Leveraging the vast amount of online user traffic and advanced targeting technology, online channels can attract more offline healthcare service providers that seek precise and efficiency in user targeting.
- *Effective new distribution channels.* Online channels have shown efficacy in accessing a wide range of users and provided effective user education compared with traditional offline marketing channels. Online distribution channels can be particularly effective for marketing new and innovative products, such as genetic testing.

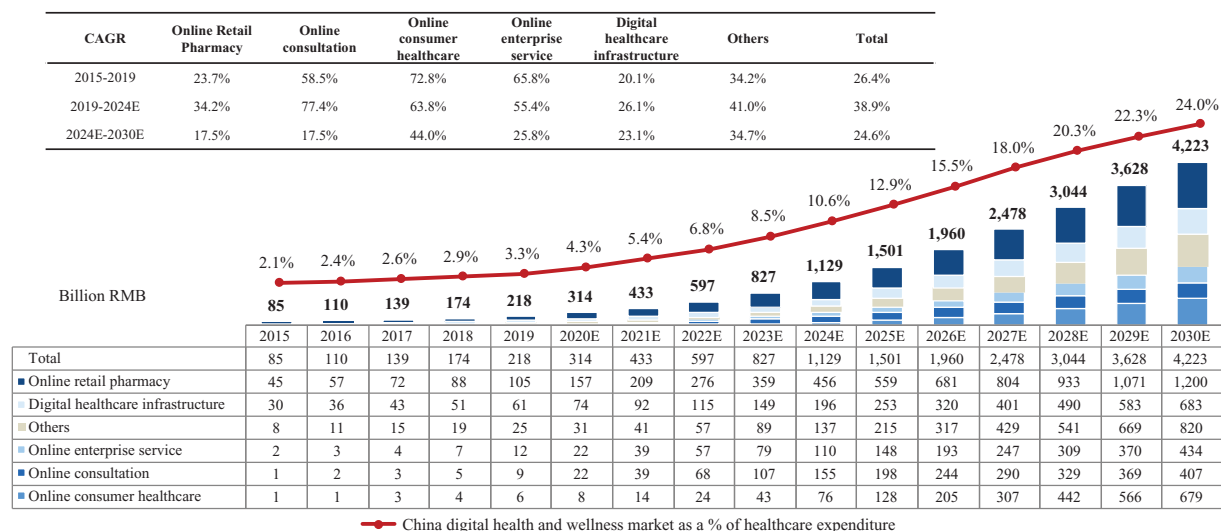
*Digital healthcare infrastructure:* According to the Frost & Sullivan Report, digital healthcare infrastructure refers to a set of fundamental facilities and systems for healthcare purposes that is based on digital technology, network technology, communication technology, electronic technology and information technology. It is an innovative modern service system that is driven by digitalization for healthcare-related services. Besides us, other providers of digital healthcare infrastructure include AliHealth and WeDoctor.

- *Technology advancement.* Technology advancement significantly changes the traditional healthcare services industry. AI and big data support a hierarchical diagnosis system while IoT and 5G are innovating health management methods in monitoring, prevention, diagnosis and after care.
- *Digital upgrade across the healthcare value chain.* Driven by digital upgrade for higher efficiency, stakeholders including pharmaceutical companies and healthcare institutions have gradually increased their demand for relevant digital infrastructure. Pharmaceutical companies are adopting digitalization to improve their R&D and manufacturing process. Healthcare institutions such as hospitals are actively building online hospitals to enrich out-hospital service offerings for accelerating the transition towards a greater online presence.
- *Digitalization of offline pharmacies.* There is an emerging need for offline pharmacies to upgrade their digitalization strategy as they have historically faced issues such as lack of bargaining power, lack of economies of scale, high operating and procurement costs, high working capital requirements and limited insights into market demand.

As a result, given the transformative qualities of the digital health and wellness market in China, the market size is set to expand substantially, from RMB218 billion in 2019 to RMB1,129 billion and RMB4,223 billion by 2024 and 2030 respectively. The proportion of digitalization in the Chinese health and wellness market is expected to increase rapidly from 3.3% in 2019 to 10.6% and 24.0% of China's total healthcare expenditure in 2024 and 2030 respectively, according to the Frost & Sullivan Report. The below diagram illustrates the size and expected growth of China's digital health and wellness market by sub-segments as well as the digitalization rate, according to the Frost & Sullivan Report.

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### Breakdown of China Digital Health and Wellness Market by GMV, 2015-2030E



Source: Frost & Sullivan Report

### Competitive Dynamics in the Digital Health and Wellness Market in China

The digital health and wellness market is an aggregation of sub-segments in the healthcare industry that are being transformed by digital technology and are measured in terms of GMV. As this is an emerging market, there is a large number of participants focusing on different aspects of digital health and wellness market and many of such participants are currently exploring various business models and tend to develop within one particular sub-segment. However, owing to strong network of healthcare resources and supply chain capabilities, certain key participants in the digital health and wellness market have developed presence across multiple sub-segments through focusing on a platform model to realize synergy between different business segments, as illustrated below. Such key participants are referred to as online healthcare platform companies.

Company	Listing Status	Business Model	2019 Total Revenue (RMB million)
Our Group	Unlisted	<ul style="list-style-type: none"> <li>• Operating via retail pharmacy and online healthcare services</li> <li>• Retail pharmacy operates through direct sales, online marketplace and omnichannel initiative</li> <li>• Online healthcare service consists of online hospital services and consumer healthcare</li> </ul>	10,842
Company A	Listed	<ul style="list-style-type: none"> <li>• Operating via pharmaceutical e-commerce platform business, pharmaceutical direct business, internet healthcare business, consumer healthcare business and tracking and digital health business</li> <li>• Its pharmaceutical e-commerce platform and pharmaceutical direct sales businesses operates via B2C (direct sales and marketplace), B2B and O2O</li> </ul>	9,596 <sup>(1)</sup>
Company B	Listed	<ul style="list-style-type: none"> <li>• Operating via online healthcare service, consumer healthcare, pharmaceutical e-commerce and health management and interaction</li> <li>• The pharmaceutical e-commerce business consists of direct sales and marketplace</li> </ul>	5,065

Note:

(1) Fiscal year of Company A ends on March 31. Therefore, its revenue in 2019 refers to its results of operation for the fiscal year ended March 31, 2020.



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### *Key Entry Barriers in the Digital Health and Wellness Market in China*

*Superior supply chain capabilities:* According to the Frost & Sullivan Report, policies such as centralized procurement of drugs and two-invoice system are expected to reduce the profit margins of upstream suppliers and distributors, driving them to seek for more transparent and cost efficient sales and marketing channels. Online retail pharmacies represents the most competitive solution given their efficiency and low cost, thanks to technology-driven end-to-end supply chain capabilities.

We believe the two-invoice system and centralized procurement of drugs will have a positive impact on the digital health and wellness market and our business. Introduced in 2018, the two-invoice system is a mechanism where only up to two invoices are issued along the chain of pharmaceutical product procurement, with one issued by the pharmaceutical manufacturer and the other issued by the distributor to the medical institutions. The rationale for the two-invoice system is simple and compelling: fewer distribution layers will lead to more transparent, and eventually lower distributor margins, more compliant business conduct, more affordable price, and eventually a consolidation of the distribution landscape. We are continually monitoring the development of the two-invoice system and believe that the two-invoice system will drive pharmaceutical and healthcare product suppliers to seek for sales and marketing channels with highly efficient supply chain capabilities, which will eventually benefit our company.

In addition, according to the Frost & Sullivan Report, China's ongoing centralized drug procurement represents the latest attempt of the national government to contain drug costs by reducing prices, and to accelerate the separation of healthcare services and drug sales, dismantling the abuse of drug sales to support healthcare services. With the completion of stage one of the reform—selection of the drugs and national bidding for suppliers—the reform has shown initial success in driving significant price cuts and reshaping the quality-volume price balance of the drug market, according to the Frost & Sullivan Report. Although it is still early to make final judgments of the results, the procurement reform is expected to re-shape the future of China's pharmaceutical market. Meanwhile, there are 96% of all marketed pharmaceutical products not covered under central procurement, the sales of a large portion of which are likely to increasingly rely on out-hospital and especially online channels. We are continually monitoring the development of the centralized drug procurement system reform and believe that the reform will create significant opportunities for companies with extensive and efficient supply chain network and eventually benefit our company.

*A proven business model with clear path to profitability.* The digital health and wellness market is a relatively new segment in China's healthcare industry. Many participants in this industry are still exploring a business model to achieve sustainable revenue and profitability. Among the various sub-segments of the digital health and wellness market, online retail pharmacy accounted for 48.0% of the total market in 2019. Building on years of user accumulation and cultivation, online retail pharmacy is likely to continue its strong presence and growth in the foreseeable future. In contrast, the monetization strategy of online consultation market is still being tested by the market. It remains uncertain whether a business model that relies on online consultation can achieve large scale and sustainable growth. Therefore, strong capability in online retail pharmacy is dispositive for a platform to gain greater presence in the digital health and wellness market.

*Strong network of healthcare resources.* The promotion of a hierarchical diagnosis system and family doctor services have given rise to the establishment of resident health management system (居民健康管理體系). Platforms that cater to such healthcare management needs require substantial amount of resources on the supply side in order to manage the long-term healthcare needs of users, including

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partnership with hospitals, access to quality doctors, and building up a trusting patient relationship. Large-scale players are more likely to succeed in building healthcare management platforms as they have more resources such as network, technology and supply chain services to empower hospitals and connect online and offline practice venues for doctors.

### ***Key Opportunities in the Digital Health and Wellness Market in China***

*Expanding outflow of prescription drugs.* Prescription outflow is a process that enables in-hospital prescription to be fulfilled by out-hospital channels, representing an important emerging trend in the industry. The potential penetration of prescription outflow is expected to be up to 87.6% of out-patient drug sales in China, according to the Frost & Sullivan Report. The pace of prescription outflow is expected to be gradual and take place in the next 5-10 years. Pharmacies situated closed to hospitals and primary-level medical institutions with existing basic medical insurance connections are expected to benefit from this trend in the short term; however, platforms with large number of SKUs, strong supply chain capabilities, and prescription circulation capabilities are expected to become the long-term beneficiaries. The below diagram illustrates that the China pharmaceutical market via out-hospital channels is expected to grow at a faster rate than in-hospital channel with the online channel significantly outpacing the rest, demonstrated by a CAGR of 38.1% from 2019 to 2024 as compared with 13.2% via offline out-hospital channel during the same period of time, according to the Frost & Sullivan Report.

In addition, the growth of prescription outflow has generally been supported by the policy and regulatory environment based on the following reasons, according to the Frost & Sullivan Report:

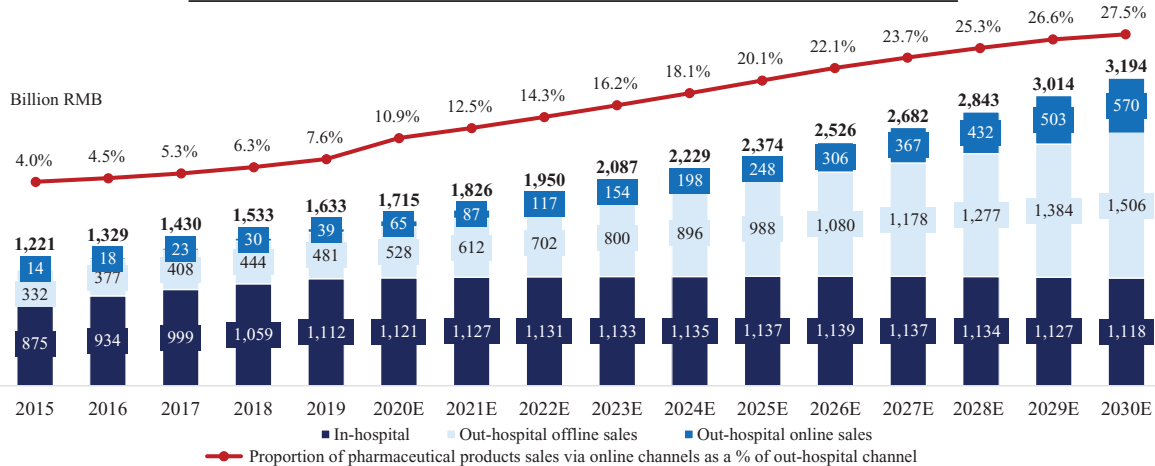
- According to *The Thirteenth Five-Year Plan in Deepening the Reform of the Medical and Health System* (《“十三五”深化醫藥衛生體制改革規劃》), public hospitals shall undergo comprehensive reform and the drug price mark-up in public hospitals is forbidden. Under the influence of this policy, public hospitals are not able to generate profit from pharmaceutical sales, which has reduced the incentive for pharmaceutical sales from public hospitals, leading to decreasing revenue contribution from pharmaceutical sales in public hospitals;
- With more stringent supervision and assessment on revenue contribution from pharmaceutical sales for hospitals, hospitals are more willing for patients to purchase pharmaceutical products via out-hospital channels including online and offline retail pharmacies;
- There are other policies that have guided the reform on the out-hospital circulation of prescription drugs, including *Guiding Opinions on Classification and Management of National Retail Pharmacies (Draft for Public Comments)* (全國零售藥店分類分級管理指導意見 (徵求意見稿)) and *Several Opinions on Further Reforming and Improving the Policies on the Production, Circulation and Use of Pharmaceuticals* (關於進一步改革完善藥品生產流通使用政策的若干意見).

Under the influence of prescription outflow, the proportion of pharmaceutical sales via in-hospital channels is expected to decrease in the future, which also suggests that our Company's business is not susceptible to procurement risks by hospitals.

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### China Pharmaceutical Market Breakdown by In-hospital & Out-hospital Channels, 2015-2030E

CAGR	In-hospital	Out-hospital	Out-hospital		Total
			Offline sales	Online sales	
2015-2019	6.2%	10.8%	9.7%	30.4%	7.5%
2019-2024E	0.4%	16.0%	13.2%	38.1%	6.4%
2024E-2030E	-0.2%	11.3%	9.0%	19.3%	6.2%

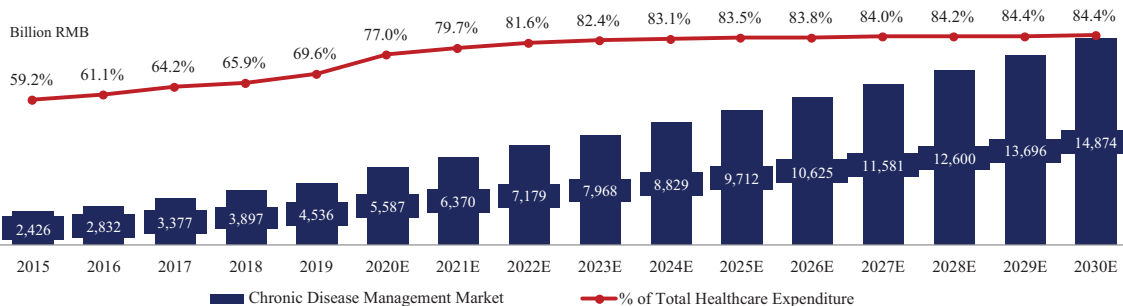


Source: Frost & Sullivan Report

The sizable chronic disease market represents large potential for digitalization. Online consultation in general has a lower rate of fee generation compared with online retail pharmacy, hence tend to rely heavily on traffic and doctors' reputation. However, amongst the various service offerings, chronic disease management is relatively less demanding of the branding effect of doctors. The patients typically need routine follow-ups, repetitive prescription renewal and treatment over a long period of time. Therefore, the doctor-patient interaction is more frequent and patients tend to focus more on the stability and reliability of the service provided compared with services like general consultation. As chronic disease management market in general accounts for a significant portion of China's healthcare expenditure, as illustrated below, there is substantial opportunity for a greater portion of the market to be digitalized. Similarly, healthcare management services, such as family doctors, can also generate recurring revenue as users may need periodic health reviews for disease prevention. Both chronic disease management and healthcare management can hence become feasible ways of monetization while generating further demand for online retail pharmacy. Platforms with full-cycle product and service offerings are expected to benefit directly from the growth of such services.

### China Chronic Disease Management Market, 2015-2030E

Period	CAGR
2015-2019	16.9%
2019-2024E	14.2%
2024E-2030E	9.1%

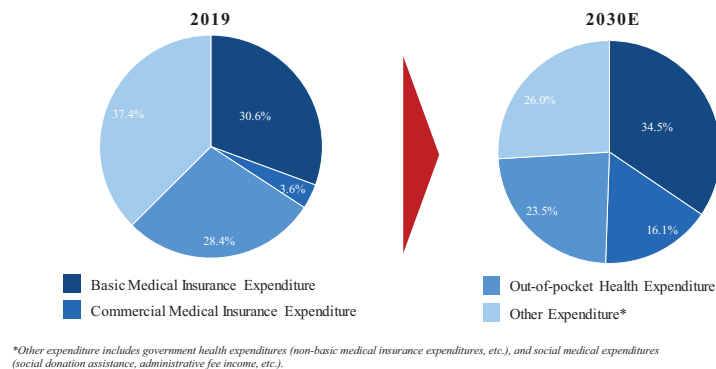


Source: Frost & Sullivan Report

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*Increasingly comprehensive healthcare payment system.* It is expected that by 2030, the payment mix of China’s healthcare expenditure is likely to become more balanced across basic medical insurance, commercial insurance and out-of-pocket, as illustrated by the diagram below. The implementation of online payment of basic medical insurance projects are conducive to the development of online consultation as it acts as a portal to access offline hospitals and prescription flows and hence increase user base. It is a trend that under the development of online basic medical insurance payment system, more and more pharmaceutical products and online healthcare services will be covered by medical insurance or subject to reimbursement. According to *Guiding Opinions on Promoting “Internet+” Medical Insurance Payment for Medical Services* (關於積極推進“互聯網+”醫療服務醫保支付工作的指導意見), basic medical insurance payment-related policies shall be equally applied to online and offline medical services. Platforms with brand recognition, technical strengths and service network advantages will become the front runners in connecting with basic medical insurance. Commercial insurances have long focused on user experience, therefore platforms with strong service capabilities and dense network are well positioned to develop in-depth cooperation with them. In addition, digital platforms have traditionally attracted a large number of out-of-pocket users. Going forward, such type of users is expected to continue to prioritize platforms with brand recognition, trust and excellent user experience.

### Breakdown of China Total Healthcare Expenditure by Payment Type, 2015-2030E



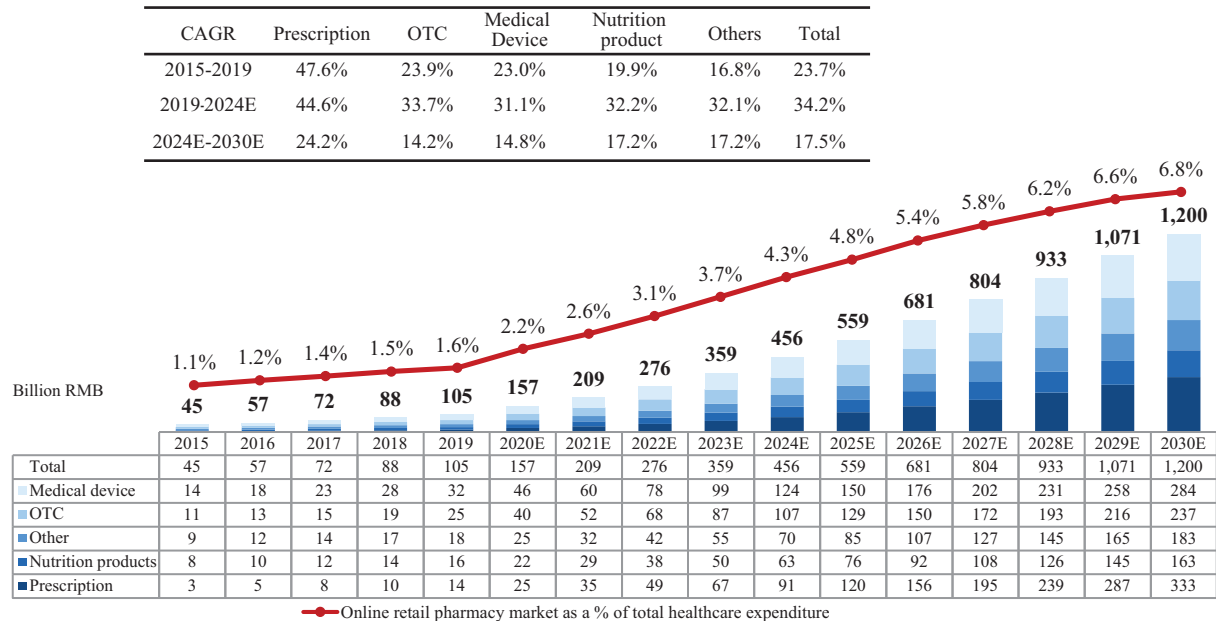
Source: Frost & Sullivan Report

### Overview of the Online Retail Pharmacy Industry in China

The rise of the “Internet+healthcare” policy framework and technological transformation has created a booming online retail pharmacy market in China. China’s online retail pharmacy market has grown at a CAGR of 23.7% from 2015 to 2019 to reach RMB105 billion in 2019. According to the Frost & Sullivan Report and based on the factors aforementioned, the size of the online retail pharmacy market in China is expected to expand rapidly and reach RMB456 billion in 2024 and RMB1,200 billion in 2030, at a CAGR of 34.2% and 17.5%, respectively. The below diagram sets forth the size, growth and breakdown of online retail pharmacy market.

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### China Online Retail Pharmacy Market by GMV, 2015-2030E



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, the key trends of the online retail pharmacy market in China are:

- *Integration of online retail pharmacy and healthcare services.* The dual provision of “healthcare product plus healthcare service” is conducive to the sales growth of online retail pharmacy, especially in pharmaceutical products. The purchase of pharmaceutical products and healthcare services are complementary to each other and platforms that can embody both elements are strongly positioned to capture greater demand compared with platforms with more singular business focus.
- *Improving user experience.* Technology-driven digital platforms have empowered consumers with excellent user experience across many industry verticals. Consumers are becoming more demanding of their experience in the healthcare industry as well. Online platforms that can offer price competitiveness, personalization, and convenience can drive higher user stickiness, similar to what has happened in other industries.
- *Consolidation within the supply chain.* Platforms with strong supply chain capabilities are in a good position to consolidate the fragmented offline retail pharmacy market to gain better pricing negotiation power with upstream players or to access the in-hospital market.

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### Competitive Dynamics in the Online Retail Pharmacy Industry in China

Online retail pharmacy accounted for 48.0% of the digital health and wellness market in 2019 and is expected to remain the largest sub-segment in the next ten years, according to the Frost & Sullivan Report, making this the most significant sub-segment. The following chart illustrates the competitive landscape of China's online retail pharmacy market by major participants' market share in 2019.

Company	Listing Status	Business Model under Online Retail Pharmacy	Market share in terms of revenue in 2019	Ranking
Our Group	Unlisted	Operates through direct sales, online marketplace and omnichannel initiative	29.8%	1
Company A <sup>(1)</sup>	Listed	Operates through pharmaceutical e-commerce platform and pharmaceutical direct businesses via B2C (direct sales and marketplace), B2B and O2O	27.1%	2
Company C	Unlisted	Operates B2C direct sales of pharmaceutical and healthcare products	6.4%	3

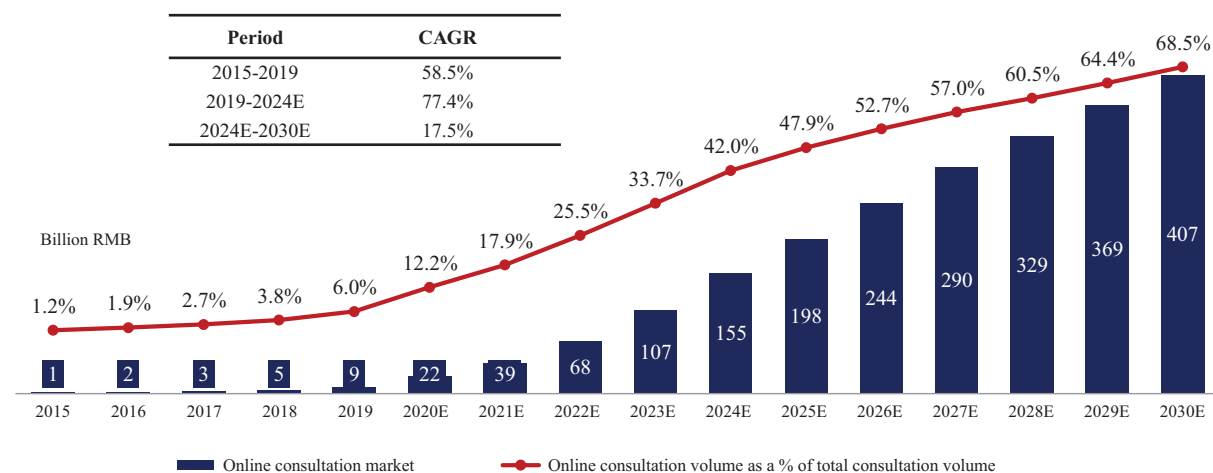
Note:

(1) Fiscal year of Company A ends on March 31. Therefore, its revenue in 2019 refers to its results of operation for the fiscal year ended March 31, 2020.

### Overview and Outlook of the Online Consultation Industry in China

Online consultation typically cover consultation and prescription renewal, follow-up visits, hospital appointments and chronic disease management. The outbreak of COVID-19 has cultivated long term consumer habit of using online consultation by not only generating greater health and wellness awareness, but also increasing the acceptance of such services. Combined with a supportive policy environment that is expected to further standardize the services, online consultation will become more efficient and more reliable with better quality. As a result, China's online consultation market is expected to grow significantly at a CAGR of 77.4% between 2019 and 2024 to reach RMB155 billion from RMB9 billion in 2019, and reaching RMB407 billion in 2030, becoming a major way of medical consultation by representing 68.5% of the total consultation volume in China. The below diagram illustrates the size and growth of China's online consultation market.

#### Online Consultation Market in China, 2015-2030E



Source: Frost & Sullivan Report

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## INDUSTRY OVERVIEW

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According to the Frost & Sullivan Report, the key trends of the online consultation market in China are:

- *Effective chronic disease management.* It is expected that the management of chronic disease will increasingly rely on digitalization. Digital diagnosis and treatment services enabled online can be effective tools in monitoring patients' health profiles and manage treatment payment throughout the chronic disease lifecycle, such as diabetes, hypertension and coronary heart diseases.
- *Personalized treatment.* Individuals' health profiles can be better stored and analyzed online to allow more precise matching between patients and possible therapeutic options. As online healthcare services expand further in scale, more data can be collected to make increasingly personalized treatment plan more available to users.
- *Greater participation from medical experts.* Experts, well-known doctors and doctor groups tend to focus on more complicated and serious diseases. However, digital platforms that can attract such key personnel and allow them to invest time to practice online will have significant first-mover advantage to further expand their service offerings.

### Source of Information

In connection with the Global Offering, we have engaged Frost & Sullivan to conduct a detailed analysis and prepare an industry report on the markets in which we operate. Frost & Sullivan is an independent global market research and consulting company which was founded in 1961 and is based in the United States. Services provided by Frost & Sullivan include market assessments, competitive benchmarking, and strategic and market planning for a variety of industries. We incurred a total of RMB600,000 in fees and expenses for the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent upon our successful Listing or on the results of the Frost & Sullivan Report. Except for the Frost & Sullivan Report, we did not commission any other industry report in connection with the Global Offering.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of the markets in which we operate for potential investors. Frost & Sullivan prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organizations. Where necessary, Frost & Sullivan contacts companies operating in the industry to gather and synthesize information in relation to the market, prices and other relevant information. Frost & Sullivan believes that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan research may be affected by the accuracy of these assumptions and the choice of these primary and secondary sources.

In preparing the Frost & Sullivan Report, Frost & Sullivan relied on market information which has a variety of data sources, including external information channels and Frost & Sullivan internal database. External information channels consist of both primary and secondary research, including (i) treatment guidelines and expert consensus; (ii) Chinese Center for Drug Evaluation; (iii) ClinicalTrials.gov; (iv) National Medical Products Administration; (v) publicly released literature materials and industry research reports; (vi) annual reports and product development information disclosed by listed companies; and (vii) industry expert interviews.