

OVERVIEW

Who We Are

We aspire to lead China's digital chronic condition management market through our solutions serving all major participants in the healthcare value chain, including hospitals, pharmacies, pharmaceutical companies, patients and doctors. We provide supplies and SaaS to hospitals and pharmacies, digital marketing services to pharmaceutical companies, and online consultation and prescriptions to patients, all centered around chronic condition management. According to the Frost & Sullivan Report, we are the largest digital chronic condition management solution provider in China, in terms of numbers of SaaS installations in hospitals and pharmacies in China, each as of December 31, 2021, and number of online prescriptions issued through our services in 2021.

Our offerings include our in-hospital solution, our pharmacy solution, and our individual chronic condition management solution. Our in-hospital solution consists of sales of medical devices, consumables and pharmaceuticals, our hospital SaaS, and digital marketing services to pharmaceutical companies. We primarily sell medical devices and consumables to fulfill hospitals' needs of chronic condition management for patients; our hospital SaaS product improves the efficiency and effectiveness of in-hospital chronic condition management and is capable of connecting, through our proprietary AIoT devices, to some of the medical devices that we sell; leveraging our hospital network, we also offer pharmaceutical companies digital marketing services, primarily for drugs related to chronic condition management. Our pharmacy solution consists of sales of medical devices, consumables, pharmaceuticals and miscellaneous, and our pharmacy SaaS. The supplies we sell to pharmacies are primarily related to chronic condition management, while our pharmacy SaaS product enables pharmacies with online prescription issuance and fulfillment capabilities. Our individual chronic condition management solution connects doctors and patients to achieve out-of-hospital consultation and prescription for chronic condition management.

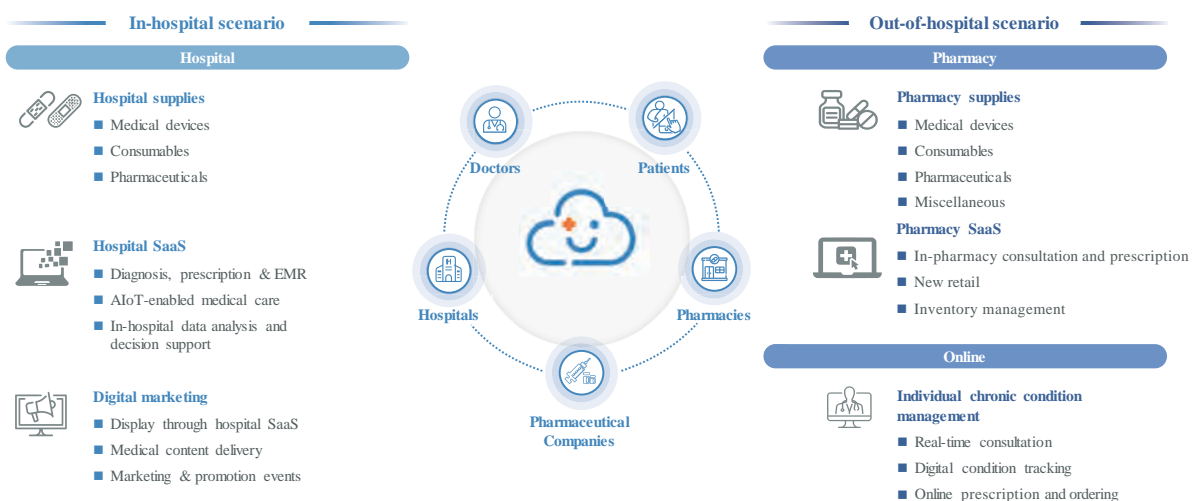
Our Solutions and Revenue Sources

China has the world's largest chronic condition patient population, with a significant portion of healthcare spending on chronic conditions. According to the Frost & Sullivan Report, Chinese patients spent approximately RMB4.1 trillion on chronic condition management in 2020. While chronic condition patients usually need on-going medical care and recurring prescription, which require both in- and out-of-hospital services, China's healthcare services are still heavily concentrated in public hospitals, according to the Frost & Sullivan Report. Public hospitals also have more medical resources and doctor-patient relationships, which are important for chronic condition patients.

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In order to capture the existing in-hospital chronic condition management market and extend such market to out-of-hospital scenarios, we have adopted a hospital-first strategy to provide a comprehensive chronic condition management experience for patients in and out of hospitals. We attract hospitals, pharmacies, pharmaceutical companies, doctors and patients, and provide them with solutions, covering major chronic conditions, including cardiovascular diseases (such as hypertension and hyperlipidemia) and diabetes, among others.

Through our comprehensive offerings of in-hospital solution, pharmacy solution and individual chronic condition management solution, we have covered the full life cycle of digital chronic condition management in and out of hospitals. Our revenue sources include product revenue and service revenue. We mainly generate revenues by sales of hospital and pharmacy supplies, and individual chronic condition management products. The medical devices and consumables sold under the in-hospital solution, pharmacy solution and individual chronic condition management solution vary in terms of nature, function and type. The medical devices and consumables sold under the in-hospital solution are for hospital use, and they generally require patients to come into hospitals. In contrast, the medical devices and consumables sold under the pharmacy solution and individual chronic condition management solution are for home use. We also generate revenue by providing digital marketing, SaaS and other services.



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The following is a breakdown of our revenues by solution offerings and revenue sources, in both absolute amounts and as a percentage of our total revenues for the years/periods presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Revenues:						
In-hospital solution	177,216	33.8	422,175	50.3	1,272,738	72.4
Sales of hospital supplies	129,911	24.7	250,124	29.8	854,114	48.6
Hospital SaaS	11,857	2.3	22,660	2.7	15,666	0.9
Digital marketing	35,448	6.8	149,391	17.8	402,958	22.9
Pharmacy solution	326,887	62.3	345,607	41.2	349,967	19.9
Sales of pharmacy supplies	326,863	62.3	330,480	39.4	300,961	17.1
Pharmacy SaaS	24	0.0	15,127	1.8	49,006	2.8
Individual chronic condition management solution and others . .	20,335	3.9	71,341	8.5	134,026	7.7
Chronic condition products	15,704	3.0	34,846	4.2	53,031	3.0
Premium membership services	—	—	14,211	1.7	22,688	1.3
Others ⁽¹⁾	4,631	0.9	22,284	2.6	58,307	3.4
Total	524,438	100.0	839,123	100.0	1,756,731	100.0

Note:

(1) Others include insurance brokerage services, advertisement agent services and others.

In-hospital solution

Our in-hospital solution helps hospitals fulfill chronic condition patients' need for efficient and effective in-hospital management, through our hospital supplies of medical devices, consumables and pharmaceuticals, our hospital SaaS, and digital marketing services that we provide to pharmaceutical companies. Leveraging our distributors and our hospital network, we distribute hospital supplies to our hospital end customers for our suppliers, either directly or indirectly through our distributors. The hospital supplies that we provide primarily relate to chronic conditions, such as glucose meters, glucose testing strips and vital sign monitors, to fulfill hospitals' needs of chronic condition management for patients. Our hospital SaaS, *ClouDr. Yihui*, was launched in 2016 and the first of its kind in China to digitalize and standardize the in-hospital chronic condition management process; it is capable of connecting to medical devices with the

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help of our proprietary AIoT devices. Leveraging our hospital network, we also offer pharmaceutical companies digital marketing services, primarily for medicines related to chronic condition management, to boost the medicines' awareness and support clinical decisions.

We grow our business in hospitals with the “Access, Install, Monetize” model, or the AIM model. This three-prong model outlines our concurrent efforts to access hospitals and establish business relationships, install our hospital SaaS to increase stickiness of hospitals, and seek monetization opportunities through our in-hospital solution. As of December 31, 2021, more than 2,300 hospitals had installed *ClouDr. Yihui*, including 33 of China's top 100 hospitals as ranked by the Institute of Asclepius Hospital Management, a third-party medical research firm. As of December 31, 2021, we had contracted with 15 pharmaceutical companies to provide them digital marketing services. Our in-hospital solution has allowed us to successfully build deep connections with hospitals, laying a solid foundation to extend our businesses to out-of-hospital settings. The more hospitals adopt our solution, the more doctors we will attract to our network, and in turn to provide more and better consultation and prescription services for our pharmacy customers and individual users. A larger hospital and doctor network also allows us to provide more effective digital marketing services to pharmaceutical companies.

Pharmacy solution

Our pharmacy solution fulfills chronic condition patients' need for out-of-hospital consultation and prescription services, through our pharmacy supplies of medical devices, consumables, pharmaceuticals and miscellaneous, and our pharmacy SaaS. We provide, directly or indirectly through our distributors, pharmacy supplies that primarily relate to chronic condition management. Leveraging our distributors and our pharmacy network, we distribute pharmacy supplies to our pharmacy end customers for our suppliers, either through wholesale to distributors or direct sales to end customers. Our pharmacy SaaS enables pharmacies with online prescription issuance and fulfillment capabilities. We also provide value-added services, such as a new retail service that offers e-commerce solutions on Weixin mini programs, and inventory management services.

Historically, our pharmacy solution business consisted of only sales of pharmacy supplies. Launched in the first half of 2019, our pharmacy SaaS, *ClouDr. Pharmacy*, had already been installed in over 172,000 pharmacy stores in China as of December 31, 2021, covering approximately 30% of the pharmacy stores in China, making us the largest pharmacy SaaS product provider in China in terms of number of pharmacy installation, according to the Frost & Sullivan Report. As more pharmacies and pharmacists adopt our solutions, more doctors are willing to join our platform to provide in-pharmacy online consultation and prescription services, and in turn more patients and other individual users also shift to our platform through in-pharmacy online consultations and prescriptions.

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Individual chronic condition management solution

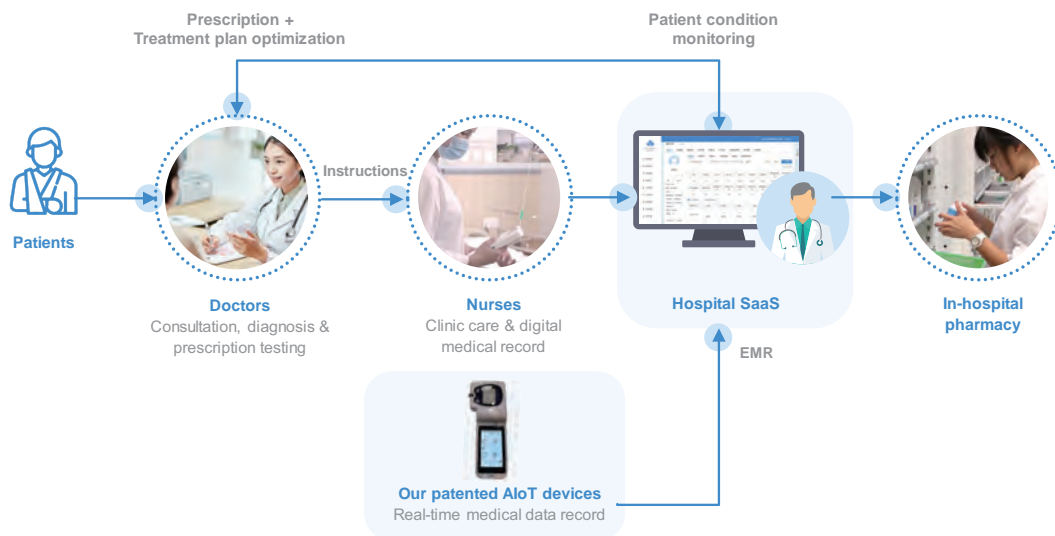
Our individual chronic condition management solution connects doctors and patients, mainly through our doctor and patient mobile apps, mini programs and Weixin public account, to enable out-of-hospital monitoring, consultation and prescription for chronic condition patients. We had over 87,000 registered doctors and approximately 23.8 million registered users as of December 31, 2021.

Through our solutions, we are able to serve a large base of individual users. In 2021, approximately 153.4 million prescriptions were issued through our services, making us the largest online medical services provider in terms of number of prescriptions, according to the Frost & Sullivan Report. As more patients and individual users adopt our services, more pharmacies and doctors are willing to join our platform

Our Business

To address these challenges, we have developed a suite of solutions that cover the entire patient journey both in and out of hospitals. We endeavor to make chronic condition management more accessible, effective and efficient. Our revenue sources include product revenue and service revenue. We mainly generate revenues by sales of hospital and pharmacy supplies, and individual chronic condition management products. We also generate revenue by providing digital marketing, SaaS and other services.

In hospital



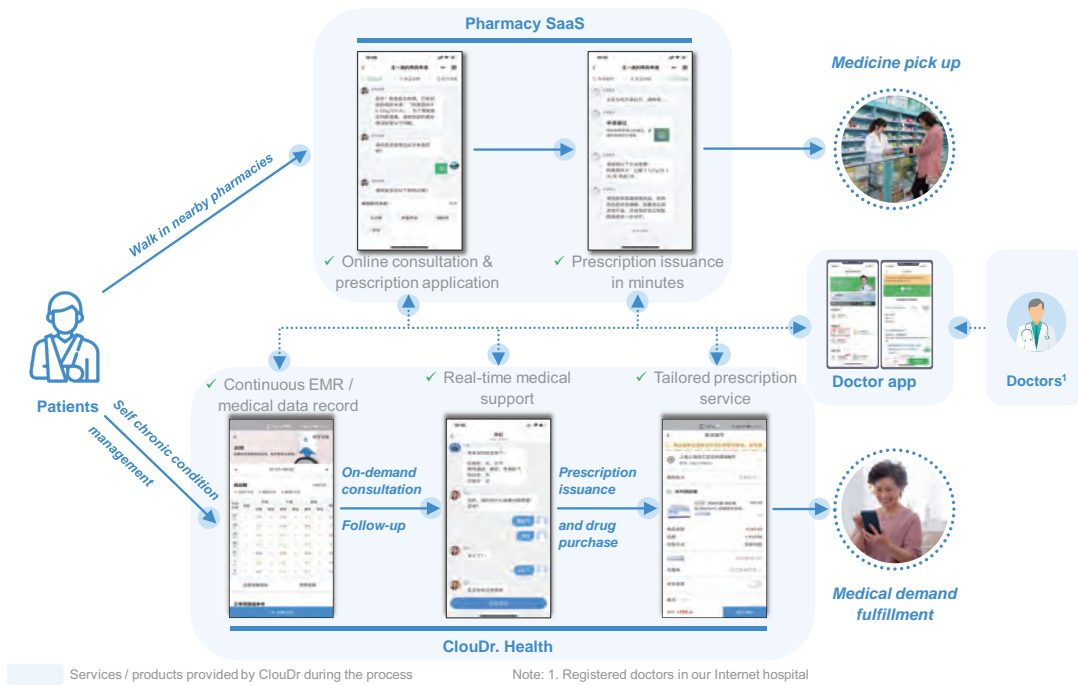
Services / products provided by ClouDr during the process

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To address hospitals' needs in chronic condition management, we provide hospitals, through distributors or directly, with medical devices, consumables and pharmaceuticals related to chronic condition management, including medical devices and consumables that record patient conditions, such as glucose meters, glucose testing strips and vital sign monitors. *ClouDr. Yihui* supports hospitals by centralizing, streamlining and automating their chronic condition management workflow. It connects with a wide range of medical devices for chronic condition management through our proprietary AIoT devices and synchronizes with incumbent hospital information systems, or HIS. *ClouDr. Yihui* also facilitates the creation, management, analysis and synchronization of EMR and stores data on-premise. With *ClouDr. Yihui*, we have developed a suite of proprietary AIoT devices that connect to certain chronic condition management medical devices for which we act as distributors in China, among other connectable devices. When nurses use these AIoT-enabled medical devices for chronic condition management, our *ClouDr. Yihui* automatically monitors and tracks patient data, such as the patients' glucose levels, and sends alerts generated on a real-time basis to nurses and doctors. This medical AIoT integration function facilitates our sales of hospitals supplies, including these AIoT-enabled medical devices for chronic condition management, such as blood glucose meters and vital sign monitors, and their corresponding medical consumables, such as testing strips. In addition, *ClouDr. Yihui* improves hospitals' management efficiency by digitalizing supply and billing management and quality control of medical supplies for chronic condition management. Nurses can use *ClouDr. Yihui* for easier stock checking, and receive replenishment alerts for low stock. These supply and billing management functions, particularly the low-stock alerting function, serve as a reminder to hospitals to purchase our hospital supplies, which we believe facilitates our sales of hospital supplies. Leveraging our large network of hospitals and doctors, we also provide digital marketing services to pharmaceutical companies to raise awareness among hospitals and doctors primarily for chronic condition-related medicines. For our in-hospital solution, we primarily generated revenues from sales of hospital supplies during the Track Record Period.

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Out of hospitals



Based on our deep understanding of chronic conditions and market needs, we identify and provide medical devices, consumables, pharmaceuticals and miscellaneous, primarily related to chronic condition management, to pharmacies. On the other hand, *ClouDr. Pharmacy* plays a critical role in our out-of-hospital medical services by empowering pharmacies with in-store, real-time consultation and prescription services for walk-in customers. Patients can initiate medical consultations with doctors in our network to receive and fulfill their prescriptions. On average, in 2021, a walk-in patient to a pharmacy with *ClouDr. Pharmacy* installed waited for less than 3 minutes to be allocated a doctor to consult with. For our pharmacy solution, we primarily generated revenues from sales of pharmacy supplies during the Track Record Period.

Our individual chronic condition management solution, *ClouDr. Health*, connects patients with doctors and enables out-of-hospital doctor-patient relationships. Patients can easily access medical services, including online consultation, prescription, medicine purchases, and other health management services such as self-monitoring of health conditions and e-record. Doctors can monitor patients' records and send medication reminders based on analysis of patients' health condition. Doctors also benefit from our knowledge library and expert lectures to keep updated with advanced medical information. For our individual chronic condition management solution, we primarily generated revenues from sales of chronic condition products during the Track Record Period.

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We believe that as more hospitals install our SaaS, more doctors will register on our platform and refer patients onto our platform for long-term relationships, and more pharmaceutical companies will be incentivized to use our digital marketing services; as more doctors and patients use our mobile apps, more pharmacies will be incentivized to install our SaaS to benefit from our ample doctor resources and large user base, and more patients will access our platform through in-pharmacy consultations and prescriptions.

Our Monetization Methods

We have diverse monetization methods across our three solutions:

Under our in-hospital solution, we seek to grow our business and drive monetization through our “AIM” model, under which we concurrently seek to (i) access and continuously engage with hospitals to establish close business relationships, primarily by leveraging our SaaS capabilities, (ii) install our hospital SaaS to increase stickiness of hospitals, and (iii) explore monetization opportunities, primarily through hospital supplies and digital marketing services, and to a lesser extent, through hospital SaaS. Accordingly, during the Track Record Period, we generated revenue through:

- *Sales of hospital supplies.* Leveraging our close collaborative relationships with hospitals, our hospital SaaS installation and our partnerships with a large number of pharmaceutical and medical device companies, we sell hospital supplies, including medical devices, consumables and pharmaceuticals, to hospitals. We sell hospital supplies through either direct sales or distributors. The number of hospitals that directly or indirectly purchased hospital supplies from us amounted to 1,016, 1,431 and 2,101 in 2019, 2020 and 2021, respectively;
- *Digital marketing services.* We provide digital marketing services for pharmaceutical companies, where we receive a percentage of the sales revenue of our pharmaceutical company customers from the medicines we help market to our large network of hospitals and doctors. Through our hospital SaaS, we are able to increase exposure for medicines and display and promote brand awareness for our pharmaceutical company clients. We earn revenue from digital marketing services on a performance basis, where we receive a portion of the revenues our pharmaceutical company clients generate from the specific SKUs in specific region for which we provide them digital marketing services; and

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- *Hospital SaaS.* We charge subscription fees for our hospital SaaS. Our hospital SaaS is designed to digitalize chronic condition management to improve hospitals' operational efficiency and treatment effectiveness. We have generally adopted a subscription fee model for our hospital SaaS for an annual fee of RMB250,000 as a base package.

Our pharmacy solution consists of sales of pharmacy supplies, which is the main revenue contributor under our pharmacy solution, and pharmacy SaaS. Accordingly, during the Track Record Period, we generated revenue through:

- *Sales of pharmacy supplies.* Leveraging our understanding of the healthcare industry in China, our relationships with pharmaceutical companies and our access to upstream suppliers, we sell pharmacy supplies, including medical devices, consumables, pharmaceuticals and miscellaneous, to pharmacies. We sell pharmacy supplies through either direct sales or distributors. The number of transacting customers for our pharmacy supplies amounted to 343, 327 and 683 in 2019, 2020 and 2021, respectively; and
- *Pharmacy SaaS.* We charge subscription fees for our pharmacy SaaS, which we launched in 2019. We facilitate in-pharmacy prescription issuance for walk-in patients, and help pharmacies manage their inventories and set up online pharmacies through Weixin mini programs. We generate revenue from subscription fees for pharmacies using our pharmacy SaaS on a per-outlet annual basis with annual fees ranging from approximately RMB1,000 to RMB17,000, depending on the services chosen.

Under our individual chronic condition management solution and others, we provide an individual chronic condition management platform *ClouDr. Health* on which users can receive instant, professional care for chronic conditions and other health management services at any time and from anywhere. During the Track Record Period, we generated revenue through:

- *Chronic condition products.* We generate revenue from chronic condition products, including medical devices, consumables, pharmaceuticals and miscellaneous. A patient with a prescription from *ClouDr. Health* can easily submit a request for the prescribed drugs to our online retail e-commerce platform, and the platform will assign the request to the closest pharmacy with such order in stock that we partner with or our own pharmacies, quickly completing a hassle-free process of obtaining the necessary medicines for the patient's chronic condition. We generate revenue from commissions that we charge from our business partners for products sold by them, and our sales of products if users purchase them directly from us.

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- *Premium membership services.* Our premium members include not only individual purchasers of our memberships, but also users who become members through the insurance companies and corporate employers that we partner with. We offer comprehensive and personalized value-added services to our premium members. Premium memberships are priced at RMB68 and RMB599 annually, depending on the tier of membership; and
- *Others.* Our other revenues include insurance brokerage services, advertisement agent services and others.

Our Financials

We experienced significant growth during the Track Record Period. Our revenues increased by 60.0% from RMB524.4 million in 2019 to RMB839.1 million in 2020 and further increased by 109.4% to RMB1,756.7 million in 2021. We incurred net loss of RMB565.4 million, RMB2,896.9 million and RMB4,153.2 million in 2019, 2020 and 2021, respectively. Our adjusted net loss (non-IFRS measure), defined as net loss that excludes the impacts of change in fair value of financial liabilities, share-based compensation expenses, listing expenses and issuance cost of financial liability at FVTPL, was RMB149.5 million, RMB636.3 million and RMB444.0 million in 2019, 2020 and 2021, respectively. See “Financial Information — Adjusted Net Loss (Non-IFRS Measure)” for details. As a fast-growing company with a relatively limited operating history, our ability to forecast our future results of operations is limited and subject to uncertainties, including our ability to plan for and model future growth. Our revenue growth in recent periods may not be indicative of our future performance.

Gross Profit and Gross Margin

The following table sets forth our gross profit by revenue stream both in absolute amounts and as percentages of total revenues, or gross margin, by revenue streams, for the years indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Gross profit:						
In-hospital solution	48,007	27.1	179,790	42.6	473,067	37.2
Pharmacy solution	6,379	2.0	18,936	5.5	62,285	17.8
Individual chronic condition management solution and others .	7,184	35.3	34,030	47.7	34,672	25.9
Total.	61,570	11.7	232,756	27.7	570,024	32.4

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Cost of Sales

Our cost of sales consists of cost of goods sold, amortization of exclusive rights and others. We expect our cost of sales to continue to increase in absolute amounts in the foreseeable future in line with the growth of our business.

The following table sets forth a breakdown of our cost of sales by nature both in absolute amount and as a percentage of our total cost of sales for the years indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Cost of goods sold	455,187	98.3	576,714	95.1	1,084,105	91.4
Amortization of exclusive rights	5,818	1.3	18,825	3.1	51,800	4.4
Others	1,863	0.4	10,828	1.8	50,802	4.2
Total.	462,868	100.0	606,367	100.0	1,186,707	100.0

OUR COMPETITIVE STRENGTHS

Pioneer and Market Leader

Industry pioneer. We are a pioneer in digitalizing chronic condition management in China. Launched in 2016, *ClouDr. Yihui* is the first hospital SaaS to digitalize and standardize the chronic condition management process for hospitals in China, and we are the only industry player whose self-developed AIoT devices can connect to China’s NMPA (National Medical Products Administration) certified medical devices used in hospitals according to the Frost & Sullivan Report.

Market leadership. We are China’s largest digital chronic condition management solution provider in terms of numbers of SaaS installations in hospitals and pharmacies in China, each as of December 31, 2021, and number of online prescriptions issued through our services in 2021, according to the Frost & Sullivan Report. Our SaaS products were installed in over 2,300 hospitals and over 172,000 pharmacy stores as of December 31, 2021, respectively. We had over 87,000 registered doctors and approximately 23.8 million registered users on our platform as of December 31, 2021. In the year of 2021, approximately 153.4 million prescriptions were issued on our platform.

Scalable Business Model

Hospital-first strategy. In order to capture the existing in-hospital chronic condition management market and extend such market to out-of-hospital scenarios, we have adopted a “hospital-first” strategy to provide a comprehensive chronic condition management experience for patients. As of December 31, 2021, *ClouDr. Yihui* was installed in approximately 640 Class III public hospitals and approximately 1,036 Class II public hospitals, accounting for approximately 21.4% of Class III public hospitals and approximately 10.0% of Class II public hospitals in China, respectively. As we deepen our collaboration with hospitals, our in-hospital solution becomes an integral and essential part of their daily routine, and it typically incurs high costs for hospitals to switch to other solutions.

From hospitals to other key stakeholders. With a vision to cover the entire patient journey both in and out of hospitals, we have extended our services to cover all major participants in the chronic condition management value chain. Leveraging our success in serving hospitals, we have expanded our solutions to pharmacies. As more hospitals and pharmacies adopt our solutions, more doctors and pharmacists shift to our services, and in turn more patients and other individual users also shift to our platform. We are able to then utilize our network to better offer pharmaceutical companies with more effective digital marketing services.

Efficient omni-channel user acquisition. We have a strong ability to acquire individual users from diverse channels. In the third quarter of 2021, approximately 1.2 million, or 95% of our newly registered users were derived from organic traffic, such as in-pharmacy online consultations and prescriptions, in-hospital referrals and patient referrals. Compared with user acquisition through mass marketing, our hospital-first approach allows us to establish trust with individual users with precise needs, leading to higher acquisition efficiency.

Valuable Doctor-patient Relationships in and out of Hospitals

Valuable relationships. Individual users can register, get consultation and prescriptions, and complete medicine purchases all on our platform. Interactions generated on our individual chronic condition management solution are based on demand for medical services, allowing us to better understand these users and provide targeted services to doctors and their patients. Chronic condition patients require recurring consultation and prescriptions, leading to high patient lifetime value. As individual users deepen their trust in the doctors and services available on our platform, they become more confident in self-health management and more loyal to our platform. With these in-depth relationships, we are well positioned to expand into deeper industry participation and broader product offerings.

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Expansion from in-hospital to out-of-hospital. Chronic condition management is a complex process, with long-term, regular follow-up visits and frequent interactions between patients and medical service providers including doctors, hospitals and pharmacies. Through our hospital network, doctors may refer their in-hospital chronic condition patients to our individual chronic condition management solution and continue their relationship, and we help foster these relationships in out-of-hospital scenarios.

Strong Product Capabilities

Technologies and medical know-how. Our technology capabilities allow us to deliver a standardized and convenient experience to key healthcare stakeholders, across in- and out-of-hospital settings. *ClouDr. Yihui*, is interoperable with most of the incumbent hospital information systems to streamline workflow. With modularized implementation, hospitals can customize the functionalities of *ClouDr. Yihui* according to their needs. We also maintain a vast and growing knowledge library, which is foundational to our online consultation and prescription services. With 2 million medical papers, over 110,000 clinical guidance articles, and various other sources of medical knowledge, such library helps match patient profiles with corresponding departments and doctors, and to ensure accuracy during the consultation and prescription process.

Proven effectiveness. We have developed technology-enabled solutions backed by well-established academic cooperation and proven clinical performance. According to a clinical study conducted by Shanghai Dongfang Hospital and published in *Journal of Diabetes Investigation*, patient treatment and management plans developed by us have demonstrated considerable improvement in various indicators, including days needed for same level of improvement, compared with products developed by a certain leading diabetes management company in the United States. This published research underpins the patients' and other stakeholders' confidence in and high reliance on our solutions. Starting in 2020, we have collaborated with the Chinese Center for Disease Control and Prevention to provide technological support in their establishment of a nationwide chronic condition big data pilot program that aims to standardize and develop the collection, storage, processing and application of chronic condition data; we help to enrich and improve the data platform of the National Chronic Disease Management Center.

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Visionary Management Team

We have a visionary senior management team with in-depth and complementary experience in technology and healthcare sectors. With a mission to bring better chronic condition management experience to every family in China, Mr. Kuang founded our Group in 2014. Mr. Kuang has over 15 years of experience in healthcare and technology industries, giving him a special perspective in improving China's chronic condition management market. He has served as a Senior Strategic Marketing Manager in APAC at Johnson & Johnson and various technical roles for APAC Business Development at Intel China. Mr. Kuang's unique background, overseas experience and deep know-how of the complex digital healthcare industry allowed him to quickly identify market opportunities, set the right company-wide strategy, and bring teams to the right path of execution. Our team reacts quickly to address industry pain points and develop technology-enabled solutions. Their wealth of experience in running critical functions within renowned multi-national companies and proven execution capability is highly valuable.

OUR GROWTH STRATEGIES

We intend to focus on the following key strategies to solidify our leadership position in China's chronic condition management market.

Continue to Expand Our Hospital and Pharmacy Network

We believe we have ample growth potential to provide more hospitals, pharmacies, doctors and nurses with our solutions. We will continue to pursue the "hospital-first" strategy and expand our hospital network nationwide. We also strive to drive the adoption of our offerings, including hospital SaaS, in more hospitals in China, particularly Class III and II hospitals, and continue to deepen our partnerships with them.

While we already collaborate with many of China's leading pharmacy chains, we plan to continue to expand the coverage of our pharmacy supplies and SaaS by adding new pharmacies, especially large-scale pharmacy chains, to our network. We also plan to continue to allocate substantial resources to the optimization of our existing products and the development of new products for hospitals and pharmacies such as the new retail business for pharmacies. We believe we will be able to further unlock the monetization potential in our collaboration with hospitals and pharmacies.

See "Future Plans and Use of Proceeds — Use of Proceeds — A. Business expansion" for the detailed implementation plan.

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Continue to Grow Our Patient and Doctor Bases

Leveraging our vast network of hospitals and pharmacies, we are strategically positioned to attract individual users with medical needs to our platform at a relatively low cost. We will continue to grow our user base through targeted user acquisition, particularly online marketing channels, as well as enhancing brand awareness among perspective users. We also intend to continually leverage our relationships with hospitals to attract more doctors onto our platform. We plan to increase our user base and capture more monetization opportunities by offering more comprehensive services throughout the chronic management life cycle for different chronic conditions.

See “Future Plans and Use of Proceeds — Use of Proceeds — A. Business expansion” for the detailed implementation plan.

Continue to Invest in Product and Technology Innovation

We will continue to advance our medical know-how and technology capabilities to reinforce our leadership in the digital healthcare industry.

We will continually add new functions and features to our solutions through product and technology innovation. In particular, we believe AIoT devices and AI-assisted diagnosis and treatment algorithms are highly relevant to holistic digital healthcare solutions and will play a critical role in both in-hospital and out-of-hospital chronic condition management. We plan to conduct more clinical trials in collaboration with top-tier hospitals, medical institutions and universities to facilitate our R&D. We also plan to further develop our SaaS and related products to include more functionalities to better cater to hospitals and pharmacies’ evolving needs and to improve user experience and user engagement. We will continually acquire more talents to facilitate our innovations in products and technologies.

See “Future Plans and Use of Proceeds — Use of Proceeds — B. Medical and technology capability advancement” for the detailed implementation plan.

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Continue to Expand Our Presence in the Healthcare Value Chain and Drive Monetization

We plan to continue penetrating the upstream and downstream of the healthcare value chain. We strive to access all major participants across the healthcare value chain. We will expand our existing partnerships and establish new partnerships with upstream pharmaceutical companies to expand our selection of medical devices, consumables and pharmaceuticals to better satisfy hospitals and pharmacies' needs, as well as providing digital marketing services to them. We will also strengthen our downstream capabilities such as prescription fulfillment to offer complementary services to our end customers. This will further increase the stickiness of the key healthcare stakeholders to our solutions and diversify our monetization channels.

See “Future Plans and Use of Proceeds — Use of Proceeds — C. Strategic alliances and investments” for the detailed implementation plan.

Continue to Invest for Strategic Partnership and Acquisitions

We will selectively pursue strategic alliances, investments and acquisitions that we believe can extend our market leadership position and can synergize with our businesses such as internet hospital operators. We also intend to focus on alliances, investments and acquisitions that can attract new participants and broaden our product and service offerings such as pharmacy chains with established network.

See “Future Plans and Use of Proceeds — Use of Proceeds — C. Strategic alliances and investments” for the detailed implementation plan.

OUR VALUE PROPOSITIONS

Our product and service offerings cover all major participants along the value chain of chronic condition management. In particular, we have developed a chronic condition management ecosystem with solutions that cover the entire patient journey from in to out of hospitals, through which we believe the relevant stakeholders, including hospitals, pharmacies, doctors and patients, in the healthcare system benefit from our offerings.

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We have adopted a “hospital-first” strategy to provide comprehensive chronic condition management experience to hospitals, pharmaceutical companies, doctors and patients through our in-hospital solution. For hospitals, our hospital SaaS has become an integral and essential part of some hospitals’ daily routine, which is designed to digitalize chronic condition management to improve hospitals’ operational efficiency and treatment effectiveness and to facilitate hospitals in creating and maintaining EMR for their chronic condition patients. In addition, we address hospitals’ clinical needs by providing hospital supplies and inventory management functions. We also provide hospital with suitable supplies including medical devices, consumables and pharmaceuticals in relation to chronic condition treatment. For pharmaceutical companies, our digital marketing services help them to increase brand awareness, reduce marketing expenses and reach more doctors. For doctors and patients, doctors can effectively monitor, and patients can constantly keep records of, health data through our hospital SaaS.

To make quality healthcare services accessible at out-of-hospitals setting, we have launched our pharmacy solutions and individual solutions to enable in-pharmacy and at-home consultation and prescription. Leveraging our understanding of the healthcare industry in China and our supply chain network, we provide pharmacy supplies to pharmacies. With pharmacy SaaS, a patient can conveniently purchase drugs and receive services they need at pharmacies. Our pharmacy solution also provides additional channels for pharmacies to acquire customers. Under our individual chronic condition management solution, we provide patients with professional care for chronic conditions and other health management services and online consultation and prescription services at any time and from anywhere. In addition, our solution enables doctors and patients to communicate remotely and help them maintain long-term doctor-patient relationships. Doctors can also generate additional income for their work on our platform.

As more hospitals and pharmacies adopt our solutions, more doctors and pharmacists shift to our services, and in turn more patients and other individual users also shift to our platform. We are able to then utilize our network to better offer pharmaceutical companies with more effective digital marketing services. As a result, our in-hospital solution, pharmacy solution and individual chronic condition management solution generate synergistic value for our business as they allow us to serve key industry stakeholders, including hospitals, doctors, patients, pharmacies and pharmaceutical companies, penetrate, and access the entire patient journey of chronic condition patients. See “— Synergies among our Business Lines” for details.

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We offer compelling value propositions for hospitals, pharmacies, pharmaceutical companies, patients and doctors, under both in-hospital and out-of-hospital settings:

Value Propositions to Hospitals

- *Address hospitals' needs in hospital supplies.* We offer a wide selection of chronic condition-related medical devices, consumables and pharmaceuticals to hospitals. With our solutions, doctors and nurses can easily manage the inventory of hospital supplies.
- *Digitalized and standardized treatment process.* Our Hospital SaaS, *ClouDr. Yihui* helps hospitals create and manage EMR, empowers hospitals, doctors and nurses to track and treat their patients more efficiently, reducing medical errors.
- *Additional services through digital marketing.* Through our digital marketing services, hospitals are able to conveniently identify and procure suitable and relevant drugs related to chronic condition management. Hospital can also participate in the academic events sponsored by us and can keep up with the industry trend delivered by our business development team.
- *Improved hospital classification.* The Chinese government encourages hospitals to integrate EMR into hospitals' information systems and awards extra points for hospitals installed with our hospital SaaS solution under the hospital classification system. Government support further incentivizes hospitals to adopt our SaaS solution to pursue a higher-tier class.

Value Propositions to Pharmacies

- *Expanded supply offerings for chronic conditions management.* Leveraging our supply chain network in chronic condition management, we offer comprehensive medical devices, consumables, pharmaceuticals and miscellaneous to pharmacies based on their needs.
- *In-store, real-time consultation and prescription services for walk-in customers.* A patient walking into a pharmacy with our pharmacy SaaS installed can consult doctors and apply for prescriptions on his or her mobile phone or in-store smart devices through our pharmacy SaaS.
- *Broadened customer acquisition channels.* *ClouDr. Pharmacy* provides additional channels for pharmacies to acquire customers by offering them the ability to enable in-pharmacy prescription fulfillment, and optimize their inventories and services.

Value Proposition to Pharmaceutical Companies

- *Effective marketing services.* Our digital marketing services effectively increase brand awareness and reduce marketing expenses for pharmaceutical companies through our large network of hospitals and doctors.
- *Expanded doctor reach.* Leveraging our extensive hospital and doctor network, we help pharmaceutical companies reach more doctors in and out of hospitals with their products and support doctors' clinical decisions.

Value Propositions to Patients and Other Individual users

- *Efficient and comprehensive online consultation and prescription fulfilling.* Through our products for patients, doctors and pharmacies, we have built a platform where patients can conveniently seek online consultation and prescription services and purchase the medical products they need.
- *24/7 mobile-based chronic condition management.* Our comprehensive “anytime, anywhere” healthcare management platform, powered by AI and analytic capabilities, offer 24/7 monitoring and care for our individual users and provide knowledge and tools for self-management.

Value Propositions to Doctors

- *Expansion of patient relationship out of hospitals.* A doctor can refer his or her patients to join *ClouDr. Health* after the patients' hospital visits, which allows the doctor to communicate with them remotely and helps maintain long-term doctor-patient relationships.
- *Opportunities for multi-site practice.* *ClouDr. Doctor* offers multi-site practicing opportunities that can generate additional income for doctors from their work on our platform.

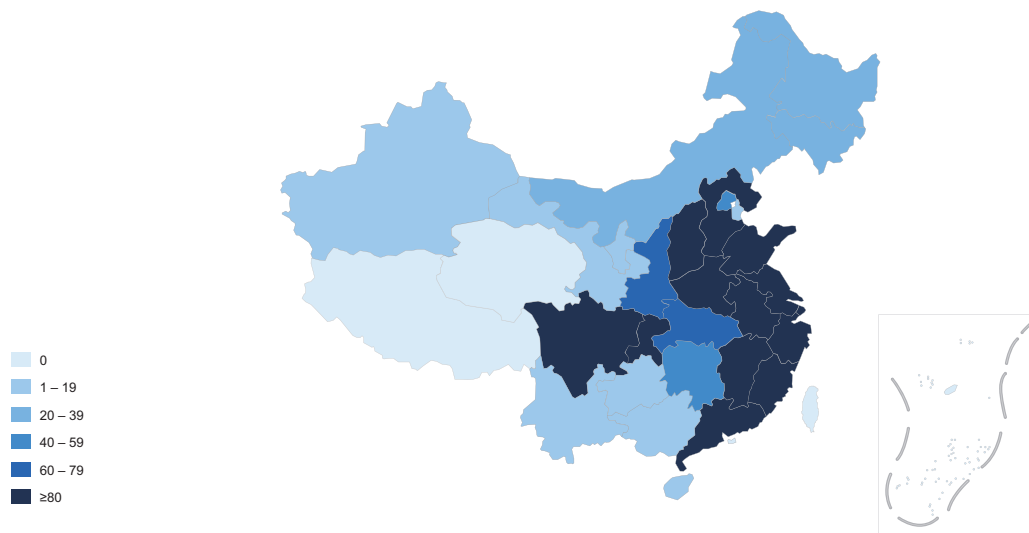
BUSINESS

OUR BUSINESS MODELS

We operate a digital chronic condition management business for all major participants in chronic condition management, offering comprehensive products and solutions to hospitals, medical professionals, pharmacies, pharmaceutical companies and individual users. Our main business consists of our in-hospital solution, our pharmacy solution and our individual chronic condition management solution for individual users. Our revenue sources include product revenue and service revenue. We mainly generate revenues by sales of hospital and pharmacy supplies, and individual chronic condition management products. We also generate revenue by providing digital marketing, SaaS and other services.

IN-HOSPITAL SOLUTION

Our in-hospital solution mainly consists of our hospital supplies, which is the main revenue contributor of our in-hospital solution, hospital SaaS, and digital marketing services for pharmaceutical companies. As of December 31, 2021, more than 2,300 hospitals had installed our hospital SaaS. The following map illustrates the geographic coverage of hospitals that installed our hospital SaaS as of December 31, 2021.



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The following is a breakdown of our revenues from the in-hospital solution by revenue sources, in both absolute amounts and as a percentage of our total revenues for the years presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Revenues:						
In-hospital solution						
Sales of hospital supplies.	129,911	24.7	250,124	29.8	854,114	48.6
Hospital SaaS	11,857	2.3	22,660	2.7	15,666	0.9
Digital marketing	35,448	6.8	149,391	17.8	402,958	22.9
Total	<u>177,216</u>	<u>33.8</u>	<u>422,175</u>	<u>50.3</u>	<u>1,272,738</u>	<u>72.4</u>

The “AIM” model

We grow our in-hospital solution business through our “Access, Install, Monetize” model, or the AIM model. This three-prong model illustrates our concurrent efforts to (i) access and continuously engage with hospitals to establish close business relationships primarily by leveraging our SaaS capabilities (since we launched it in 2016), (ii) seek to install our hospital SaaS to increase stickiness of hospitals, and (iii) seek monetization opportunities primarily through hospital supplies and digital marketing services, and to a lesser extent, through hospital SaaS. Taking into consideration China’s hospital industry environment, we have strategically chosen hospital supplies and digital marketing services as our major revenue streams of our in-hospital solution. Our hospital SaaS capabilities not only provide us with a highly attractive competitive edge to initiate access with hospitals, but these capabilities also help build sticky relationships with those hospitals that directly or indirectly purchased hospital supplies from us. In particular, among the hospitals that directly or indirectly purchased hospital supplies from us, those that use our hospital SaaS have exhibited higher retention rates and larger average revenue contribution per hospital. In addition, the installation of our hospital SaaS is a critical step for us to conduct precise digital marketing services. We expect hospital supplies and digital marketing services to continue to be major revenue sources of our in-hospital solution. Our concurrent efforts to “access, install and monetize” jointly allow us to develop close collaborative relationship with hospitals, which deepens our understanding of the industry.

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Access

We primarily leverage our hospital SaaS capabilities to access and initiate business relationships with a large number of hospitals in China, with the intention of having these hospitals use our in-hospital solution. In particular, our business development teams typically present our proprietary hospital SaaS as the starting point of our engagement with hospitals.

Leveraging our understanding and expertise in chronic condition management, we mainly rely on our in-house and outsourced business development teams, many of whom have medical backgrounds, to establish and maintain these relationships. Our business development teams approach target hospitals by presenting our SaaS capabilities as a differentiator and then introduce our in-hospital solution to them. We expect that our proprietary hospital SaaS will continue to be our competitive edge and a differentiator that will continue to help us to expand our hospital end-customer base by efficiently and effectively addressing the pain points hospitals face in chronic condition management. During this process, our business development teams can assess the intention and IT environment of the hospitals, and establish business relationships with them as they work to have the hospital adopt part or all of our in-hospital solution.

After establishing initial business relationship with hospitals, as an important and on-going component of our efforts to access hospitals, we seek to deepen our relationship with hospitals through constant engagement. During this process of constant engagement, we concurrently seek to install hospital SaaS and explore monetization opportunities. As a result of this approach, although we may have in some instances monetized our in-hospital solution through hospital supplies when the relevant hospitals had not engaged us to install SaaS, we typically continue to engage in discussions with these hospitals to install our hospital SaaS, because we believe our hospital SaaS improves our hospital retention, facilitate purchases of hospital supplies and promote our digital marketing services. All of these approaches, in turn, contribute to more stable and broader monetization avenues.

Install

The installation of our hospital SaaS helps us build sticky relationships with hospitals. As some of the medical devices that we provide can connect to our hospital SaaS through our proprietary AIoT devices, and the medical devices that we sell are usually functionally similar to medical devices of the same categories that the hospitals need, we believe that installing our hospital SaaS encourages hospitals to purchase medical devices and consumables from us. See “Hospital SaaS” for details on how the functions our hospital SaaS facilitates sales of hospital supplies. Furthermore, we believe that our hospital SaaS capabilities is part of the reason some of our suppliers choose us as the exclusive distributor for products that are related to chronic

BUSINESS

condition management as our SaaS capabilities are likely to encourage hospitals to purchase those products from us. In addition, we utilize our hospital SaaS to conduct precise digital marketing services in a variety of innovative ways.

We actively engage with hospitals to install our hospital SaaS. Before installing our hospital SaaS in a hospital, our business development teams and technicians conduct interviews with multiple chronic condition management departments of the hospital, as well as its IT department, to understand the hospital's needs and workflows. We communicate with the management team of the hospital to demonstrate our hospital SaaS and determine the most suitable installation process for the hospital. During this process, we assist hospitals to test and adjust their internet settings to make them compatible with our hospital SaaS. We also assist hospitals in completing their internal approval procedures for installing our hospital SaaS.

Monetize

We actively seek monetization opportunities to monetize the relationships we have with hospitals that we have access to using our in-hospital solution. As we establish relationships with hospitals, depending on the circumstances and our assessment of the hospitals' digital environment, we may choose to prioritize hospital supplies, promote our hospital SaaS, or leverage this relationship to provide digital marketing services for pharmaceutical companies.

According to the Frost & Sullivan Report, it is usually difficult for Chinese public hospitals to approve significant budgets for software products given their public and welfare nature. Because of this limitation, in accordance with industry norm, we have often offered our hospital SaaS for free or at discounted prices. As a result, we do not view the installation of hospital SaaS as a direct major source of our revenues, but rather a strategic advantage to build sticky relationship with hospitals, understand their needs and contribute to the revenue growth of hospital supplies and digital marketing services.

As a testament to the critical role that our hospital SaaS plays under the "AIM" model, based on our internal records, among the 1,016, 1,431 and 2,101 hospitals that directly or indirectly purchased hospital supplies from us in 2019, 2020 and 2021, respectively, 920, 1,370, 2,065 of these hospitals had discussed with us to explore opportunities to install our hospital SaaS before or during the year when they purchased our hospital supplies, representing 91%, 96% and 98% of the total hospitals that directly or indirectly purchased hospital supplies from us in these same respective years. Among these hospitals, 283, 794, and 1,003 hospitals had installed or engaged us to install our hospital SaaS before or during the year when they purchased our hospital supplies, representing 28%, 55% and 48% of the total hospitals that directly or indirectly purchased hospital supplies from us, in 2019, 2020 and 2021, respectively.

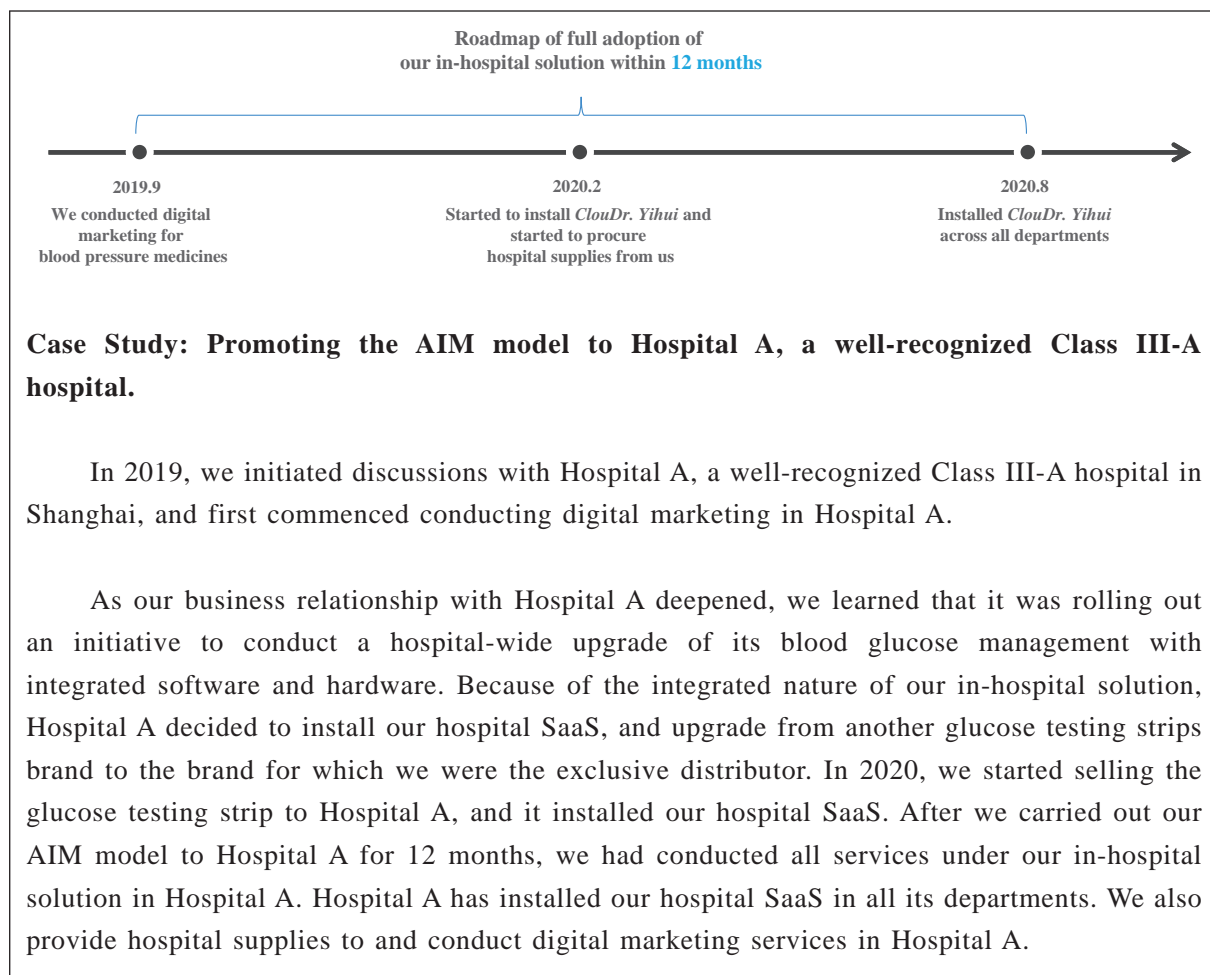
BUSINESS

We believe the installation of our hospital SaaS helps us to establish relatively stable revenue sources and expand monetization opportunities through sales of hospital supplies. In particular, the installation of our hospital SaaS significantly improves our retention rate of hospitals that directly or indirectly purchased hospital supplies from us. Based on our internal records for 2019, 2020 and 2021, the retention rate of our hospital SaaS-using hospitals that directly or indirectly purchased hospital supplies from us was 100% and 94% in 2020 and 2021, respectively, while this rate for our non-hospital SaaS-using hospitals was 73% and 64% in these respective years. In addition, during the Track Record Period, based on our internal sales records and good faith estimates, we believe that, among the hospitals that directly or indirectly purchased hospital supplies from us, those that use our hospital SaaS demonstrated a significantly higher average revenue per hospital than those that do not.

In addition, the installation of our hospital SaaS is a critical step for us to conduct precise digital marketing services. Our digital marketing services are in part conducted through our hospital SaaS, as it enables us to promote the medicines of our pharmaceutical company customers in a variety of innovative ways, such as increasing exposure of medicines and promoting brand awareness through our hospital SaaS. The increase in hospital SaaS installations help drive revenue from digital marketing services, broaden our revenue sources, and improve our overall gross profit margin.

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Sales of rights to our SaaS and other products to hospitals are primarily conducted through distributors, who are usually approved vendors of our hospital end customers, and the rest through direct sales to hospitals. See the sections headed “— Customers” and “— Distributors.”



Hospital supplies

Through our close collaborative relationships with hospitals, we have gained deep knowledge of the different procurement needs of hospitals of different classes, sizes and locations. In particular, leveraging our “AIM” model, our hospital SaaS capabilities and installation enable us to develop close collaborative relationships with hospitals and to accumulate industry and product insights in chronic condition management. Through our partnerships with a large number of pharmaceutical and medical device companies, we have access to an extensive supply of high-quality medical devices, consumables and pharmaceuticals at competitive prices. In particular, some of our suppliers choose us as exclusive distributor for certain of their chronic condition management products in certain regions. By matching hospitals’ needs with supplies available at our partner pharmaceutical companies and other upstream suppliers, we can, directly or through

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our distributors, provide hospitals with an expansive offering of medical products as part of our in-hospital solution. Leveraging our years of operational experience, we have developed strong supply management capabilities and collaborative relationships with our chronic condition product suppliers.

We provide medical devices, consumables and pharmaceuticals to hospitals, primarily through distributors. Leveraging our expertise in chronic condition management, the products that we provide primarily include:

- *Medical devices and consumables.* We sell medical devices, such as blood glucose meters and vital sign monitors, all of which are able to connect to our hospital SaaS through our proprietary AIoT devices. We also sell consumables such as glucose testing strips, most of which are used in connection to medical devices or other tests related to chronic conditions to address the needs to continuously track the health condition of in-hospital patients.
- *Pharmaceuticals.* We provide hospitals with a variety of pharmaceuticals, including both OTC and prescriptions drugs, most of which related to chronic condition, but also other common medicines. During the Track Record Period, based on our internal records and to our Directors' best knowledge, we did not directly or indirectly sell drugs to public medical institutions and we do not intend to do so considering China's current "two-invoice system" regulations. See "— Risk Management and Internal Control — Two-invoice system and national centralized procurement using a VBP approach" for details.

Because of the long-tail nature of medical devices, consumables and pharmaceuticals, the supplies we sell to hospitals are at various different price points, and many SKUs that we sell contributed insignificant amount to our revenues. In 2019, 2020 and 2021, the number of SKU that generated sales of more than RMB500,000 reached 35, 42 and 119, respectively. These SKUs contributed approximately 94%, 96% and 90% of the total revenues generated from hospital supplies in the respective years. These SKUs mainly include glucose meters, testing strips, vital sign monitors and testing devices.

We are the exclusive distributor in some regions for some of the medical devices and consumables that we sell. We believe that suppliers of these products are willing to choose us as their exclusive distributors in part attributable to our hospital SaaS capabilities. The exclusive distribution agreements we enter into with these suppliers have various terms regarding aspects such as coverage area and compliance requirements, with terms typically of one to two years. These contracts comply with our internal practices and were entered into based on commercial negotiations. We are sometimes subject to certain minimum purchase and/or minimum sales

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requirements. If we fail to meet the relevant minimum purchase and/or minimum sales requirements under these contracts, the suppliers have the right to change our exclusive distribution rights to non-exclusive distribution rights, or withdraw the exclusive distribution rights granted to us. During the Track Record Period, we did not fail to meet the relevant minimum purchase and/or minimum sales requirements under any of these contracts. Under these agreements, either party can terminate for cause. Approximately 18%, 43% and 30% of the revenues we generated from sales of hospital supplies were from contracts with these types of exclusivity provisions in 2019, 2020 and 2021, respectively.

In general, we are also more willing to collaborate with suppliers whose products are related to chronic condition management. We select our suppliers based on, among other things, qualification, reliability and volume. Before entering into any agreement, we perform background checks on suppliers and the products they provide, which include examining their business licenses and the relevant licenses and certificates for their products. We also take into consideration suppliers' brand recognition and make inquiries about the market acceptance of their products among players in the industry. Depending on the circumstances, we sometimes selectively conduct on-site visits to assess and verify their location, scale of business, production capacity, property and equipment, human resources, research and development capabilities, quality control system and fulfillment capability.

We provide medical devices, consumables and pharmaceuticals to hospital end customers through either direct sales or distributors. Approximately 86%, 92% and 89% of the revenues we generated from sales of hospital supplies were from sales to distributors in 2019, 2020 and 2021, respectively. Accordingly, approximately 14%, 8% and 11% of the revenues generated from sales of hospital supplies were from direct sales to hospitals in 2019, 2020 and 2021, respectively. See the section headed “— Distributors.” Under our agreements with our distributors, we sell these items to them, and our distributors are authorized to sell products purchased from us directly to our hospital end customers. According to the relevant regulations, drugs and medical devices sold to our distributors may not be returned or replaced once sold for any reasons except for the reason of quality. As a result, we generally are not subject to return risks. See the section titled “Regulatory Overview — Regulations Relating to Drugs and Medical Devices — Pharmaceutical Operation.” According to Frost & Sullivan, this practice is consistent with industry norms. These distributors are our customers in their transactions of buying these items from us. The pricing of the medical devices, consumables and pharmaceuticals that we sell are based on reference prices provided by our suppliers and commercial negotiation with our distributors and direct sales customers. In particular, for sales to our distributors, we may adjust the reference prices provided by the suppliers with reference to the market competition conditions and our business goals for product profit margins. For sales directly to hospitals, the prices are negotiated in bidding processes with the relevant hospitals. Our obligations are fulfilled once the title of the goods are transferred to these distributors or our direct sales customers. We generate revenue directly from

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these sales and recognize revenues on a gross basis once the title of the goods are transferred. The number of public hospitals that directly or indirectly purchased hospital supplies from us amounted to 724, 1,194 and 1,535 in 2019, 2020 and 2021, respectively, representing 71.3%, 83.4% and 73.0% of the total number of the hospitals that directly or indirectly purchased hospital supplies from us during these respective periods. Accordingly, the number of non-public hospitals that directly or indirectly purchased hospital supplies from us amounted to 292, 237 and 566 in 2019, 2020 and 2021, respectively, representing 28.7%, 16.6% and 26.9% of the total number of the hospitals that directly or indirectly purchased hospital supplies from us during these respective periods.

We directly sell to our distributors or hospitals from our inventory. We manage our inventories and adjust inventory level based on fluctuation in supply, demand and prices, and, for some of our inventory, seasonality, product popularity and shelf life. We also utilize warehousing services from third parties for some of our inventory and for the remainder rent our own warehouses. We use third party fulfillment services to deliver goods to our customers, including distributors and hospitals. These third-party fulfillment service providers are Independent Third Parties, who deliver goods for us from our warehouses to our customers, and bear the risk of damage of the goods.

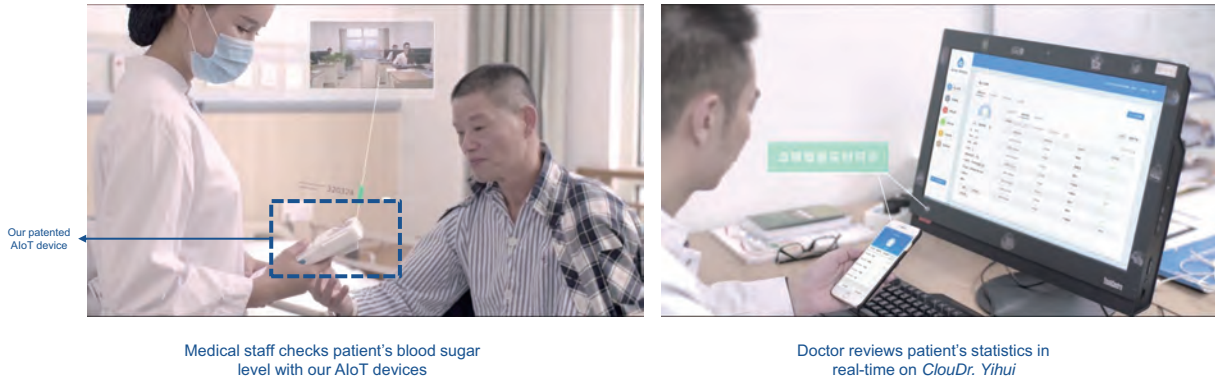
Hospital SaaS

ClouDr. Yihui, our hospital SaaS is designed to digitalize chronic condition management to improve hospitals' operational efficiency and treatment effectiveness. It facilitates hospitals in creating and maintaining EMR for their chronic condition patients. It can connect to in-hospital medical AIoT equipment. Because *ClouDr. Yihui* acts as a "plug-in" or extension of existing HIS and laboratory information systems ("LIS"), it can work seamlessly with hospitals' current systems without the need of major revisions to hospitals' systems. As of December 31, 2021, *ClouDr. Yihui* was installed in more than 2,300 hospitals, including approximately 640 Class III public hospitals and approximately 1,036 Class II public hospitals, accounting for approximately 21.4% of the Class III public hospitals and approximately 10.0% of the Class II public hospitals in China, respectively.

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The following graphics are illustrations and screenshots of *ClouDr. Yihui*:

Real-time Information Integration



Intelligent Health Data Tracking

Intelligent Health Data Tracking

Department: Hospital, Doctor's Username: []

Filter based on different criteria

Search

Diagnosis and Treatment Suggestions

Add Nursing Record

Nursing Record

Department Patient's Basic Health Information Disease

Blood Sugar Analysis
 Inspection and Examination
 Medical Advice Record
 Treatment Plan
 Nursing Record
 Surgery Record
 Hospitalization Record
 Out-of-hospital Management
 Outpatient Service Management

患者详情
 血糖分析
 检验检查
 医嘱记录
 治疗方案
 护理记录
 手术记录
 住院信息管理
 院外管理
 门诊管理

本次住院-所有数据
 2021-06-06 00:00:00 - 2021-06-11 23:59:59
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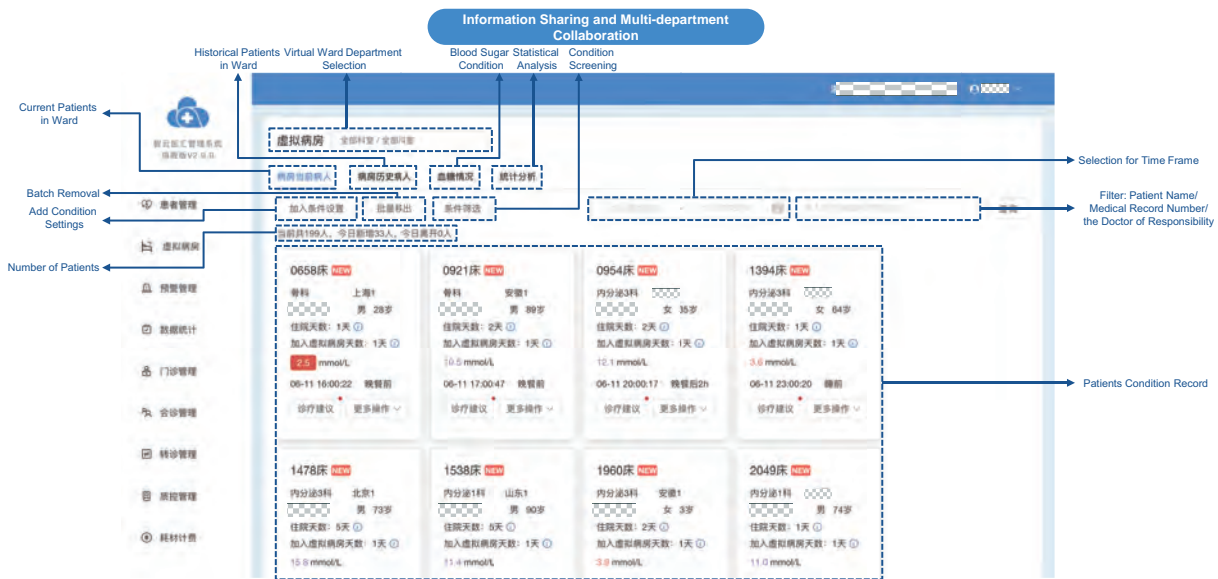
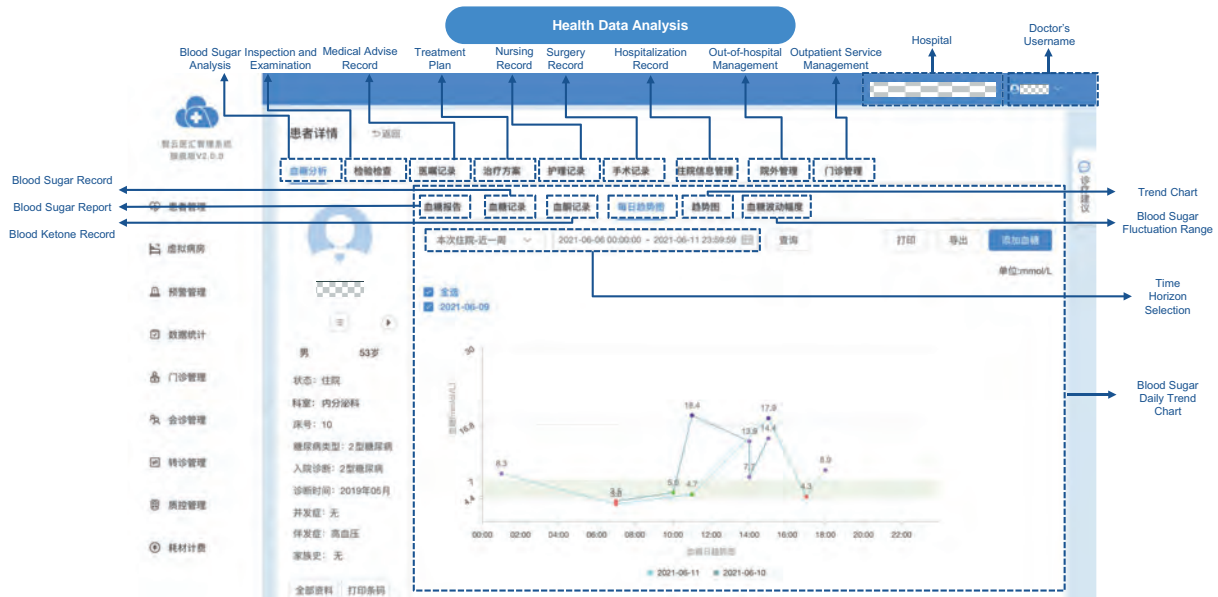
检测时间	患者状态	体温 (°C)	脉搏 (次/分)	心率 (次/分)	呼吸 (次/分)	收缩压 (mmHg)	舒张压 (mmHg)	操作
2021-06-11 16:04	普通住院	36.5	90	98	22 ↑	110	90	编辑 查看
2021-06-11 14:23	普通住院	36.5	91	99	20	111	95 ↑	编辑 查看
2021-06-11 13:22	普通住院	36.7	92	97	21 ↑	107	78	编辑 查看
2021-06-10 16:20	普通住院	36.5	95	95	20	110	79	编辑 查看
2021-06-10 14:21	普通住院	36.5	97	96	21 ↑	112	80	编辑 查看
2021-06-10 12:21	普通住院	36.7	98	99	22 ↑	110	90	编辑 查看
2021-06-10 08:21	普通住院	36.5	95	97	23 ↑	111	90	编辑 查看

自定义
 打印体温单
 打印护理记录
 添加护理记录

患者管理
 虚拟病房
 预警管理
 数据统计
 门诊管理
 会诊管理
 转诊管理
 质控管理
 耗材计费

男 53岁
 状态: 住院
 科室: 内分泌科
 床号: 10
 糖尿病类型: 2型糖尿病
 入院诊断: 2型糖尿病
 诊断时间: 2019年05月
 并发症: 高血压
 家族史: 无

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ClouDr. Yihui has the following key features:

Consultation and prescription: Doctors can use *ClouDr. Yihui* to input their consultation results and diagnosis of patients, order tests, prescribe drugs and instruct nurses to conduct follow-up tests, as *ClouDr. Yihui* can be integrated with HIS.

Automated health record input. *ClouDr. Yihui* connects the hospital's medical devices, such as blood glucose meters, with the HIS and LIS, and automatically collects and transmits outputs of the equipment to the hospital's database.

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EMR establishment and intelligent health condition tracking. *ClouDr. Yihui* records tracks a patient's health conditions, test results and other medical history, and can automatically flag abnormalities. It also helps hospitals establish and manage their EMR.

Health analysis. *ClouDr. Yihui* can use the data saved locally in hospitals to analyze a patient's health conditions and medical results and present visualized results, assisting doctors in their diagnoses and treatment planning, with the help of our knowledge base of chronic conditions.

Medical AIoT integration. Within *ClouDr. Yihui*, we have developed a suite of proprietary AIoT devices that connects to most of the mainstream chronic condition medical devices and helps hospitals and doctors collect and standardize patient records in a confidential manner.

Supply and billing management. Doctors and nurses can access a comprehensive, digitalized record of their hospital's use and stock of specified consumables, such as blood glucose testing strips and blood drawing needles, helping them to efficiently manage medical supplies.

Multi-department and across-hospital collaboration. *ClouDr. Yihui* allows sharing, collaboration and inter-department patient transfers across a hospital's different departments to coordinate and develop treatment plans for a patient, through functions such as "Virtual Ward". The medical records of consenting patients can also be shared with other hospitals through the *ClouDr. Yihui* system to facilitate collaborative treatment among hospitals and transfers between hospitals.

We have generally adopted a subscription fee model for our hospital SaaS for an annual fee of RMB250,000 as a base package. We primarily sell rights to use our SaaS to our customers, who are usually distributors of our hospital end-customers, who then resell the rights to our hospital end customers. According to Frost & Sullivan, such practice is industry norm, as most hospitals only purchase software rights from vendors on their respective vendor lists. The number of our customers who are vendors on the hospital's vendor lists for our hospital SaaS amounted to 11, 22 and 19 in 2019, 2020 and 2021, respectively. We also sometimes sell rights to our hospital SaaS directly to certain hospitals. For sales to vendors on the hospitals' vendor lists, we typically charge an annual subscription fee of RMB250,000 as a base package. For sales directly to hospitals, the prices of our hospital SaaS are negotiated in the bidding processes with the relevant hospitals with reference to our base package offered to the vendors. Similar to the fee model of sales to vendors, we also typically charge an annual subscription fee of RMB250,000 as a base package for our sales directly to hospitals. Our pricing terms are in line with industry norms according to Frost & Sullivan. According to industry norms, we have often offered our hospital SaaS for free or at discounted prices, a practice we expect to continue in the near future, and we use revenue from our sales of hospital supplies as a way to compensate for discounted or waived subscription fees. See "— the "AIM" model." The number of public hospitals that installed our hospital SaaS

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amounted to 359, 1,602 and 2,164 as of December 31, 2019, 2020 and 2021, respectively, representing 95.2%, 94.0% and 91.3% of the total number of the hospitals that installed our hospital SaaS as of these respective dates. Accordingly, the number of non-public hospitals that installed our hospital SaaS amounted to 18, 103 and 205 as of December 31, 2019, 2020 and 2021, representing 4.8%, 6.0% and 8.7% of the total number of the hospitals that installed our hospital SaaS as of these respective dates.

Please refer to “Industry Overview — Competitive Landscape” for details on the competitive landscape, strengths and differentiated features and functions of our hospital SaaS.

Case Study: Chronic condition management show-case of our hospital SaaS.

In 2019, Hospital B, a leading Class III-A hospital, adopted our in-hospital solution and installed our hospital SaaS solution *ClouDr. Yihui* in all of its departments. In particular, our *ClouDr. Yihui* facilitated doctors and nurses in monitoring its patients’ conditions in real time and made medicine recommendations based on digital diagnosis. As our solution was fully integrated with Hospital B’s incumbent HIS system, it also allowed information sharing across departments to better serve chronic condition patients as they often suffer from multiple conditions.

Our solution greatly improved doctors and nurses’ efficiency and demonstrated effective medical treatment results for diabetic patients who adopted our solution, compared to the control group:

- Average hospitalization duration shortened 3.2 days
- Average blood sugar qualified rate increased 20%
- Average blood sugar decreased 3.3mmol/L (empty stomach) and 4.1mmol/L (after meal) after 3 days of hospitalization

Digital marketing services for pharmaceutical companies

Leveraging our strong network of hospitals and doctors, we provide precise digital marketing services to pharmaceutical companies. As of December 31, 2021, we had contracted with 15 pharmaceutical companies to provide digital marketing services for 22 SKUs of medicines. Based on the insights and expertise distilled from our interactions with hospitals, we have accumulated deep know-how of how to raise awareness of certain medicines among hospitals and doctors.

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Our digital marketing services include an array of seamlessly integrated promotional methods, many of which are powered by our platforms. Our digital marketing service starts with market research and insight collection for the specific SKUs that we provide digital marketing services for, which gives us and our customers insights on the medicines and helps us better understand and develop marketing strategies for them. After collecting insights and analyzing the specific product, we then conduct our digital marketing services both online and offline.

Part of our digital marketing services is conducted through our solutions. Through our hospital SaaS, we are able to promote medicines of our pharmaceutical company customers forward in a variety of innovative ways. For example, we are able to increase exposure for certain medicines through our hospital SaaS by placing the specific medicines on the top of the list for doctors to choose from and prescribe. Through our doctor app, we can also display and promote brand awareness for our pharmaceutical customers, although we do not display advertisements for any specific medicines as mandated by relevant laws and regulations in China. We also recommend medicines to doctors on our doctor app when they issue prescriptions, based on our medical knowledge base. Leveraging our understanding of China's chronic condition market, we are able to accurately deliver customized content sponsored by pharmaceutical and medical device companies to specific groups of physicians cost-efficiently.

We also conduct promotion of medicines as part of our digital marketing services for pharmaceutical companies through our business development teams, consisting of our employees and flexible staff. Many of our business development team members have medical backgrounds and can provide the latest information on medicines and other medical products for chronic conditions and answer questions that doctors may have. This has earned us trust from hospitals that we have relationships with. Our hospital business development teams maintain close contact with hospitals. As part of our digital marketing services and in order to maintain close relationships with our hospital network, our business development teams regularly host online and offline academic events, industry conferences, forums and seminars, to deepen and strengthen our hospital and doctor network and raise awareness among doctors for our pharmaceutical company customers. Our business development teams organize online training on medical products for doctors and coordinates purchases of medical products, if requested.

We earn revenue from digital marketing services on a performance basis. We usually enter into exclusive contracts with pharmaceutical companies to conduct digital marketing services for them in a specific region for a specific SKU. We receive a portion of the revenues our pharmaceutical company clients generate from the specific SKU and region for which we provide them digital market services. Our agreements with pharmaceutical companies sometimes also have a tiered commission mechanism where we earn a higher percentage of revenue if their revenue increased by a certain threshold. We are not involved with the sales of pharmaceuticals for which we conduct digital marketing services.

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We have achieved growth in our digital marketing service business, which has a relatively high gross profit margin, and has contributed to an increasing portion of our gross profit since we launched our digital marketing services in 2019. During the Track Record Period, our average revenue per pharmaceutical company for our digital marketing services amounted to RMB7.1 million, RMB11.5 million and RMB26.9 million for 2019, 2020 and 2021, respectively. We plan to continue to develop this business by (i) expanding our base of contracted pharmaceutical companies to cooperate with more multinational and local pharmaceutical companies, (ii) expanding the types of SKUs and medicines we promote and exploring opportunities in new therapeutic areas, such as neurology, hepatology and cardiology, and (iii) exploring additional strategic collaboration opportunities by leveraging our existing business relationships with pharmaceutical companies.

Please refer to “Industry Overview — Competitive Landscape” for details on the competitive landscape, strengths and differentiated features and functions of our digital marketing services.

Case Study: Our digital marketing services effectively helped a pharmaceutical company target customers and improve its channel management.

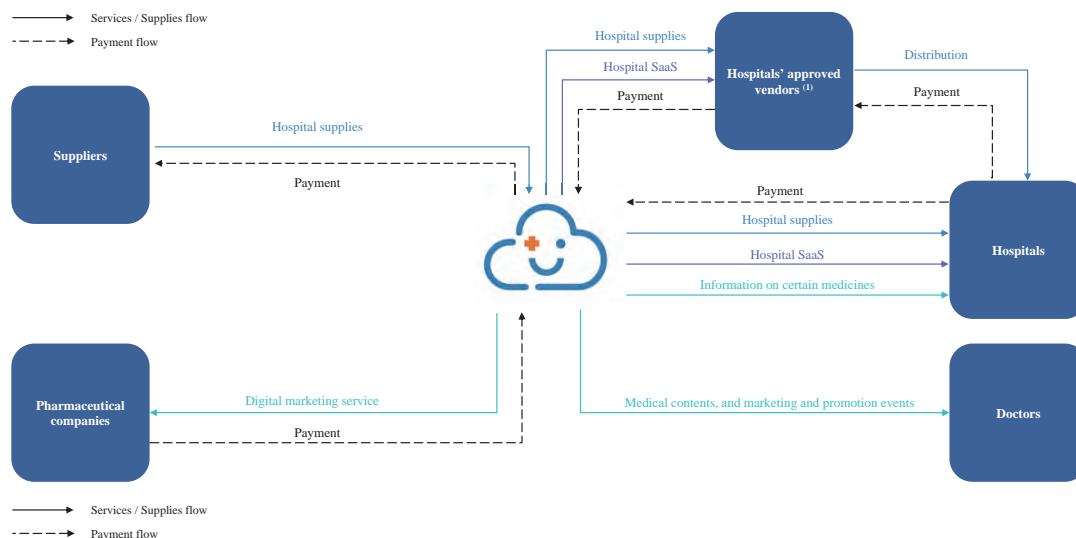
In 2019, we started providing digital marketing services in Zhejiang Province to Company E, a top-three pharmaceutical company in China, according to the Frost & Sullivan Report. Leveraging our extensive hospital network, as well as our deep insights of patient needs, we facilitated Company E in penetrating into more hospitals, and facilitated its sales planning and channel management. Since we established this partnership, Company E has effectively expanded its business through our marketing services. In 2020, the quantity of an antihypertensive drug, a key product of Company E sold by the Company, has approximately doubled compared to 2019.

The COVID-19 pandemic has effectively driven the adoption of digital marketing services for pharmaceutical companies as traditional offline marketing channels were disrupted during the outbreak. According to Company E, as a result of the digital marketing services we provided, its sales growth in Zhejiang Province significantly outperformed that in other regions.

BUSINESS

Our transaction and fund flows

The following chart demonstrates the product/services that we provide/receive from different stakeholders in our in-hospital solution business, as well as the fund flows.



Note:

1. Independent third parties of the Company

Our operating and financial performance

The following tables sets forth certain operating results of our in-hospital solution.

	For the Years Ended December 31,		
	2019	2020	2021
Number of hospitals that installed our hospital SaaS ⁽¹⁾	377	1,705	2,369
Number of SaaS-paying hospitals	104	184	118
Number of transacting customers (excluding pharmaceutical companies) ⁽²⁾	309	436	949
Number of hospitals directly or indirectly purchased hospital supplies from us ⁽³⁾	1,016	1,431	2,101
Retention rate of hospitals directly or indirectly purchased hospital supplies from us ⁽⁴⁾	67%	75%	77%
Number of transacting pharmaceutical companies ⁽⁵⁾	5	13	15
Number of SKUs marketed through digital marketing services ⁽⁶⁾	6	16	22

BUSINESS

Notes:

- (1) Number of hospitals that installed our hospital SaaS is the cumulative total number as of the end date of the respective year.
- (2) Includes distributors through which we sold medical devices, consumables and pharmaceuticals to hospital end customers, and distributors through which we sold our hospital SaaS to hospital end customers, and hospitals that directly procured medical devices, consumables, and pharmaceuticals or our hospital SaaS from us during the respective year.
- (3) Based on our internal records and information available to us as at the Latest Practicable Date.
- (4) Retention rate of hospitals directly or indirectly purchased hospital supplies from us in a given year is calculated as the ratio between (i) the number of hospitals that had purchased, directly or indirectly, hospital supplies from us both in the given year and the year immediately before, and (ii) the number of hospitals that had purchased, directly or indirectly, hospital supplies from us in the year immediately before the given year. The number of hospitals directly or indirectly purchased hospital supplies from us is based on our internal records and information available to us as at the Latest Practicable Date.
- (5) Number of transacting pharmaceutical companies is the number of pharmaceutical companies to which we provided digital marketing services during the respective year.
- (6) Number of SKUs marketed through digital marketing services during the respective year.

The number of hospitals that installed our hospital SaaS increased during the Track Record Period, growing significantly from 2019 to 2021, as we continuously expanded our hospital network through the “AIM” model. We experienced significant growth in the number of transacting customers (excluding pharmaceutical companies), as well as number of hospitals directly or indirectly purchased hospital supplies from us. As we expand our digital marketing services, the number of transacting pharmaceutical companies also grew significantly in 2020 and 2021. Our SaaS-paying hospitals decreased from 184 for the year ended December 31, 2020 to 118 for 2021. We experienced this decline because, under our “AIM” model, we do not view the installation of hospital SaaS as a direct contributor to our revenue, due to the difficulties Chinese public hospitals typically have in approving significant budgets for software products given their public and welfare nature. Instead, we drive our monetization through sales of hospital supplies and the provision of digital marketing services. As of December 31, 2021, we have successfully converted 29 out of 82 such hospitals that ceased paying for our hospital SaaS during 2021 to hospitals that directly or indirectly purchased hospital supplies from us, representing a conversion rate of approximately 35%, and we believe this conversion record illustrates our monetization strategies under our “AIM” model. As the bidding and procurement processes of public hospitals are conducted periodically according to their needs, we expect that we will convert more hospitals that ceased paying for our hospital SaaS to hospitals that directly or indirectly purchase hospital supplies from us as they conduct subsequent rounds of bidding and procurement processes.

BUSINESS

The following table sets forth a breakdown of our revenue from in-hospital solution in both absolute amounts and as a percentage of our total revenues of in-hospital solution for the years presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
In-hospital solution						
Hospital supplies ⁽¹⁾	129,911	73.3	250,124	59.2	854,114	67.1
Hospital SaaS	11,857	6.7	22,660	5.4	15,666	1.2
Digital marketing services.	35,448	20.0	149,391	35.4	402,958	31.7
Total.	<u>177,216</u>	<u>100.0</u>	<u>422,175</u>	<u>100.0</u>	<u>1,272,738</u>	<u>100.0</u>

Note:

- (1) Hospital supplies include medical devices, such as blood glucose meters and vital sign monitors, consumables, such as glucose testing strips, and pharmaceuticals, including both OTC and prescription drugs.

Our revenue from our in-hospital solution has grown significantly during the Track Record Period, primarily driven by our continued implementation of our hospital-first strategy and efforts to expand our hospital network and enhance engagement with hospitals and the launch and growth of our digital marketing services. See “Financial Information — Year-to-Year Comparison of Results of Operations.”

In 2021, 118 hospitals were paying users of our hospital SaaS, 55.4% of hospitals who were users of our hospital SaaS in 2020 remained users, and 1.1% of the non-paying users of our hospital SaaS in 2020 became paying users.

BUSINESS

PHARMACY SOLUTION

Our pharmacy solution consists of pharmacy supplies, which is the main revenue contributor under pharmacy solution, and pharmacy SaaS.

The following is a breakdown of our revenues from the pharmacy solution by revenue sources, in both absolute amounts and as a percentage of our total revenues for the years/periods presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Revenues:						
Pharmacy solution						
Sales of pharmacy						
supplies	326,863	62.3	330,480	39.4	300,961	17.1
Pharmacy SaaS	24	0.0	15,127	1.8	49,006	2.8
Total	326,887	62.3	345,607	41.2	349,967	19.9

Pharmacy supplies

Leveraging our understanding of the healthcare industry in China, our relationships with pharmaceutical companies and our access to upstream suppliers, we provide medical devices, consumables, pharmaceuticals and miscellaneous to pharmacies. In general, we choose a distributor model for single-store pharmacies and distributors who are large wholesalers of pharmaceuticals, and use direct sales for large-scale chain pharmacies.

We in general offer more expansive SKUs to pharmacies as they have broader needs. For example, in addition to OTC and prescription drugs, we also provide supplements and health food products, as well as miscellaneous items that our pharmacy end customers carry in their stores, such as certain food and everyday items.

Because of the long-tail nature of medical devices, consumables and pharmaceuticals, the supplies we sell to pharmacies are at various different price points, and many SKUs that we sell contributed insignificant amount to our revenues. In 2019, 2020 and 2021, the number of SKU that generated sales of more than RMB1 million reached 36, 56 and 35, respectively. These SKU contributed approximately 92%, 89% and 90% of the total revenues generated from pharmacy supplies in the respective year.

BUSINESS

We select our suppliers of our sales to pharmacies based on the same procedures and standards as we do for those of our sales to hospitals. We sell items to pharmacy end customers either through direct sales or distributors. We use distributors mainly in an effort to more efficiently reach the enormous large number of pharmacies in China. As we do not control the end customers of our distributors, our supplies may sometimes resell to entities that are not pharmacies. We seek to establish business relationships with and directly sell to large-scale pharmacy chains and other pharmacies, which we believe are ideal candidates for our pharmacy SaaS.

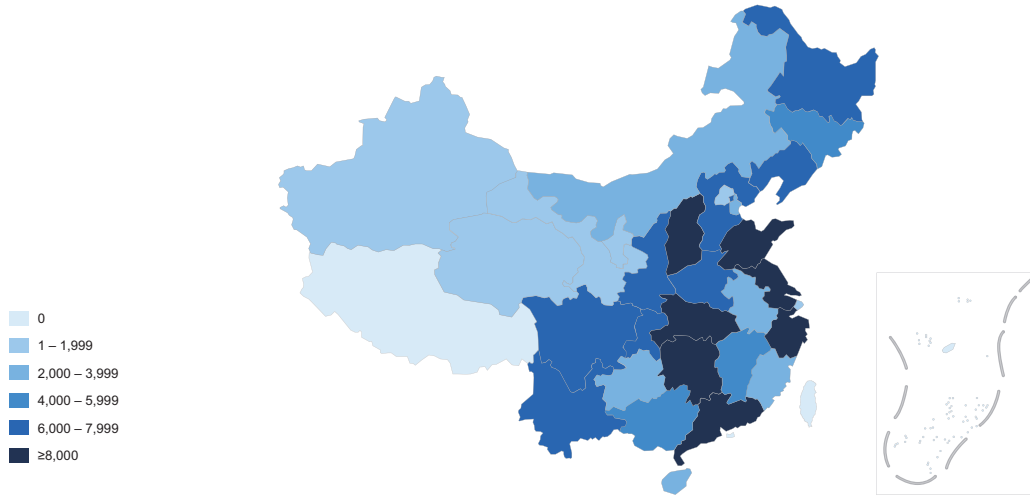
Under our agreements with our distributors, we sell goods to them, and our distributors then sell goods purchased from us to pharmacies. This arrangement is consistent with industry norms, according to the Frost & Sullivan Report. According to the relevant regulations, drugs and medical devices sold to our distributors may not be returned or replaced once sold for any reasons except for the reason of drug quality. As a result, we generally are not subject to return risks. See the section titled “Regulatory Overview — Regulations Relating to Drugs and Medical Devices — Pharmaceutical Operation.” These distributors are our customers in their transactions in buying such items from us. The pricing of the goods we sell are based on reference prices provided by our suppliers and negotiations with our customers. Our obligations are fulfilled once the title of the goods is transferred to these distributors and our direct sales customers. We generate revenue directly from these sales and recognize revenues on a gross basis once the title of the goods are transferred.

Our distributors under sales of pharmacy supplies are usually wholesalers who sell to pharmacies. Our direct pharmacy customers for sales of pharmacy supplies are usually large chain pharmacies in China. In the fiscal year ended December 31, 2021, approximately 74.1% and 25.9% of revenues generated from pharmacy supplies were generated through distributors and directly sales, respectively. In some regions we are the exclusive distributor for our pharmacy solution products. Approximately 54%, 61% and 55% of the revenues generated from our sales of pharmacy supplies were from contracts with these types of exclusivity provisions in 2019, 2020 and 2021, respectively.

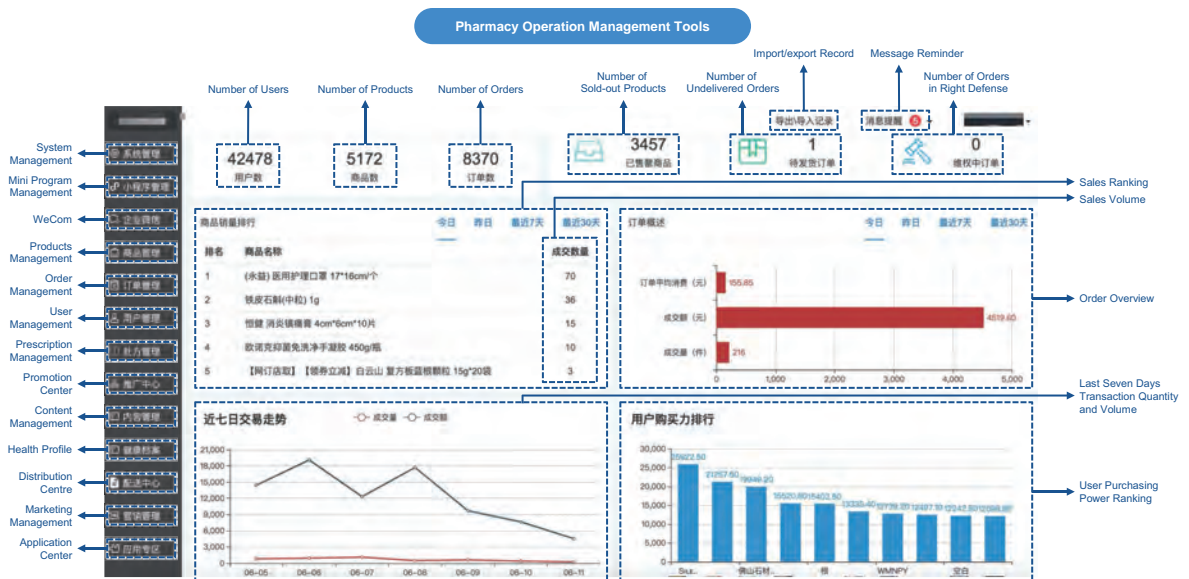
We directly sell from our inventory to our distributors or pharmacies. We manage our inventories and adjust inventory level based on fluctuation in supply and prices, and, for some of our inventory, seasonality, product popularity and shelf life. We also utilize warehousing services from third parties for some of our inventory and for the remainder rent our own warehouses. We use third party fulfillment services to deliver goods to our customers, including distributors and pharmacies.

Pharmacy SaaS

We started offering *ClouDr. Pharmacy*, our pharmacy SaaS, in the second half of 2019. We facilitates in-pharmacy prescription issuance for walk-in patients, and help pharmacies manage their inventories and set up online pharmacies through Weixin mini programs. As of December 31, 2021, over 172,000 pharmacy stores had installed *ClouDr. Pharmacy*. The following map illustrates the geographic coverage of pharmacy stores that installed our pharmacy SaaS as of December 31, 2021.



The following screenshot show the interface of *ClouDr. Pharmacy*:



BUSINESS

Main functions of *ClouDr. Pharmacy* include:

In-pharmacy consultation and prescription service. A patient walking into a pharmacy that uses *ClouDr. Pharmacy* can consult doctors and apply for prescriptions renewal by accessing our platform through our Weixin mini program or our patient app. The consultation and prescription process can be completed through text and photo-based or video-based sessions with doctors on our platform. After the prescription renewal, the pharmacist at the pharmacy or one available on our platform will further review the prescription through *ClouDr. Pharmacy*.

New retail. Pharmacies with our pharmacy SaaS can pay an extra fee to use our new retail service and have us set up an online pharmacy through Weixin mini programs. The online pharmacy is connected to the pharmacy's *ClouDr. Pharmacy*, which allows one-stop inventory, orders, customers and staff management. We also provide different forms of marketing tools that include live streaming and cash rewards.

Inventory management. According to the Frost & Sullivan Report, pharmacies primarily make their purchasing decisions based on historical experience, and their inventory turnover days are generally long due to a lack of detailed, precise planning and bulk purchase patterns. *ClouDr. Pharmacy* supports just-in-time procurement and inventory-on-demand, optimizing pharmacies' inventory management.

We generate revenue from subscription fees for pharmacies using *ClouDr. Pharmacy* on a per-outlet annual basis with annual fees ranging from approximately RMB1,000 to RMB17,000, depending on the services chosen. We currently offer some of our pharmacy SaaS customers a one-year free trial of our pharmacy SaaS, after which they will need to pay the standard subscription fee. We charge each pharmacy that uses our new retail service an extra subscription fee. We also charge pharmacies that use our new retail service commissions based on percentages of revenue generated from selling medicines.

Please refer to “Industry Overview — Competitive Landscape” for details on the competitive landscape, strengths and differentiated features and functions of our pharmacy SaaS.

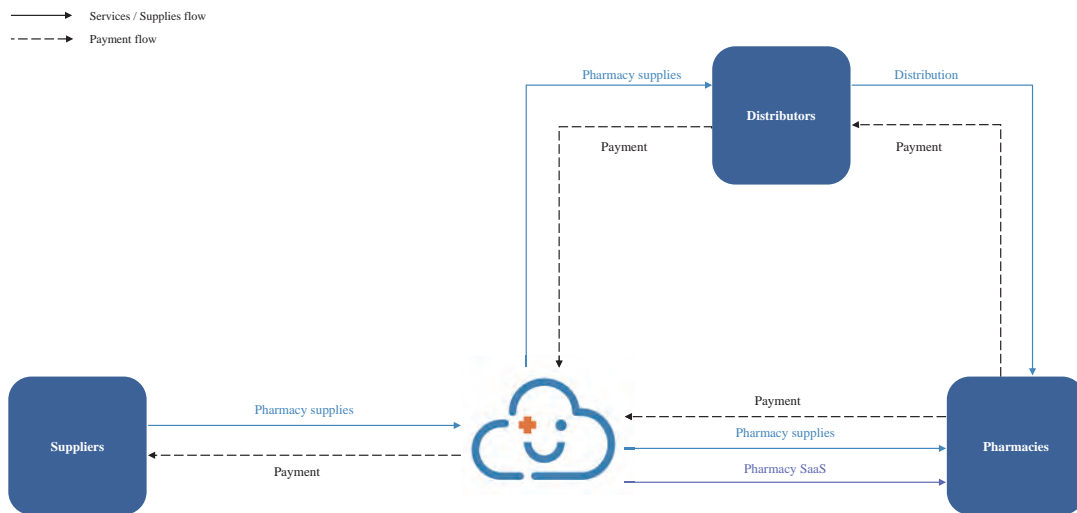
BUSINESS

Case Study: Pharmacy Chain A uses our solution to increase efficiency and broaden customer acquisition channels.

In March 2021, Pharmacy Chain A, a regional pharmacy chain in Guangdong province with more than 30 outlets, installed our pharmacy SaaS in all of their outlets and established their online pharmacy with our new retail service. With the help of our prescription services, Pharmacy Chain A's prescription drug sales increased, as patients were able to obtain prescriptions and place orders in pharmacies more easily. With the help of our new retail service, within three months, Pharmacy Chain A generated over RMB1.7 million online revenue, which is comparable to the average annual revenue of an offline store of some other pharmacy chains generated in 2020.

Our transaction and fund flows

The following chart demonstrates the product/services that we provide/receive from different stakeholders in our pharmacy solution business, as well as the fund flows.



BUSINESS

Our operating and financial performance

The following tables sets forth certain operating results of our pharmacy solution.

	For the Years Ended December 31,		
	2019	2020	2021
Number of pharmacy stores that installed our pharmacy SaaS ⁽¹⁾	3,002	111,413	172,279
Number of SaaS-paying pharmacy stores . .	2,346	44,068	84,389
Number of transacting customers ⁽²⁾	343	327	683

Notes:

- (1) Number of pharmacy stores that installed our pharmacy SaaS is the cumulative total number as of the end date of the respective period.
- (2) Includes distributors through which we sold medical devices, consumables, pharmaceuticals and miscellaneous to pharmacy end customers, and chain pharmacy companies who directly procured medical devices, consumables, pharmaceuticals and miscellaneous from us during the respective period, and does not include SaaS-paying customers who did not purchase such products directly or indirectly from us.

The number of pharmacy stores that installed our pharmacy SaaS has increased since 2019, when we started offering such service, and grew significantly from 2019 to 2021 as we continuously expanded our pharmacy network and attracted a number of large pharmacy chain customers. The number of SaaS-paying pharmacy stores grew as the number of pharmacy stores that installed our pharmacy SaaS grew.

The following table sets forth a breakdown of our revenue from pharmacy solution both in absolute amount and as a percentage of our total revenues of pharmacy solution for the years presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Pharmacy solution						
Pharmacy supplies ⁽¹⁾	326,863	100.0	330,480	95.6	300,961	86.0
Pharmacy SaaS	24	0.0	15,127	4.4	49,006	14.0
Total	326,887	100.0	345,607	100.0	349,967	100.0

Note:

- (1) Pharmacy supplies include medical devices, such as blood glucose meters and vital sign monitors, consumables, such as glucose testing strips, pharmaceuticals, including both OTC and prescription drugs, and other miscellaneous items.

BUSINESS

Our revenue from our pharmacy solution has grown during the Track Record Period, primarily driven by the expansion of the geographic coverage of our pharmacy network and continued investment in the development and upgrading of our pharmacy SaaS. See “Financial Information — Year-to-Year Comparison of Results of Operations.”

As of December 31, 2021, 84,389 pharmacy stores were paying users of our pharmacy SaaS. In the 2021, 89.9% of pharmacy stores who were users of our pharmacy SaaS in 2020 remained users, and 18.9% of the non-paying users of our pharmacy SaaS in 2020 became paying users.

OUR INDIVIDUAL CHRONIC CONDITION MANAGEMENT SOLUTION FOR INDIVIDUAL USERS

ClouDr. Health is our individual chronic condition management platform on which users can receive instant, professional care for chronic conditions and other health management services at any time and from anywhere. As of December 31, 2021, *ClouDr. Health* had approximately 23.8 million registered users.

The following is a breakdown of our revenues from the individual chronic condition management solution and others by revenue sources, in both absolute amounts and as a percentage of our total revenues for the years presented:

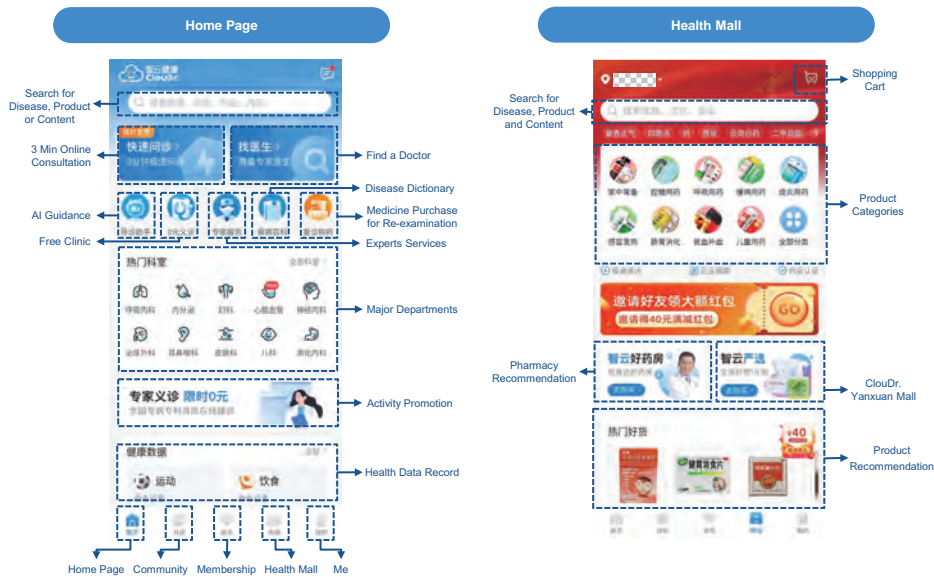
	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Revenues:						
Individual chronic condition management solution and others:						
Chronic condition products	15,704	3.0	34,846	4.2	53,031	3.0
Premium membership services	—	—	14,211	1.7	22,688	1.3
Others ⁽¹⁾	4,631	0.9	22,284	2.6	58,307	3.4
Total	20,335	3.9	71,341	8.5	134,026	7.7

Note:

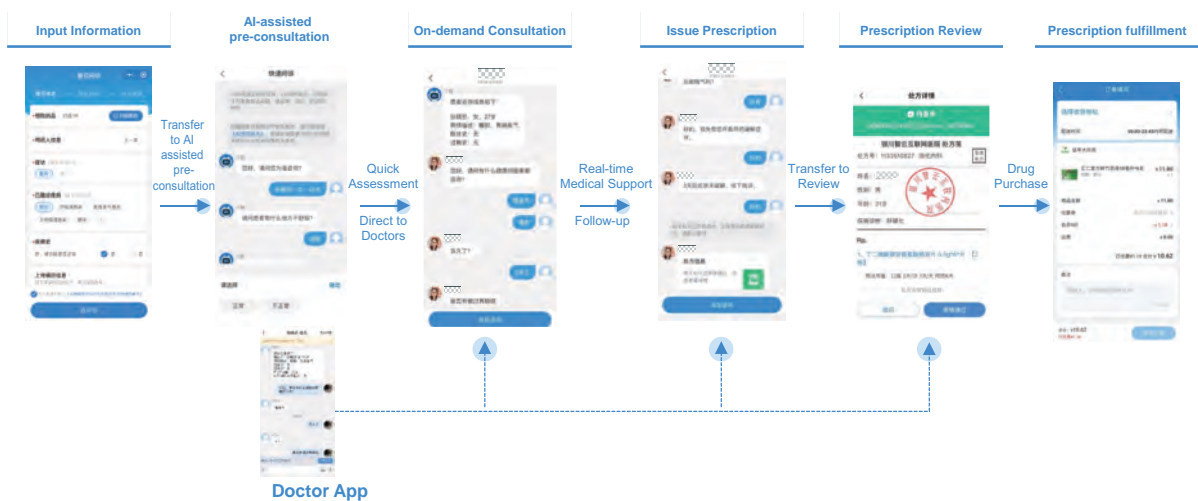
(1) Others include insurance brokerage services, advertisement agent services and others.

“Anytime, anywhere” health management

We have developed a mobile-first care system where users receive convenient and intelligent care for chronic conditions and other health management services. Our mobile system consists of our main mobile application, mini programs and a Weixin public account. The screenshots below illustrate the user interface of *ClouDr. Health*, our mobile application for individual users:



The following flowchart illustrates the process of a patient’s journey of receiving consultation and prescriptions on *ClouDr. Health*:



BUSINESS

ClouDr. Health provides the following services that are integral to patients' daily management of chronic conditions:

24/7 tracking and monitoring and personalized health management services. *ClouDr. Health* offers a smart-tracking function. Users can record their body measurements, conditions, symptoms, medication, diet, exercise and other types of health-related information on a daily basis. Medical AIoT devices that our users use at home, such as Bluetooth-enabled blood glucose and blood pressure meters, can automatically and immediately transmit test results to each user's individual records. *ClouDr. Health* monitors user's health condition and pushes an instant alert to users on his or her phone when there is an irregularity that suggests potential health risks or issues. In addition, we provide personalized health management services such as health evaluation and tailor-made "health tasks" for each user to complete to lower health risks.

Efficient, professional online consultations. A user on *ClouDr. Health* can access online consultation and prescription services provided by one of our registered doctors. Our online consultation and prescription services focus on chronic condition management, which requires long-term treatment, the re-filling of prescriptions and condition management. Each user seeking a consultation is asked a number of AI-generated questions, the answers to which provide an overview of the user's conditions and symptoms that allows the system to recommend the appropriate department and doctor. The consultations can be conducted via text and photo-based or video-based sessions. We started to charge users fees in 2021 for consultation services conducted by renowned doctors on our platform, who can set their own prices for their services, on a markup basis.

Online prescription and ordering services. A patient with a prescription from *ClouDr. Health* can easily submit a request for the prescribed drugs to Health Mall, our online retail e-commerce platform, and the platform will assign the request to the closest pharmacy with such order in stock that we partner with or our own pharmacies, quickly completing a hassle-free process of obtaining the necessary medicines for the patient's chronic condition. For orders that we refer to our pharmacy partners, we charge them commissions based on a percentage of the sales. Because we launched Health Mall in 2020, and we mainly generate revenues from Health Mall from commissions of sales rather than on a gross basis, revenue contribution of Health Mall has been immaterial during the Track Record Period. See "— Pharmacy Solution." We also operate some online and offline pharmacies, and we generate revenue from sales of pharmaceuticals and medical devices and supplies if users purchase them directly from us. The online pharmacies that we operate are under different brand names and can be accessed through the Health Mall. For our direct sales to users on our platform, we have put in place stringent rules governing the operations of suppliers to ensure that the products provided on our platform comply with applicable PRC laws and regulations.

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Prior to 2020, our platform generally did not charge users for using our online consultation and prescriptions services. Starting from 2020, we began allowing renowned doctors to set prices for their consultation services. Patients were required to pay doctors for the services that they received, but none of these payments were recognized as our revenue. As a result, we did not generate any revenue from our online consultation and prescription services of our chronic condition management solution in 2020. Starting from 2021, we began charging our users a platform service fee in the form of a markup on the fees set by doctors on our platform.

According to the applicable PRC laws and regulations, an internet hospital should be supported by an offline medical institution, which can be either an offline medical institution that is under common control with that internet hospital, or a third-party offline medical institution through entering into cooperation agreements. See “Regulatory Overview — Regulations Relating to the Online Medical Services — Internet Medical Services” for details. In order to meet the license requirements for setting up internet hospitals for our internet-based consultation and prescription services, there currently are three offline medical institutions (including one self-owned institution and two third-party institutions) whose licenses supported us in setting up three internet hospitals that hold their own licenses, which allow us to conduct our online consultation and prescription services. We established the self-owned offline medical institution in Hainan in order to meet the license requirements for setting up the corresponding internet hospital. In particular, the cooperation agreement entered into between the Class II non-public hospital and us has a term of three years, which allows us to conduct its online consultation and prescription services for diabetes and other chronic conditions through our internet hospital supported by that Class II non-public hospital. According to the agreement, the Class II non-public hospital should support us to meet the relevant legal and policy requirements, and we should pay certain amount of annual fee to that Class II non-public hospital for such cooperation. The cooperation agreement entered into between the Class III public hospital and us has a term of five years, which allows us to provide treatment and diagnosis of chronic diseases, including diabetes and hypertension, through our internet hospital supported by that Class III public hospital. According to the agreement, we should provide support to that Class III public hospital in terms of chronic condition management solution, brand building and online cooperation, and that Class III public hospital should provide medical equipment and physician support to us. According to our agreement with the Class III public hospital, we should be responsible for the medical disputes arising from the treatment or diagnosis conducted by our internet hospital. Because we focus on providing online services to patients, our self-owned offline medical institution generally did not provide any services to patients during the Track Record Period, which is industry norm for this type of supporting offline medical institutions established by internet hospital operators, according to Frost & Sullivan. Our PRC Legal Advisor is of the view that such arrangement for our self-owned offline medical that was established to satisfy the licensing requirements of the internet hospital without providing any services to patients is in compliance with applicable PRC laws and regulations.

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The clinical departments of our three internet hospitals are largely identical. As we focus on chronic condition management, all of our internet hospitals have clinical departments of internal medicine, surgery, obstetrics and gynecology, pediatrics, dermatology and traditional Chinese medicine. In addition, two of our internet hospitals have clinical departments of gynecology, otorhinolaryngology, and stomatology. The clinical departments of psychiatry, infectious diseases and traditional Chinese and Western medicine combination are established in one internet hospital. We provide the online consultation and prescription services on an integrated basis to patients. As such, as long as we operate one internet hospital with relevant clinical departments, we are able to provide services to patients in the relevant clinical departments across China through our online applications. If certain of our internet hospitals terminate their operations, we may be temporarily unable to provide services in certain clinical departments to patients if our other internet hospitals do not have such clinical departments. Such event may temporarily affect our online prescription and consultation services, lead to extra costs and also negatively affect our reputation.

We currently cooperate with a Class II non-public hospital and a Class III public hospital. Our internet hospitals separately entered into cooperation agreements with the two respective third-party offline medical institutions, which is a prerequisite requirement for obtaining the Medical Institution Practice Licenses for these internet hospitals. According to the cooperation agreements, the respective supporting offline medical institutions should support us to meet the relevant legal and policy requirements and cooperate with the respective internet hospitals to apply and obtain their licenses, and the respective internet hospitals should provide support to the respective offline medical institutions for chronic condition management by using internet and technology. In particular, the cooperation agreement entered into between the Class II non-public hospital and us has a term of three years, which allows us to conduct online consultation and prescription services for diabetes and other chronic conditions through our internet hospital supported by that Class II non-public hospital. According to the agreement, the Class II non-public hospital should support us to meet the relevant legal and policy requirements, and we should pay certain amount of annual fee to that Class II non-public hospital for such cooperation. The cooperation agreement entered into between the Class III public hospital and us has a term of five years, which allows us to provide treatment and diagnosis of chronic diseases, including diabetes and hypertension, through our internet hospital supported by that Class III public hospital. According to the agreement, we should provide support to that Class III public hospital in terms of chronic condition management solution, brand building and online cooperation, and that Class III public hospital should provide medical equipment and physician support to us. According to our agreement with the Class III public hospital, we should be responsible for the medical disputes arising from the treatment or diagnosis conducted by our internet hospital, if any. We intend to renew our cooperation agreements or find appropriate replacements to continuously support our internet hospitals before the expiration of the agreements. We independently operate our online consultation and prescription services. Accordingly, our internet hospitals and their respective supporting offline medical institutions shall undertake their own liabilities. And our internet

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hospitals will not be subject to liabilities incurred by the third-party offline medical institutions, and vice versa. However, we may be subject to risks inherent in collaboration with third parties for our collaboration with third-party medical institutions. For example, if the cooperation with either or both of such third-party offline medical institutions is terminated, we may need to find replacements for cooperating offline medical institutions, which may take time, incur additional costs and may distract the management's attention. We cannot guarantee that we will successfully find an appropriate replacement in a timely manner, or at all. Such event may temporarily affect our online prescription and consultation services, lead to extra costs and also negatively affect our reputation. See "Risk Factors — Risks Related to Our Business and Industry — We are subject to extensive and evolving legal and regulatory requirements, non-compliance with or changes in which may materially and adversely affect our business and prospects." Our PRC Legal Advisor has advised us that this approach is permitted under applicable PRC laws and regulations. According to Frost & Sullivan, this approach is in line with industry norm. During the Track Record Period, we provided the online consultation and prescription services through our online applications in different provinces across China, and this approach conforms with the relevant licensing requirements, as advised by our PRC Legal Advisor, Tian Yuan Law Firm. Our PRC Legal Advisor is of the view that our arrangements for the three offline medical institutions that supports our internet hospitals, including one self-owned and two third-party offline medical institutions, are in compliance with applicable PRC laws and regulations.

In addition to our collaboration with the two third-party offline medical institutions, we also entered into cooperation agreements with two medical institutions in Hainan. Under these agreements, each of these partners agrees to collaborate with us in the provision of services such as medical examination, medical imaging, transportation of patients for urgent care and sterilization services. The term of the cooperation under each agreement is three years initially and can be renewed upon expiry. We intend to renew our cooperation agreements or find appropriate replacements to continuously support our internet hospital before the expiration of the agreements. Under the 2020 Guidance, our self-owned offline medical institution in Hainan is required be equipped with certain functional rooms, including pharmacy, disposal room, laboratory, X-ray treatment room and sterilization provision room. Three functional rooms of our self-owned offline medical institution, namely laboratory, X-ray treatment room and sterilization provision room, are operated through aforementioned cooperation agreements, which is permitted under the 2020 Guidance. If either or both of these partners terminate their cooperation with us, we will need to find other qualified medical institutions as replacements to satisfy the licensing requirements under the 2020 Guidance for functional rooms. If we fail to find such qualified medical institutions and form collaboration relationships in a timely manner, or at all, we may not be able to pass the next applicable annual verification process, which may, in turn, affect the validity of the Medical Institution Practice License held by our self-owned offline medical institution in Hainan. See "Risk

BUSINESS

Factors — Risks Related to Our Business and Industry — We are subject to extensive and evolving legal and regulatory requirements, non-compliance with or changes in which may materially and adversely affect our business and prospects” for details.

Our online consultation and prescription services focus on providing services to patients with chronic conditions who have already obtained their initial diagnoses and prescriptions elsewhere and require prescription renewals. Our online hospitals do not provide initial or physical diagnoses to patients. Instead, we require patients to upload their previously issued prescription before obtaining consultation services that require prescription issuance from us. Chronic condition management requires long-term treatment, re-filling renewals of prescriptions and condition management. According to “Long-term Prescription Management Standard (Trial)” issued by the NHC and NHSA in 2021, generally no long-term prescriptions should be longer than 4 weeks and for patients with stable conditions the longest prescription period can be extended to 12 weeks. As such, each chronic condition patient that needs a long-term prescription would need to obtain a prescription at least 4 times each year. We strive to provide patients with convenient, efficient and comprehensive online consultation and prescription fulfilling experience can address long-term medical needs of chronic disease patients.

In the view of our PRC Legal Advisor, Tian Yuan Law Firm, during the Track Record Period and up to the Latest Practicable Date, our self-owned offline medical institution was in compliance with the relevant license requirements, since it has duly obtained its Medical Institution Practice License as stipulated in relevant PRC laws and regulations. Under the current PRC laws and regulations at the national level, there are no specific license requirements in terms of the business scale, financial and operating performance or the total number of physicians for a physical hospital so that an internet hospital supported by such physical hospital can be set up. However, as for Hainan Province, where our self-owned offline medical institution is located, there are provincial guidance (i.e. the 2019 Guidance and the 2020 Guidance) that set forth the requirements in terms of remote consultation rooms, qualification of physicians and nurses, basic equipment and facilities, clinic departments, internal administrative rules, information safety and others for a physical hospital so that an internet hospital supported by such physical hospital can be set up. In addition, our internet-based consultation and prescription services were in compliance with applicable laws and regulations in all material aspects. Our internet-based consultation and prescription services were also in compliance with the relevant license requirements, considering that (i) each of our three internet hospitals is supported by an offline medical institution as required by the applicable PRC laws and regulations, (ii) each of our three internet hospitals has duly obtained its Medical Institution Practice License as stipulated in relevant PRC laws and regulations, and (iii) as of the Latest Practicable Date, we had not been subject to any penalties in relation to such license requirements of our internet hospitals.

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We have taken steps to ensure continuous regulatory compliance with the license requirements for its offline medical institution, including Hainan's provincial guidance (i.e. the 2019 Guidance and the 2020 Guidance) for a physical hospital so that an internet hospital supported by such physical hospital can be set up. Our self-owned offline medical institution in Hainan was established before the issuance of the 2020 Guidance, and had obtained its Medical Institution Practice License in accordance with the then effective the 2019 Guidance. Our self-owned offline medical institution shall start to meet the requirements in the 2020 Guidance when conducting its first annual verification process since the issuance of the 2020 Guidance. The first annual verification since the issuance of the 2020 Guidance for our self-owned offline medical institution was originally supposed to be conducted in May 2021. Due to the COVID-19 restrictions, the 2021 annual verification process has been affected, and our self-owned offline medical institution has not conducted its 2021 annual verification process. We currently expect to go through the 2021 annual verification process for our self-owned offline medical institution in July 2022. To ensure the compliance with the 2019 Guidance and 2020 Guidance, we have evaluated the operating status of our self-owned medical institution by checking against each and every requirement under the 2019 Guidance and 2020 Guidance, including remote consultation rooms, qualification of physicians and nurses, basic equipment and facilities, clinic departments, internal administrative rules, information safety and others. As of the Latest Practicable Date, as the operation status of our self-owned medical institution was consistent with all the requirements under the 2019 Guidance and 2020 Guidance, our self-owned offline medical institution was in compliance with the 2019 Guidance and the 2020 Guidance. We will continue to closely monitor the application, enforcement and evolution of license requirements for offline medical institutions to mitigate its risks of future potential non-compliance. We periodically conduct self-evaluation in accordance with applicable PRC laws and regulations for our internet hospitals and self-owned offline medical institution. We periodically provide training to members of its management team to enhance their knowledge about the latest laws and regulations in the healthcare and pharmaceutical industry. If there are future regulations imposing additional license requirements for our offline medical institution, we will make adjustments as needed to ensure continuous regulatory compliance.

Value-added services for our premium members

Our premium members include not only individual purchasers of our memberships, but also users who become members through the insurance companies and corporate employers that we partner with. We offer comprehensive and personalized value-added services to our premium members. Premium memberships are priced at RMB68 and RMB599 annually, depending on the tier of membership. The following screenshots of *ClouDr. Health's* interface illustrates the additional services offered to our premium members:



These value-added services for our premium members include:

Health evaluation and screening. Our analytics and AI capabilities enable us to conduct a systematic analysis of a member’s health condition, including the member’s family history, health measurements and lifestyle, and provide a personalized evaluation to help the member better understand his or her health conditions. We also provide health screening services and comprehensive health management plans, including customized advice on monitoring, physical exercise and diet.

Health consultants and trainers. Our health consultants are qualified medical professionals with years of clinical experience, who offer professional and personalized advice on diet, exercise and other lifestyle choices, interpret health management plans and answer all kinds of

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health-related questions for our members based on their health conditions. In addition, our members have access to a wide selection of classes on health management, including training from personal trainers on healthy lifestyle, health monitoring and seminars given by leading experts in relevant fields.

Complimentary selected services and physical examination offerings. We offer a selection of complimentary consultation and prescription services to our members, as well as insurance planning and recommendation services. We also offer physical examination services through third-party providers and family physical examination allowances to our members.

Membership privileges on Health Mall. Our members have access to customized selections of product offerings on the Health Mall. In addition, when purchasing prescription or OTC drugs or medical devices from the Health Mall, our members enjoy special discounts and free delivery services.

Before registration, users have to agree to our user agreement, which sets forth the type of services that we provide and certain representations that users give us, such as that they are using their true identities to register with our platform. Users are also shown a reminder that sets forth, among others, certain medical risks involved with chronic condition management.

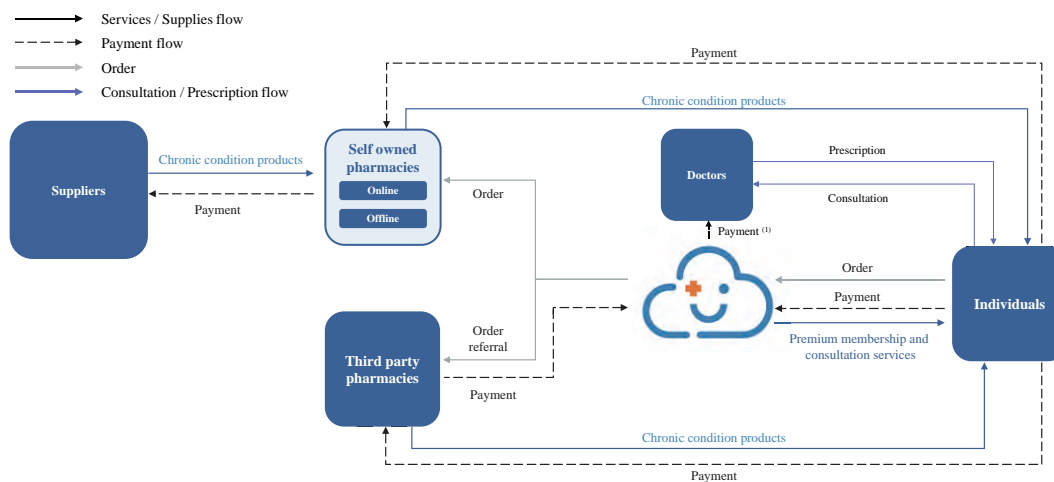
Our other revenue channels include insurance brokerage and advertisement services. We sell healthcare packages from different insurance companies to corporate customers, and receive commission fees as a percentage of the sales from insurance companies; we also act as agents for certain advertising clients.

In 2020, we began adjusting our business model for product sales to individual end customers from a primarily “first-party relationship” (with third-party marketplaces as the retailer), which requires higher levels of inventories, to a primarily “third-party relationship” (with ourselves as the retailer), which requires relatively lower levels of inventories. We made this transition primarily to boost the variety of our product offerings and to lower our supply chain costs. See “Financial Information — Discussion of Certain Key Balance Sheet Items — Current Assets/liabilities — Inventories.”

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Our transaction and fund flows

The following chart demonstrates the product/services that we provide/receive from different stakeholders in our individual chronic condition management solution business, as well as the fund flows.



Our operating and financial performance

The following tables sets forth certain operating results of our individual chronic condition management solution and others.

	For the Years Ended December 31,		
	2019	2020	2021
Number of paying individual users ⁽¹⁾	39,692	365,786	660,535
Number of registered users ⁽²⁾ (in millions).	8.4	17.1	23.8

Notes:

- (1) Number of paying individual users is the number of individual users who were our paying members or made at least one purchase from us during the respective year.
- (2) Number of registered users is the cumulative total number as of the end date of the respective year.

The number of paying individual users increased by 821.6% from 39,692 in 2019 to 365,786 in 2020, and further to 660,535 in 2021, as we grew our individual user base, focused on expanding third-party online pharmaceutical sales and launched premium membership services in 2020. In particular, in 2020, we began strategically shifting our business model for product sales to

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individual end customers primarily from a “first-party relationship” (in which third-party marketplaces are the retailer), which requires higher levels of inventories, to a “third-party relationship” (with ourselves as the retailer), which requires relatively lower levels of inventories.

The following table sets forth a breakdown of our revenue from individual chronic condition management solution and others both in absolute amount and as a percentage of our total revenues of individual chronic condition management solution and others for the years presented:

	For the Year Ended December 31,					
	2019		2020		2020	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Individual chronic condition management solution and others						
Chronic condition products	15,704	77.2	34,846	48.8	53,031	39.6
Premium membership services	—	—	14,211	19.9	22,688	16.9
Others ⁽¹⁾	4,631	22.8	22,284	31.3	58,307	43.5
Total	20,335	100.0	71,341	100.0	134,026	100.0

Note:

(1) Include insurance brokerage services, advertisement agent services and others.

Our revenue from individual chronic condition management solution and others grew significantly from 2019 to 2021, primarily driven by our continued effort to expand our user base and enrich our product and service offerings and the growth of our insurance brokerage services.

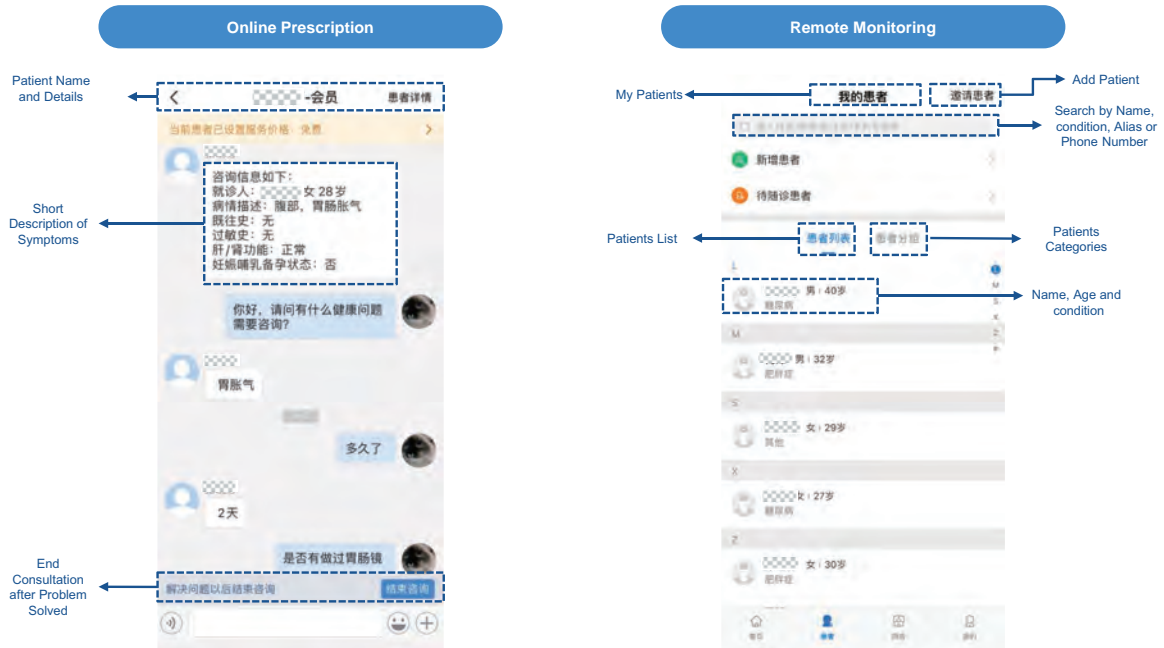
During the Track Record Period, our average revenue per paying individual users under the individual chronic condition management solution and others, which is calculated as our revenues from chronic condition products and premium membership services divided by the total number of paying individual users for each year, amounted to RMB396, RMB134 and RMB115 for 2019, 2020 and 2021, respectively. In 2020, as we began strategically shifting our business model for product sales to individual end customers from a “first-party relationship” model (in which we book revenue as the amount of the product sales,) to a “third-party relationship” model (in which we book revenue based on the commissions charged on the product sales,) our overall average revenue per paying individual users under the individual chronic condition management solution and others declined. In 2021, as we began exploring more monetization models such as charging our users a platform service fee in the form of a markup on the fees set by doctors on our

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platform, which has a lower average revenue per paying individual users, our overall average revenue per paying individual users under the individual chronic condition management solution and others declined.

OUR MOBILE APPLICATION FOR DOCTORS

ClouDr. Doctor, is our mobile app for doctors to access our platform. Below are screenshots of *ClouDr. Doctor*'s user interface:



ClouDr. Doctor has the following built-in features that facilitate out-of-hospital monitoring and doctor-patient communication:

Easy-to-use consultation, prescription and patient management. Doctors can refer their patients to our individual chronic condition management solution after these patients have concluded their hospital visits. Doctors can then engage with their patients via text and photo-based or video-based sessions, answering questions and providing medical advice. Doctors with multi-site registration can also issue prescriptions to these patients.

Monitoring and alerts. When certain conditions (such as a patient's blood sugar level) reach a pre-determined risk threshold, the patient's designated doctor will receive instant alerts and can intervene or reassess prescribed drugs promptly when necessary.

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We do not charge doctors on our platform fees for using our platform, as we view them as important resources to attract a larger user base and deepen our relationships with participants in the healthcare industry. Doctors get paid for their consultation or prescription services on our doctor app either based on the number of hours that they are on-call, or, for renowned doctors, based on the fees they set for their services.

We host a large number of registered doctors on our platform to provide consultation services to our users. Doctors registered with us are required to comply with both our specified work scope and quality requirements as well as applicable rules and regulations. Doctors on our platform are required to provide evidence of their professional qualifications. In particular, doctors can only issue prescriptions on our platform if they have completed multi-site practice registration with local doctors' administration authorities and we have verified such registration. We also reserve the right to modify the relevant terms regarding doctors' scope of service, pricing, and how services are performed when necessary. As of the Latest Practicable Date, we had over 94,000 registered doctors on our platform. There were 8 doctors that worked for us on a full-time basis and were registered with our offline medical institution as their principal practicing sites. In addition, over 14,800 doctors worked for us on a part-time basis who had completed the multi-sites registration under our internet hospital that can issue prescriptions on our platform. The rest of our registered doctors had not completed the multi-sites registration and had not conducted diagnosis and treatment or issued any prescriptions as of the same date. These doctors can act as supporting doctors and provide online pre-consultation and pre-diagnosis services, such as online triage, and review and cross-check issued prescriptions as part of our risk control procedures. As of the Latest Practicable Date, we had paid a total of 1,738 such supporting doctors for their services on our platform.

To ensure our full-time doctors and part-time doctors who have completed multi-sites registration under our internet hospital to properly assess the relevant patients' medical conditions, we require the patients to upload their previously issued prescriptions and other initial and/or subsequent medical records before obtaining consultation services that require prescription issuance from us. Similar to offline hospitals, doctors on our platform request patients to answer questions about their medical conditions and submit their medical treatment, prescription and physical diagnosis records. If doctors on our platform, based on their professional judgements, believe certain previous medical records and/or physical diagnostic procedures are required, or further diagnosis and treatment or adjustment in drug dosage or prescriptions are necessary, they will ask the relevant patient to go to a competent offline hospital to receive necessary treatment and/or diagnosis according to our platform requirement and the doctors' professional duties to patients. According to Frost & Sullivan, our practices to access patients' medical records and to require additional offline treatment and/or diagnosis are in line with industry norm. However, similar to offline hospitals, we cannot assure that the medical records provided by patients are entirely authentic, accurate, complete and up-to-date, or at all, which may affect professional

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judgement of our doctors. Although the medical claims against us and/or doctors on our platform due to the inauthentic, incomplete, inaccurate and/or not update-to-date medical records provided patents may not have merit, there may be negative publicity attached to such medical claims, which may materially and adversely affect our reputation and brand names. Our Directors confirm, during the Track Record Period and up to the Latest Practicable Date, there were no medical claim lawsuits filed by patients against us and/or the doctors on our platform based on incomplete, inaccurate and/or outdated medical records provided by patients. See “Risk Factors — We may become subject to product liability and medical liability claims, which could cause us to incur significant expenses and be liable for significant damages if not covered by insurance. We may also be subject to reputational harm because of these liability claims.” In addition, as our internet hospitals cannot conduct physical diagnosis and in-person treatment due to the internet-based nature of our operations, our patients may need to go to offline hospitals periodically. Although we believe our online consultation and prescription services provide patients with convenient, efficient and comprehensive online consultation and prescription filling experience as an “anytime, anywhere” healthcare management platform and can address long-term medical needs of chronic condition patients, this inherent feature as an online medical service provider may materially and adversely affecting our reputation as an effective medical service provider, as a result, materially and adversely affecting our financial performance. See “Risk Factors — Maintaining industry participants’ trust in our platform is critical to our success, and any failure to do so could severely damage our reputation and brand. Any damage to the reputation and recognition of our brand names, including negative publicity against us or our industry, or our directors, officers or employees, may materially and adversely affect our business operations and prospects.”

We and our registered doctors enter into service agreements, pursuant to which our registered doctors provide users with online consultation services subject to relevant rules and regulations. Registered doctors represent and warrant to us, among others, that (i) they have provided true and accurate personal information to us; (ii) they have registered with relevant authorities and obtained all necessary licenses and certificates to practice through our platform; (iii) they only use user data obtained through their services within the scopes thereof and agreed to by the users; and (iv) they do not issue prescriptions based on new diagnosis but only diagnosis that has been issued offline and confirmed in online consultation. Under these agreements, we have the right to supervise and monitor doctors’ work on our platform, and can unilaterally terminate the agreement if we deem the doctors not suitable for our platform with 15 days’ notice.

SYNERGIES AMONG OUR BUSINESS LINES

Our in-hospital solution, pharmacy solution and individual chronic condition management solution generate synergistic value for our business as they allow us to serve key industry stakeholders including hospitals, doctors, patients, pharmacies and pharmaceutical companies, penetrate and access the entire patient journey of chronic condition patients.

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Our in-hospital solution allows us to build strong connections and establish our brand awareness among hospitals. Although our hospital SaaS does not connect to our other two solutions in order to protect patients' in-hospital medical records, our presence in hospitals encourages more doctors to join our platform, and in turn to provide more and better consultation and prescription services for our pharmacy customers and individual users. The installation of our hospital SaaS encourages hospitals to purchase supplies from us. As of December 31, 2021, approximately 37% of the hospitals with our hospital SaaS installed had purchased supplies from us; this percentage reached approximately 65% in certain provinces and regions where we have allocated more sales forces and resources. As more hospitals and doctors use our platform, they also have more opportunities to refer their patients to our platform.

Our pharmacy SaaS works in tandem with our individual chronic condition management solution. Patients can either go into a pharmacy, obtain prescriptions and place orders through our pharmacy SaaS, or do that through our patient app. As more pharmacies adopt our pharmacy SaaS, more patients and other individual users join our platform for in-pharmacy or online consultation and prescription, and more pharmacies and doctors are willing to join our platform. We had 23.8 million registered users on our platform as of December 31, 2021. In the third quarter of 2021, approximately 1.2 million, or over 95% of our newly registered users were derived from organic traffic, such as in-pharmacy online consultations and prescriptions, in-hospital referrals and patient referrals.

Our digital marketing business is growing rapidly. Given our extensive reach of hospitals, doctors and patients, we offer significant value proposition for pharmaceutical companies and help them market pharmaceutical products efficiently, especially through our hospital SaaS. The growth of our digital marketing business is, in turn, also driven by our hospital SaaS installation. The number of pharmaceutical companies that we provided digital marketing services increased from 5 in 2019 to 13 in 2020, and further increased to 15 as of December 31, 2021, and there had been no customer attrition for our digital marketing services as of December 31, 2021.

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We incurred net losses and net operating cash outflow throughout the Track Record Period, as we have been focused on growing our hospital network, pharmacy network and individual user base, and investing in our product innovation and our brand equity, rather than seeking immediate financial returns or profitability, in order to lay a solid foundation for our long-term success. Our management considers that we are at a relatively early stage of our monetization efforts. Our future profitability is uncertain and subject to various factors, including our ability to effectively monetize our product and service offerings and continuously grow revenues in a cost-effective way. Despite our expanding business scale, we may continue to incur net losses and net operating cash outflow in the foreseeable future as described above. We expect to incur net losses and net

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operating cash outflow for the years ending December 31, 2022 and 2023. We expect to become consolidated net asset position upon listing, however, we may turn to net liabilities position if our profitability further deteriorates after listing. If we fail to ramp up the scale of our operations and if we do not achieve satisfactory future growth, we may have funding shortfall which could require us to raise additional funds before reaching our adjusted net profit (non-IFRS measure) or net operating cash flow breakeven. See “Risk factors — Risks Related to Our Business and Industry — We have a history of net losses and negative operating cash flow. We anticipate increasing expenses in the future, and we may not be able to achieve or maintain profitability.”

China is the world’s second largest healthcare market with sizable and steadily increasing healthcare expenditure, according to the Frost & Sullivan Report. China’s chronic condition management market has a massive and under-served patient population and is one of the most important segments of the country’s healthcare system. According to the Frost & Sullivan Report, healthcare expenditure for chronic conditions in China is expected to grow from RMB4.1 trillion, representing 56.7% of total healthcare expenditure in 2020, to RMB12.5 trillion, representing 75.0% of total healthcare expenditure in 2030.

Since our inception in 2014, we have continually expanded our hospital and pharmacy network, grown our patient and doctor bases, invested in product and technology innovation and expanded our presence across the chronic condition management value chain.

We achieved strong revenue growth during the Track Record Period. Our revenues increased from RMB524.4 million in 2019 to RMB839.1 million in 2020 and further to RMB1,756.7 million in 2021. We have also achieved rapid growth in our operating metrics:

- **In-hospital solution:** Under our “AIM” model for in-hospital solution, we concurrently seek to (i) access and continuously engage with hospitals to establish close business relationships, primarily by leveraging our SaaS capabilities (since we launched it in 2016), (ii) install our hospital SaaS to increase stickiness of hospitals, and (iii) explore monetization opportunities, primarily through hospital supplies and digital marketing services, and to a lesser extent, through hospital SaaS. See “Business — In-hospital Solution — The “AIM” Model.” The number of hospitals that installed our hospital SaaS increased from 377 to 1,705 and further to 2,369 as of December 31, 2019, 2020 and 2021, respectively. The number of hospitals that purchased our medical devices, consumables and pharmaceuticals, indirectly through distributors, or directly from us, increased from 1,016 in 2019 to 1,431 in 2020 and further to 2,101 in 2021. The growing hospital and doctor network also allowed us to provide more effective digital marketing services to pharmaceutical companies. The number of transacting

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pharmaceutical companies of our digital marketing services grew from 5 in 2019 to 13 in 2020, and further to 15 in 2021. The number of SKUs we marketed through our digital marketing services grew from 6 in 2019 to 16 in 2020, and further to 22 in 2021.

- **Pharmacy solution:** Historically, our pharmacy solution business consisted of only sales of pharmacy supplies, and these sales have remained as the major revenue source of our pharmacy solution. The number of our transacting pharmacy customers amounted to 343, 327 and 683 in 2019, 2020 and 2021, respectively. We started offering our pharmacy SaaS in the second half of 2019, and it has subsequently grown rapidly and become another important revenue source with relatively higher gross profit margin for our pharmacy solution. The number of pharmacy stores that installed our pharmacy SaaS increased from 3,002 to 111,413, and further to 172,279 as of December 31, 2019 and 2020 and as of December 31, 2021, respectively, demonstrating the rapid penetration of our pharmacy SaaS.
- **Individual chronic condition management solution:** As we grow our reach of hospitals, pharmacies and doctors, the number of registered users on our platform increased significantly from 8.4 million to 17.1 million and further to 23.8 million as of December 31, 2019, 2020 and 2021, respectively.

We were loss-making during the Track Record Period as we have been focused on investing in our research and development capabilities to drive the development of our hospital and pharmacy SaaS products, and in our selling and marketing efforts to grow our hospital and pharmacy network, promote user engagement, and enhance our brand recognition. As we increased revenue contribution from digital marketing services and pharmacy SaaS, we have reduced the adjusted net loss margin (non-IFRS measure) in 2021 as compared to 2020. See “Summary — Our Operating and Financial Performance.”

During the Track Record Period, we experienced significant growth in revenue and gross profit. As we have started to benefit from the economies of scale as our business has grown, our loss from operations as a percentage of revenue decreased significantly from 99.7% in 2020 to 39.6% in 2021, and our adjusted net loss (non-IFRS measure) as a percentage of revenue decreased significantly from 75.8% in 2020 to 25.3% in 2021. Going forward, as we further benefit from our earlier investments and economies of scale, we expect this trajectory to continue. In particular, we expect to sustain our revenue growth and achieve profitability by continuing to expand our customer base, increase monetization from our customers, improve gross profit margin, and benefit from earlier investments that we have made, enhance operational efficiency and achieve greater economies of scale.

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- **Expanding our customer base.** Our hospital SaaS facilitates our frequent interaction with hospitals and enables us to have a better understanding of hospitals and to monetize their demands. We have achieved strong retention of our hospital end customers. Based on our internal records and information available to us as at the Latest Practicable Date, 77% of hospitals that purchased supplies directly or indirectly from us in 2020 purchased again from us in 2021. This ratio was 94% for hospitals that installed our SaaS during the same period, which illustrates that the installation of our hospital SaaS improves the stickiness of our hospital end-customers. Our successful partnership with our existing hospital end customers allows us to showcase our value proposition and helps us to expand our hospital end customer base across geographic regions and hospital tiers. Our presence in hospitals encourages more doctors to join our platform, and in turn to provide more and better consultation and prescription services for pharmacies and individual users on our platform. As a result, we had 172,279 pharmacies stores that had installed our pharmacy SaaS and 23.8 million registered users on our platform as of December 31, 2021, and we expect to continue to grow our pharmacy end customer base and individual user base. Revenue from our pharmacy solution and individual chronic condition management solution grew significantly during the Track Record Period, and we expect this trajectory to continue as we continue to benefit from these factors. Our extensive reach of hospitals, pharmacies, doctors and patients allows us to provide more effective digital marketing services to pharmaceutical companies. The installation of our hospital SaaS also facilitates our digital marketing services, as we conduct some of our digital marketing services, through our hospital SaaS. We had 15 transacting pharmaceutical company customers in 2021 and expect our digital marketing services business to continue to grow. Therefore, as our customer base continues to grow and we benefit from our earlier investments and growth across our business lines, we expect our revenue continue to increase rapidly in the near future.
- **Increasing monetization from our customers.** We will continue to increase monetization from our customers through our product and service offerings. For our in-hospital solution, hospital supplies and digital marketing will drive our revenue growth and contribute a majority of our revenues from in-hospital solution. We believe the installation of our hospital SaaS can help us to establish relatively stable revenue sources and expand monetization opportunities through sales of hospital supplies. In particular, among the hospitals that directly or indirectly purchased hospital supplies from us, those that use our hospital SaaS have exhibited higher retention rates and larger average revenue contribution per hospital. Furthermore, the installation of our hospital SaaS is a critical step for us to conduct precise digital marketing services, and revenue from digital marketing services grew significantly during the Track Record Period. Our digital marketing services are in part conducted through our hospital SaaS, as it allows us to promote medicines sold by our customers of digital marketing services in a variety

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of innovative ways. The increases in hospital SaaS installations help drive revenue from digital marketing services, broaden our revenue sources, and improve our overall gross profit margin. For our pharmacy solution, in addition to sales of pharmacies supplies, which are a sustainable revenue stream, we will focus on the monetization from our pharmacy SaaS. We launched our pharmacy SaaS in 2019. The number of SaaS-paying pharmacy stores has increased from 2,346 as of December 31, 2019 to 84,389 as of December 31, 2021. We have also been expanding our offerings for individual users, such as online consultation with specialists and expert doctors, and one-on-one long-term chronic condition treatment packages. As we continue to explore more monetization opportunities from our individual chronic management solution, we expect to generate more revenue from this solution. We expect our revenue to continue to rapidly grow in the near future as a result of our continuous efforts on increasing monetization from our customers.

- **Gross profit margin improvement.** We have achieved meaningful gross profit margin improvement during the Track Record Period, as we started to offer digital marketing services and pharmacy SaaS. In 2019, 2020 and 2021, we recorded gross profit margin of 11.7%, 27.7% and 32.4%, respectively. We will continue to grow our higher-margin businesses, including digital marketing and pharmacy SaaS, and over the next few years we expect our gross profit margin to be slightly higher than what we recorded in 2021.
- **Benefiting from earlier investments and economies of scale.** During the Track Record Period, we made significant investment in expanding our teams across different functions and enhancing our brand recognition. Starting in 2020, we began to invest heavily in our sales and marketing, administrative, and research and development efforts, including new selling and marketing initiatives such as a one-off re-branding marketing event in 2020 and increases in the headcounts of our administrative, and research and development teams. Excluding share-based compensation, operating expenses as a percentage of our revenues increased from approximately 39.7% in 2019 to approximately 103.4% in 2020, and this decreased to approximately 61.1% in 2021. While our operating expenses excluding share-based compensation as a percentage of our revenues significantly decreased from 2020 to 2021, our revenues grew by 109.4% from RMB839.1 million in 2020 to RMB1.756.7 million in 2021. We believe this shows our ability and potential in translating spending into revenue. As we continue to grow our business and enhance the network that we built around hospitals, pharmacies, doctors, patients and pharmaceutical companies, we expect to benefit from economies of scale, improve our operational efficiency, and acquire customers at lower cost. In particular, our prior investments in sales and marketing efforts have enabled us to gain access to, install our hospital SaaS in, and/or sell hospital supplies to a significant number of hospitals across China, and to leverage these hospital relationships to provide

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digital marketing services. As of December 31, 2021, we had assembled over 960 sales personnel to cover and penetrate hospitals and pharmacy stores, and in 2021 we successfully installed our hospital SaaS in 2,369 hospitals and directly or indirectly sold hospital supplies to 2,101 hospitals. With this scale of sales personnel and hospital coverage, going forward, we intend to strategically focus on paying-customer conversion, largely by leveraging our existing sales personnel and hospital coverage, and we do not expect to further significantly expand our sales network. In particular, we expect to convert more hospitals and pharmacy stores that we already cover, which could further improve our sales efficiency and reduce our selling and marketing expenses as a percentage of our total revenue in the near future. In addition, in order to develop and launch our SaaS products and mobile apps for our hospital, pharmacy and individual chronic condition management solutions, we have expanded our research and development team by over 360 staff in 2021. As we have already developed and launched our SaaS products and mobile apps for all the three solutions, and given our current scale of research and development personnel, we do not expect to have further significant investment in research and development, which could lead to a decrease in our research and development expenses as a percentage of our total revenue in the near future. In addition, we expect our administrative expenses to be largely stable in the near future, and we expect that our administrative expenses as a percentage of our total revenue will decrease in the near future as our revenue continues to grow. As a result, our selling and marketing expenses, administrative expenses and research and development expenses as a percentage of revenue are expected to decrease in the near future.

In the near future, we expect to continue to rapidly grow our revenue and gradually improve our gross profit margin, and we do not expect to have significant investments in sales and marketing, research and development and administrative matters. Our Directors are of the view that the efforts described above have contributed and are expected to continue to drive the growth of our revenues, as well as our profitability.

Working Capital Sufficiency

The Company believes that it possesses sufficient working capital, including sufficient cash and liquidity assets, supplemented by strong fund-raising capability, to meet our present requirements and for the next 12 months from the date of this document, estimated based on our revenue growth and cash flow conditions during the Track Record Period. In addition, the Company has recently completed a new round of financing, which put the Company in a strong cash position. As of December 31, 2021, we had cash and cash equivalents of RMB1.1 billion. The Company believes that the Global Offering will provide additional funding to its operation until it reaches adjusted net profit (non-IFRS measure) or net operating cash flow breakeven.

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The foregoing forward-looking statements on our future revenue and profitability are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Our business growth and long-term profitability are subject to known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements set out above. For related risks, see “Risk Factors — Risks Related to Our Business and Industry.”

OUR TECHNOLOGY

Through our solutions that connect all major participants in the chronic conditions industry, we have accumulated medical insights. Utilizing machine learning and other AI technologies, our platform aggregates and processes these insights to extract actionable insights that serve our varied customers in the industry.

Our Technology Infrastructure

We build our technology infrastructure to support our business in a cost-effective manner. We have built a reliable, smart network infrastructure to ensure high availability and a low risk of downtime. We currently utilize third-party cloud providers in China to host our network infrastructure, renting public servers and bandwidth.

We focus on maintaining and enhancing the reliability, stability and scalability of our technology infrastructure. Our technology infrastructure enables us to accommodate large amounts of user traffic during peak periods while maintaining speed and quality consistency, as well as powering operational visibility and control. We utilize microservices architecture to provide services capable of automatic scaling on applications and granular traffic control. We have also established a wide range of enhanced services control procedures, such as safety check, circuit-breaker, payload balance, and failover.

Our Analytics Technologies

Our proprietary AI-assisted consultation process has made consultation and prescription processes on our platform highly efficient and lowered the risks involved. The AI-assisted matching process intelligently assigns suitable doctors with patients seeking online consultation and prescriptions; this has greatly shortened the waiting time for patients on our platform. In 2021, approximately 99% of the patients on our platform received response within 180 seconds. Our AI-assisted consultation system also assesses each prescription as it is being issued by doctors, and can retract any unsuitable prescription, lowering the risks for doctors and pharmacies.

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Our medical algorithm engine serves as the foundation for our four AI tools, “Xiaoyun,” “Xiaozhi,” “Lingtong” and “Zhixin.” Xiaoyun is an online consultation assistance system for our doctor-facing app. It utilizes AI technologies to build prediction models that cover different medical scenarios and assists doctors with prescription safety monitoring. Xiaozhi is our smart pre-consultation system, which utilizes natural language processing, used in our patient-facing app and pharmacy solution. It can interact with patients and, based on our medical algorithm engine, match the best doctor and other medical resources to the patient, greatly shortening the time doctors need to spend on online consultation sessions.

Lingtong and Zhixin are our internal smart decision-making systems, which help coordinate the medical resources on our platform. Lingtong is our internal resource allocation and optimization system. It can be applied to multiple workstreams of our internal teams and increase their efficiency. For example, Lingtong is applied to our internal doctor allocation process, and has shortened the average patient waiting time on our platform. Zhixin, on the other hand, is embedded with our medical algorithm engine. It can analyze and recommend relevant medical services, knowledge and products to patients on our platform based on the patients’ conditions and personal traits.

DATA PRIVACY AND SECURITY

We are committed to protecting data privacy and security. We have established and maintain a strict platform-wide policy on data collection, processing and usage. We sometimes collect data from our online platform users, which are strictly limited to personal information and other data that are necessary for us to provide services to our users. We obtain prior consent from users for all user data we collect, and have adopted stringent policies to ensure that our collection and usage of data is in compliance with the relevant laws and regulations. We do not monetize any of the data we collect. The registration processes require the user to provide consents to allow us to collect, process and use data necessary for providing our services.

For our hospital SaaS to comply with relevant laws and regulations and to protect users and hospitals’ data integrity, we do not process or store in-hospital data. Instead, we only provide hospital end-customers the tools and technology they can use to manage and store data on-premise. We do not collect, process, store or have access to any personal information (including patient information) or in-hospital data through our hospital SaaS product. We can only access data generated from our pharmacy SaaS and healthcare management platform. In particular, for our pharmacy SaaS, the types of data generated mainly include personal information of (i) pharmacists and staff using the ClouDr. Pharmacy in the pharmacies, and (ii) walk-in patients using ClouDr. Pharmacy. The types of data collected and processed by us are clearly disclosed in the privacy policies of the relevant mobile app and Weixin mini programs, including (i) the name, contact information, and position/responsibility/role, electronic signatures of the staff using our pharmacy

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SaaS in pharmacies; (ii) the professional practice license, electronic signatures, and other information of pharmacists who are registered on the platform and providing services; (iii) the basic personal identity information (such as name and ID) and health and physiological information (such as symptoms, disease diagnosis, medication history, past medical history, allergy history), and online physician diagnosis of patients, which are necessary for providing consultation and prescription services. For our individual chronic condition management platform, we collect personal information of the patients and physicians. In this context, the types of data collected and processed by us are clearly disclosed in the privacy policies of the relevant mobile apps and Weixin mini programs, including (i) personal information of patients, including basic personal identity information (such as name, ID), which are necessary for consultation and prescription services, (ii) health and physiological information of patients (such as symptoms, disease history, medication history, past medical history, allergy history, inpatient/outpatient (emergency) medical records, examination and test reports), which are necessary for consultation and prescription services, (iii) information on patients generated during the consultation and prescription (such as health consultation details, appointment registration records, medication prescriptions and physician's diagnosis results), (iv) basic personal identity information on physicians (such as mobile number for registration, and name and ID), which are necessary for real name verification, (v) physicians' other information, such as the professional practice license, electronic signatures, and other information before providing consultation and prescription services

To ensure the confidentiality and integrity of our data, we maintain a comprehensive and rigorous data security program. We conduct back up of our operating data on a regular basis offline and in separate and various secured data back-up systems to minimize the risk of data loss. We back up our data on a daily basis in various distributed secured data storage systems to minimize the risk of data loss. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained. Our detailed protocol for operation and maintenance management, monitor and alert mechanisms, network security management and disaster recovery ensures our operating continuity. We have also established a business continuity plan in case of catastrophic events, such as natural or unnatural disasters that could lead to various business interruptions, such as power failures, network failures, or server power outages. In addition, our maintenance team closely and constantly monitors for common technical issues and the usage of resources such as central processing units and memory and alerts our technical team of unusual technical difficulties. In addition, we have set up an emergency response team to annually conduct disaster recovery drills on important systems and continuously improve our systems. Our back-end security system is capable of handling malicious attacks to safeguard the security of our platform and to protect the privacy of our users. For additional information, see the section titled "Risk Factors — Risks Related to Our Business and Industry — Our business generates, processes and has access to a large amount of data, and the improper use or disclosure of such data could harm our reputation as well as have a material adverse effect on our business and prospects."

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We have a strict multi-level data collection policy to ensure that (i) we only collect user data that is necessary for us to provide services to our users, (ii) we obtain prior consent from users for all user data we collect, and (iii) our collection of user data is in compliance with the relevant laws and regulations. All of our data is stored in PRC. We de-identify and encrypt confidential personal information and implement other technological measures to ensure the secure processing, transmission and usage of data. We have also established stringent internal protocols under which we grant access to confidential personal data only to limited employees within strictly defined and layered access authority. We conduct data de-identification in compliance with the Cybersecurity Law and Personal Information Security Guidelines, design and implement anonymize programs with reference to the Health Insurance Portability and Accountability Act, or the HIPAA, and give due consideration to the de-identification requirements of data controllers such as hospitals. Our de-identification technologies help our customers detect, encrypt or remove personal identifiers, including the patient' name, address, telephone number, identity card number, social security number, email address, home address, name of contact person, registered permanent residence and any other information that can identify a patient pursuant to the PRC Cybersecurity Law and other applicable PRC laws and regulations, and by referring to the HIPAA.

We have adopted and implemented robust internal control system focusing on data security and personal information protection. This includes our policies regarding data security, management of data security, and data classification and categorization. Our internal control protocols cover the full lifecycle of data processing including data collection, data quality management, data encryption and transportation, data storage security, data backup and recovery, data processing and analytics, proper use of data, data destruction and disposition. We require all our employees to comply with medical ethics and protect privacy and personal information contained in our customers data, and we strictly prohibit unauthorized or improper collection or use of such data or personal information. We prohibit our employees from storing any work-related documents, files or data on unauthorized servers or personal computers. Moreover, our policies require strict compliance on data encryption. We require our employees to acknowledge and sign confidentiality agreements which include their confidentiality obligations upon their employment with us. We have implemented stringent data security monitoring and alert systems for sensitive data. We also strictly follow the terms of authorization and the scope of usage set forth in the agreements with our customers when processing and analyzing their data. We have the right to dismiss any employee if they illegally misuse or leak our data or customer data or cause any damage to us or our customer, and may also pursue further legal proceedings against them. As the regulatory regime is developing very quickly, we will keep a close watch on legislative developments in the data security space. To mitigate the potential impact of any regulatory changes, we have conducted a comprehensive review of the status of our network security, data compliance and personal data protection, and measures have already been taken to ensure compliance with currently effective laws and regulations in all material aspects, including internal control policies and procedures.

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Pursuant to the Anti-Monopoly Law of the PRC (中華共和國反壟斷法), monopolistic practices include (a) the conclusion of monopoly agreements between undertakings, including without limitation those with competitors to fix or change prices, restrict production or sales, divide markets, restrict developing or using new technologies, equipment's and products, and refuse transactions jointly, and those with trading counterparts to fix resale prices or lowest prices for resale, (b) the abuse of dominant market position by undertakings, and (c) the concentration of undertakings that have or may have the effect of eliminating or restricting market competition. We do not conduct any of the foresaid monopolistic practices, in particular, we (i) do not have exclusive arrangements with our customers, (ii) are unlikely to be regarded by the relevant authorities as possessing the dominant market position in the industry given the relatively competitive industry landscape, (iii) do not conduct any actions which are considered to be an abuse of the dominant market position and (iv) are not involved in any concentration of undertakings which are required to be reported to the relevant authorities pursuant to the Anti-Monopoly Law or other applicable antitrust laws. Based on the above, we have been advised by our PRC Legal Adviser that our operations do not violate the Anti-Monopoly Law or other applicable antitrust laws in any material respect.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INITIATIVES

COVID-19

We are committed to corporate social responsibility and meeting society's changing needs. We are committed to supporting and participating in socially responsible projects that align with our core values and mission, and to extend the benefits of our products and services through our technology-driven platform to the community at large. In response to the recent coronavirus (COVID-19) outbreak, we have taken a series of initiatives.

We were among the pioneers in contributing to the combat against COVID-19. In early February, 2020, we donated a number of medical devices and consumables to Wuhan Huoshenshan Hospital (武漢火神山醫院). We sent 5 engineers along with the donation to install *ClouDr. Yihui* on Wuhan Huoshenshan Hospital's system and help the hospital respond to the pandemic in a more digitalized and efficient manner. For our contributions to China's battle against COVID-19, as well as our success in protecting and caring for our employees during the COVID-19 outbreak, we were recognized by a joint list selected by two leading human resources companies in China and Hurun as one of "China's Best Employers during COVID-19."

As a few COVID-19 cases were reported in several parts of China in the second half of 2021, we took a series of initiatives to collaborate with registered doctors on our platform to offer free online consultation services in these areas that saw new cases of COVID-19.

Gender equality

We value gender equality and diversity, and we have taken initiatives to broaden the impact of female workers, and empower and encourage them to share their perspectives. We are also dedicated to combating the stigma women face in the workplace. Led by our CFO, Ms. Lili Xu and director of investor relationship, Mengya Liu, we posted a series of articles on our Weixin public account, titled “Be the Queen of Yourself”, which featured interviews with female employees in our Company. These interviews were our effort to rid the stereotypical labels that people usually associate with “working women.” By giving them a podium to speak and freely express themselves, we believe this series of articles and the stories behind would encourage and empower more women at our Company to thrive and succeed.

Diversity at work

We focus on embracing diversity within our Company and equal and respectful treatment of all of our employees, including those with disabilities. We have policies in equality in the hiring, training, wellness and professional and personal development of our employees. We will continue to promote work-life balance and create a positive workplace for all of our employees, and strive to establish a sound talent cultivation mechanism for them.

Social responsibility

We are actively involved in local communities in an effort to promote health awareness and offer healthcare services.

As a digital company, we believe in the power of technology and talent. In 2021, we collaborated with Chongqing University of Post and Telecommunications to host the first “ClouDr. Cup” software testing competition. The competition’s mission was to discover, foster and cultivate more talents in the technological field and promote community awareness of the importance of technology. We have also established, in collaboration with Beijing University of Post and Telecommunications, an AI medical lab. This lab is dedicated to the studies in the AI medical fields such as smart assisted consultation and diagnosis, smart diagnosis, medical knowledge map.

In 2021, we founded the “2021 digital healthcare technology innovation fund”, which will be used to fund innovative projects that we think can best change or improve the healthcare industry in China. The fund will accept application from projects that are (i) industry leading technological projects related to in- or out-of-hospital disease management, disease data analysis or interactive software/hardware, and (ii) scientific management solutions for disease screening, digital management of diseases, etc.

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We have also established several “ClouDr. Healthcare Stations” in communities in Beijing and Shanghai, which offer free online consultation services to residents in the communities through our platform. We have also set up AI-empowered robots in these stations to allow residents to connect their own medical devices for better consultation results.

During the city flood in Zhengzhou, Henan in July 2021, we offered free online consultations for all users in the area.

Environment

We are committed to sustainability as part of our corporate strategy, and we strive to cultivate a sustainable mindset among our employees and work environment. We have conducted a series of campaigns that aim to reduce waste and carbon emissions of both our Company and our employees, including trash-sorting in all of our offices, water reduction, and carbon emission reduction. We have established several protocols in our offices in our effort to reduce water-usage. We placed signs to remind our employees to reduce their water usage.

We are also committed to carbon mitigation measures and will continue to explore ways to further improve energy efficiency. We ask our employees to be mindful of the environment when consuming office supplies, such as using double-sided printing and only printing when necessary. In our offices, we have internal policies for when and how air conditioners are to be used, based on temperature and time.

SALES AND MARKETING

Sales

We promote our solutions through our experienced business development teams, consisting of both our employees and flexible staff. Our sales force is primarily organized by type of end-customer, and is further organized into multiple regional teams covering different regions across China. Many members of our hospital-focused business development teams have a medical and healthcare background. Members of our pharmacy-focused team mostly have had years of experience in sales. We also utilize services from external sales agents who assist us in our efforts to promote our products and solutions. We incentivize our business development teams by setting specific key performance goals for each team and by adopting a commission-based reward mechanism linked to the sales personnel’s performance.

Our business development teams focus on covering more hospitals and pharmacies. For existing hospitals and pharmacy end-customers, our business development teams also focus on encouraging them to install our SaaS to increase stickiness and utilize more of our solution to

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monetize. They also encourage our end-customers to purchase different types of medical devices and consumables as they see fit. In addition, our business development teams also assist our doctor acquisition activities offline.

We also operate a customer management system comprising customer management, prospect management, pre-sale management and contract management. Our business development teams use our customer management system to manage our customers, sales prospects, as well as the pre-sales and contracting process. Our management also uses the system to evaluate the productivity and efficiency of our business development teams and to assess the value of each customer to optimize our customer relationship management. We believe that our customer management system has been a key factor in enabling us to manage the rapid growth of our business up to now and provides us with scalability going forward.

Marketing

We have a marketing team responsible for increasing the awareness of our brand, promoting our new and existing solutions, maintaining our relationship with business partners and managing public relations. Part of our marketing team is primarily focused on branding, including hosting online and offline seminars to promote our brand, and the other part of the team is primarily responsible for online user acquisition. Our marketing approach focuses first and foremost on top hospitals, national chain pharmacies, and large pharmaceutical and medical device companies. From these top customers, we seek to expand our customer base to lower-class hospitals, pharmacies and pharmaceutical and medical device companies.

We deploy various means for our marketing efforts, including offline events and online channels. We host and participate in various events, such as industry conferences, forums and seminars, to increase our exposure and develop and maintain relationships with various industry participants. We also utilize online channels, such as webinars and online forums, to deepen our interaction with industry participants, engage doctors and patients in our online communities and create more traffic for our follow-up marketing attempts.

We conduct online targeted marketing mainly in cooperation with our marketing partners. For example, we cooperate with medical specialists to organize online academic seminars to increase our market exposure, build brand awareness and enlarge our potential customers base.

IMPACT OF COVID-19 ON OUR OPERATIONS

The outbreak of COVID-19 has resulted in temporary disruptions to our business operations for the first half of 2020 and the first half of 2021 as installments of our SaaS in hospitals were largely affected. During the early stage of the COVID-19 outbreak, primarily due to the

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restrictions on economic and social activities imposed by the Chinese government, restricted access to hospitals, and the economic uncertainties caused by the COVID-19 outbreak, we saw a decrease in the demand for certain medical products and services from hospitals, pharmacies and individuals and delays in the installation of our SaaS products by certain hospitals and pharmacies. During the pandemic, we continued working virtually through telecommunication arrangements, and conducted virtual visits and meetings with our customers to maintain good business relationships. We also established a virtual reporting procedure to ensure the efficiency of work and internal communication. As the COVID-19 control measures were gradually lifted in the second half of 2020, our business, particularly our in-hospital solution, recovered quickly and maintained the strong momentum into 2021. The negative impact of the COVID-19 outbreak on our business during the early stage did not materially affect our financial performance. Our revenue increased by 60.0% and 109.4% year-over-year for the years ended December 31, 2020 and 2021, respectively.

China has experienced upticks in cases that have prompted selective restrictions in affected regions. For example, in the summer of 2021, there was an uptick in cases in Nanjing, Jiangsu province, attributed to the highly contagious Delta variant. The outbreak in Nanjing spread to many other provinces and cities in China. Certain travel restrictions and other limitations were imposed in various places in response to these new cases. In September 2021, there was another outbreak in Fujian province, which led to the imposition of travel curbs and other restrictive measures by the local governments. In the winter of 2021 and early 2022, there was an uptick in COVID-19 cases in certain cities across China, attributed to the Delta and highly contagious Omicron variants, which lead to the imposition of certain travel restrictions and other limitations in various places across China. As of the Latest Practicable Date, there had been no material adverse impact on our operations and financial position as a result of the recent outbreak of COVID-19 in China including the recent emergence of Omicron variant. However, regional outbreaks of COVID-19 driven by Omicron had and may continue to have, temporary and intermittent adverse impact on our operations and financial performance. For example, due to the regional outbreak of Omicron in Shanghai since March 2022 and the strict lockdown imposed to curb COVID-19 cases, approximately 160 of our employees based in Shanghai have been working from home. We provided various support and adopted various measures to improve the well-being and work productivity for our employees in Shanghai. Nevertheless, the productivity of our employees may be adversely affected due to work-from-home model. In addition, due to the restrictive measures implemented to curb COVID-19 cases in Shanghai, our business development activities for our digital marketing services with a relatively high gross profit margin experienced a temporary slowdown, which may temporarily affect our overall gross profit margin. We continue to monitor the COVID-19 situation and assess our strategies accordingly. We currently do not anticipate any material deviation from our business plan due to the COVID-19 pandemic, including the recent emergence of Omicron virus variant.

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Since the COVID-19 outbreak, the number of hospitals that installed our hospital SaaS increased from 377 as of December 31, 2019, to over 1,700 as of December 31, 2020, and our registered users increased from 17.1 million as of December 31, 2020 to 23.8 million as of December 31, 2021. The pandemic raised hospitals' awareness and patients' acceptance of digitalization, which we believe we are well positioned to capitalize in the long term given our leading position in the digitalization transformation of the industry.

OUR SUPPLIERS

In 2019, 2020 and 2021, purchases from our five largest suppliers in aggregate accounted for 36.3%, 21.2% and 25.1% of our total purchases, respectively, and purchases from our largest supplier in each year during the Track Record Period accounted for RMB205.7 million, RMB231.4 million and RMB146.4 million, representing 25.5%, 7.8% and 9.5% of our total purchases for the respective year. All of these suppliers are located in China. All of our five largest suppliers are Independent Third Parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our five largest suppliers during the Track Record Period that is required to be disclosed under the Listing Rules. We usually pay our trade payables with suppliers within 180 days of recognition. The tables below set forth the details of our five largest suppliers in terms of percentages of total purchase during the Track Record Period.

Rank	Suppliers	Year of Commencement of Business Relationship	Nature of the Supplier's Business with Us	Product/ Service Purchased	Purchase Amount	Percentage of Total Purchase
<i>(RMB'000)</i>						
For the year ended December 31, 2019						
1	Supplier A, whose principal businesses are the manufacture, marketing and sales of certain medical products . . .	2015	Distributor of medical devices and consumables	Purchase of medical devices and consumables	205,728	25.5%
2	Supplier B, whose principal businesses are medical devices and consumables .	2018	Distributor of medical devices and consumables	Purchase of medical devices and consumables	24,808	3.1%
3	Supplier C, whose principal businesses are medical devices and consumables .	2019	Distributor of medical devices and consumables	Purchase of medical devices and consumables	23,539	2.9%
4	Supplier D, whose principal businesses are medical devices and consumables .	2018	Distributor of medical devices and consumables	Purchase of medical devices and consumables	21,981	2.7%
5	Supplier E, whose principal businesses are medical devices and consumables .	2019	Distributor of pharmaceutical products	Purchase of pharmaceutical products	16,470	2.1%

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Rank	Suppliers	Year of Commencement of Business Relationship	Nature of the Supplier's Business with Us	Product/ Service Purchased	Purchase Amount	Percentage of Total Purchase
<i>(RMB'000)</i>						
For the year ended December 31, 2020						
1	Supplier A, whose principal businesses are the manufacture, marketing and sales of certain medical products	2015	Distributor of medical devices and consumables	Purchase of medical devices and consumables	122,885	7.8%
2	Supplier F, whose principal businesses are medical devices and consumables	2020	Promotion & Marketing service	Purchase of digital marketing service	87,184	5.5%
3	Supplier G, whose principal businesses are medical devices and consumables	2019	Distributor of pharmaceutical products, medical devices and consumables	Purchase of pharmaceutical products	69,077	4.4%
4	Supplier D, whose principal businesses are medical devices and consumables	2018	Distributor of medical devices and consumables	Purchase of medical devices and consumables	27,955	1.8%
5	Supplier H, whose principal businesses are medical devices and consumables	2019	Distributor of pharmaceutical products	Purchase of pharmaceutical products	27,276	1.7%
For the year ended December 31, 2021						
1	Supplier A, whose principal businesses are manufacture, marketing and sales of certain medical products.	2015	Distributor of medical devices and consumables	Purchase of medical devices and consumables	231,361	9.5%
2	Supplier I, whose principal businesses are marketing and sales of certain medical products	2021	Distributor of medical devices	Purchase of medical devices	132,440	5.4%
3	Supplier J, whose principal businesses are marketing and sales of certain medical products	2021	Distributor of medical devices	Purchase of medical devices	118,983	4.9%
4	Supplier K, whose principal businesses are marketing and sales of certain medical products	2021	Distributor of medical devices	Purchase of medical devices	73,494	3.0%
5	Supplier L, whose principal businesses are marketing and sales of certain medical products	2020	Distributor of medical devices and consumables	Purchase of medical devices and consumables	55,540	2.3%

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In general, we do not enter into long-term agreements with our suppliers. Our purchase agreements and distribution agreements with our suppliers are generally with terms of no more than one year, subject to renewal. Except under certain agreements where we are the exclusive distributor for our suppliers, we usually are not subject to minimum sales target and purchase amounts under these agreements. Our agreements with our suppliers generally do not allow either party to terminate without cause. To the best of our knowledge, we have not breached any of our purchase and distribution agreements with our suppliers.

In 2019, we entered into a four-year exclusive distribution agreement with Supplier A for a variety of products that it manufacture. Under the agreement, we are subject to certain minimum purchase and minimum sales requirements. If we fail to satisfy these requirements, Supplier A has the right to terminate the agreement. We have a credit term of 45 days. Either party can terminate for cause, but neither party can terminate unilaterally without cause.

In 2019, 2020 and 2021, two, one and four of our major suppliers in the Track Record Period were also our customers during the same period, respectively. See “— Customers who are also our suppliers.”

CUSTOMERS

Our customers include distributors that we use for our in-hospital solution and our pharmacy solution, and pharmaceutical companies who use our digital marketing services; we also have hospital and pharmacy customers. See “— Distributors.” For each of the years ended December 31, 2019, 2020 and 2021, our five largest customers accounted for approximately 30.8%, 26.5% and 30.1% of our total revenue, and revenue from our largest customer in each year during the Track Record Period alone accounted for RMB72.1 million, RMB49.8 million and RMB146.4 million, representing 13.7%, 5.9% and 8.3% of our total revenue for the respective period. As of the Latest Practicable Date, we had maintained business relationships with our five largest customers for one to four years. To the best of our knowledge, all of our five largest customers during the Track Record Period are Independent Third Parties. None of our Directors, their respective associates or any shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest customers during the Track Record Period that is required to be disclosed under the Listing Rules.

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The tables below set forth the details of our five largest customers in terms of percentages of total revenues during the Track Record Period.

Rank	Customers	Year of Commencement of Business Relationship	Line of Business with Us	Product/ Service Sold	Revenue <i>(RMB'000)</i>	Percentage of Total Revenue <i>(%)</i>
For the year ended December 31, 2019						
1	Customer A, whose principal businesses are daily necessities, technologies, and medical supplies.	2018	Pharmacy Solution	Sales of medical devices and consumables	72,105	13.7%
2	Customer B, one of the leading pharmaceutical companies in China	2018	In-hospital Solution, Pharmacy Solution	Sales of pharmaceutical products, medical devices and consumables	40,067	7.6%
3	Customer C, whose principal businesses are online pharmaceutical selling and marketing	2019	Pharmacy Solution	Sales of medical devices and consumables	18,645	3.6%
4	Customer D, whose principal businesses are medical devices for monitoring, diagnosis and treatment	2018	Pharmacy Solution	Sales of medical devices and consumables	17,564	3.3%
5	Customer E, whose principal businesses are pharmaceutical research and logistic operation	2019	In-hospital Solution, Pharmacy Solution	Sales of pharmaceuticals products	13,504	2.6%
For the year ended December 31, 2020						
1	Customer F, whose principal businesses are medicines	2020	In-hospital Solution, Pharmacy Solution	Sales of pharmaceuticals and medical devices	49,752	5.9%
2	Customer G, whose principal businesses are medical devices and consumables	2020	In-hospital Solution, Pharmacy Solution	Sales of pharmaceuticals	49,654	5.9%
3	Customer H, whose principal businesses are medicines	2019	In-hospital Solution	Digital marketing services	44,720	5.3%
4	Customer B, one of the leading pharmaceutical companies in China	2018	In-hospital Solution, Pharmacy Solution	Sales of pharmaceutical products, medical devices and consumables	41,565	5.0%
5	Customer I, whose principal businesses are medicines	2019	In-hospital Solution	Digital marketing services	36,950	4.4%

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Rank	Customers	Year of Commencement of Business Relationship	Line of Business with Us	Product/ Service Sold	Revenue	Percentage of Total Revenue
					<i>(RMB'000)</i>	<i>(%)</i>
For the year ended December 31, 2021						
1	Customer J, whose principal businesses are medical devices and consumables .	2021	In-hospital solution	Sales of medical devices	146,407	8.3%
2	Customer K, whose principal businesses are manufacture, marketing and sales of certain medical products.	2020	In-hospital solution	Digital marketing services	114,956	6.5%
3	Customer L, whose principal businesses are marketing and sales of certain medical products	2020	In-hospital solution	Sales of medical devices and consumables	107,540	6.1%
4	Customer M, whose principal businesses are marketing and sales of certain medical products	2020	In-hospital solution	Sales of medical devices and consumables	99,275	5.7%
5	Customer I, whose principal businesses are medicines	2019	In-hospital solution	Digital marketing services	62,017	3.5%

We have experienced substantial shifts among our top five major customers during the Track Record Period, primarily due to the large revenue contributions of new customers in each period as our business expanded, which surpassed that of some of the top five customers in previous periods. During the Track Record Period, at least 50% of our top five customers stayed as our customers even though they may no longer be among the top five.

In general, we do not enter into long-term agreements with our customers. Our purchase agreements and service agreements with our customers are generally with terms of no more than one year, subject to renewal. Under our purchase agreements with our customers, they generally are not subject to minimum sales target and purchase amounts. For a small amount of customers, we have entered into agreements for rights to sell our hospital SaaS where the customers had minimum purchase obligations. Our purchase agreements with our customer generally do not allow either party to terminate without cause. To the best of our knowledge, we have not historically breached any of our purchase and distribution agreements with our suppliers.

We have entered into some collaboration agreements with some of our pharmacy SaaS customers which have terms of 15 to 24 months, subject to renewal. Under these agreements, we provide these customers our pharmacy SaaS under subscription model. We generally have the right to unilaterally terminate the contracts with up to 30 days' notice.

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The key contractual terms of our agreements with customers are summarized below:

- *Duration and option to renew:* We typically do not enter into long-term agreements with our customers. Our agreements with customers are generally on an order-by-order basis or has a term of one year, subject to the option of renewal.
- *Products and services:* The agreements stipulate the types of products or services provided by us, the volume of products or the duration of services, and other product- or service-specific information.
- *Pricing policies:* We sell products or provide services at fixed prices provided in an agreement. Our pricing policies for products and services vary among solution lines. See “— Our Business Models” for details of the pricing policies for each solution line.
- *Exclusivity:* We generally do not enter into exclusive agreements with our distributors. We usually enter into exclusive contracts with pharmaceutical companies to conduct digital marketing services for them in a specific region for a specific SKU.
- *Payment and credit terms.* Credit terms are generally for advance payment to up to 9 months following the invoice date, or monthly on an as-incurred basis.
- *Termination:* In general, either party can terminate for cause.
- *Standard terms and conditions:* Our standard terms and conditions form part of the contract, which stipulates issues including legal and contractual requirements on the products and services provided, representations and warranties of both parties, confidentiality, intellectual property rights and dispute resolutions.

In 2019, 2020 and 2021, two, four, and three of our major customers in the Track Record Period were also our suppliers during the same period, respectively. See “— Customers who are also our suppliers.”

We cooperated with Customer A on a significant scale in 2019 to sell medical devices and consumables, acting as the exclusive distributor of a certain popular glucose testing strips brand on Customer A’s platform. In order to meet the potential demand from users on Customer A’s platform, we maintained high levels of inventories. In 2020, as part of our effort to improve our management of inventories and receivables and lower the relevant costs and risks, as well as to shift to businesses with higher margins, we began gradually phasing out sales of low-margin

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products on Customer A's platform. Our inventory levels declined as a result. See "Financial Information — Discussion of Certain Key Balance Sheet Items — Current Assets/liabilities — Inventories."

DISTRIBUTORS

Consistent with industry practice, we often rely on distributors for the subscription of our hospital SaaS and the sales of medical devices, consumables and pharmaceuticals to hospital end customers. We also work with distributors, who act as wholesalers, in the sales of pharmaceuticals, consumables, medical devices and miscellaneous to some pharmacy end customers. Our distributors are also our customers under these same transactions.

For hospitals end customers, the distributors we work with are Independent Third Parties, the majority of which are vendors on our hospital end customers' procurement vendor lists. As industry norm according to Frost & Sullivan, we provide our hospital SaaS, as well as of pharmaceuticals, consumables and medical devices to these vendors, who then sell them to our hospital end-customers. Chinese hospitals in general do not procure medical devices, consumables and pharmaceuticals from vendors that are not on their vendor lists. In particular, public hospitals are generally required by the relevant regulatory authorities to procure from a vendor list. We therefore use distributors for sales to hospitals where we are not on the vendor lists. We also sometimes directly sell to hospitals where we are on the vendor lists. For pharmacy end-customers, we use distributors mainly to access the large number of pharmacy stores in China. We also directly sell to several large-scale chain pharmacies.

We selected our distributors based on their business qualifications and distribution capabilities, such as distribution network coverage, quality, number of personnel, cash flow conditions, creditworthiness, logistics, compliance standard and past performance, and its capacities in customer management. As of the Latest Practicable Date, we were not aware of any potential abuses or improper use of our name by our distributor which could adversely affect our reputation, business operation or financial condition.

We enter into distribution agreements with our distributors, under which we sell subscription rights to our hospital/pharmacy SaaS, as well as medical devices, consumables, pharmaceuticals and miscellaneous to the distributors, and our distributors are authorized to sell these items purchased from us to our hospital/pharmacy end customers. The relationship between our distributors and us constitute a buyer and seller relationship. Accordingly, we recognize revenue when the control of the goods is transferred to the distributors.

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Set forth below are the key contractual terms of our agreements with our distributors:

- *Duration and option to renew:* The distribution agreement is generally on an order-by-order basis or has a term of one year, which can be renewed by mutual agreement.
- *Rights and obligations of parties involved:* We retain no ownership control over the products sold to our distributors, and all significant risks (including inventory risks) and rewards associated with the products are generally transferred to the distributors upon delivery to and acceptance by the distributors.
- *Sales and pricing policies:* We sell products to our distributors at a fixed price provided in the agreement.
- *Exclusivity:* We generally do not enter into exclusive agreements with our distributors.
- *Designated geographical regions and sub-distributors:* Because our relationships with our distributors are not traditional supplier-distributor relationships, but more akin to buyer-seller relationships, we typically do not include restrictions on engaging sub-distributors. For our distributors selling to hospitals, because many of them are on the respective vendor lists of those hospitals, it is unlikely that they would engage sub-distributors. For our distributors selling to pharmacies, we usually have designated geographical areas in which they can distribute.
- *Target order frequency:* Not applicable.
- *Warranty:* Not applicable.
- *Obsolete stock arrangements:* There is no obsolete stock arrangements condition.
- *Return and exchange policy:* We generally do not accept product returns except for products with quality defects, which is in line with market practice and is in accordance with relevant laws and regulations regarding drugs and medical devices sold to hospitals and pharmacies.
- *Minimum sales target and purchase amounts:* We generally do not require our distributors to meet any minimum sales target and purchase amounts. For a small amount of customers, we have entered into agreements for rights to sell our hospital SaaS where the customers had minimum purchase obligations. Our distributors may from time to time place orders with us depending on their own demands.

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- *Payment and credit terms:* Credit term is generally from advance payment to up to 9 months following the invoice date.
- *Termination:* Both parties can terminate by cause.

We believe we are not particularly prone to inventory accumulation risks, as (i) many of our distributors place order with us on a per-order basis according to actual needs; (ii) many of our products have limited shelf lives, typically ranging from one to two years; and (iii) our sales teams contact our distributors from time to time to understand their inventory flow. We mitigate cannibalization risk among our distributors by designating geographic areas for each of our distributors for pharmacies, and our sales teams pay periodic visits to these distributors to ensure such clauses are complied with.

The table below sets forth the number of our distributors in each year during the Track Record Period.

	For the Years Ended December 31,		
	2019	2020	2021
Number of distributors at the beginning of the year	372	560	749
Number of new distributors during the year	344	453	584
Number of distributors terminated during the year	156	264	375
Number of distributors at the end of the year	560	749	958

In 2019, 2020 and 2021, revenues generated from distributors consisted approximately 61.2%, 66.0% and 58.8% of our total revenue, respectively. In general, the numbers of our distributors increased from 2019 to 2021 as our business expanded. A majority of our distributors are vendors who are on various hospitals' vendor lists, who tend to be small vendors. In some periods, we use these small distributors on a per-order basis. Small vendors on hospitals' vendor lists fluctuate from year to year, as industry norm according to the Frost & Sullivan Report; a vendor on a hospital's vendor list for a given year may not be on the list in the next year. This is the reason why we experienced fluctuations in the composition of our distributors. For distributors with whom our contracts are on a per-order basis, we consider them to have continued service with us if we have entered into at least one new contract with them in the next year.

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The following table sets forth the percentages of revenues realized through our distributors under each of our business lines for the years indicated. We do not use distributors for our individual chronic condition management solution and others business.

	For the Years Ended December 31,		
	2019	2020	2021
In-hospital solution	69.7%	59.8%	61.2%
Pharmacy solution	51.8%	80.7%	63.7%

During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute with our distributors which we terminated or did not continue the respective cooperations.

CUSTOMERS WHO ARE ALSO OUR SUPPLIERS

For the years ended December 31, 2019, 2020 and 2021, to the best knowledge and belief of our Directors, two, four and three of our major customers and/or their related group companies were also our suppliers, respectively. For the years ended December 31, 2019, 2020 and 2021, our sales to these customers accounted for approximately 6.1%, 20.6%, and 15.7%, respectively, of our total revenues. During the same periods, our purchases from such customers and/or their related companies accounted for approximately 0.4%, 1.0%, and 0.1%, respectively, of our total purchases. For the years ended December 31, 2019, 2020 and 2021, the gross profit for our sales to these customers amounted to RMB1.3 million, RMB71.4 million and RMB169.2 million, respectively. During the same periods, our gross profit margin for our sales to these customers was 4.0%, 41.3% and 61.2%, respectively. These entities are our distributors or customers of our digital marketing services. These entities are our customers and also our suppliers mainly because (i) these distributors for our goods were/are also themselves our suppliers of certain SKUs of supplies that we purchase from them, which are different from the SKUs that they distribute for us or (ii) these customers of our digital marketing services were/are pharmaceutical companies, who sometimes sell us products that we resell, the amount of which is immaterial to our business. None of our sales to and purchases from these overlapping entities is the same or back-to-back sales during the Track Record Period.

For the years ended December 31, 2019, 2020 and 2021, to the best knowledge and belief of our Directors, two, one and four of our major suppliers and/or their related group companies were also our customers, respectively. For the years ended December 31, 2019, 2020 and 2021, our purchase from such customers and/or their related companies accounted for approximately 28.4%, 7.8% and 22.1%, respectively, of our total purchases. During the same period, our sales to such customers accounted for approximately 1.1%, 0.7%, and 0.6%, respectively, of our total revenues. For the years ended December 31, 2019, 2020 and 2021, the gross profit for our sales to these

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customers amounted to RMB2.2 million, RMB3.8 million and RMB4.9 million, respectively. During the same periods, our gross profit margin for our sales to these customers was 32.9%, 66.8% and 43.3%, respectively. These entities are our customers and also our suppliers mainly because (i) one of our suppliers also uses our advertisement service under our individual chronic condition management solution; or (ii) there are cases where major suppliers were/are our distributors for certain hospitals as they are on these hospitals' vendor lists. Except for two instance, two of our major suppliers in 2021 were distributors of a certain SKU and sold us a number of units of such SKU; during the same period, the supplier was short of such SKU and purchased one unused unit from us to fulfill its other customer's need. Negotiations of the terms of our sales to and purchases from these customers and/or their related group companies were conducted on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Except as disclosed above, none of our sales to and purchases from these overlapping entities is the same or back-to-back sales.

RESEARCH AND DEVELOPMENT

We invest substantial resources in research and development, focusing primarily on improving current technology, developing new products and solutions, and enhancing customer support. We incurred RMB23.8 million, RMB132.4 million and RMB236.2 million of research and development expenses in the fiscal years ended December 31, 2019, 2020 and 2021, respectively, accounting for 4.5%, 15.8% and 13.4% of our total revenues during the same respective years.

Our research and development personnel primarily consist of data engineers, software engineers, technology infrastructure architects and healthcare product specialists. We have a dedicated team of data engineers who focus on big data technology infrastructure and AI, and maintain and upgrade our healthcare data processing capabilities. Their research and development directions include healthcare natural language processing, deep learning and healthcare big data mining and applications. Our research and development initiatives on product and technology innovations include: (i) for our in-hospital solution, continuously developing AIoT technologies that can connect to more medical devices, and enhance the functionality of our hospital SaaS; (ii) for our pharmacy solution, continuously helping more pharmacies to establish the new retail business; and (iii) for individual chronic condition management solution, offering more comprehensive services to better serve patients throughout the chronic management life cycle.

We also have a dedicated medical and healthcare research and development team. They focus their research and development efforts on chronic condition management for different diseases and work with researchers and hospitals on clinical trials for our solutions. As part of our research and development initiatives on medical service capabilities, we will continue to sponsor, participate in and contribute to four on-going clinical trials conducted in hospitals on (i) a clinical trial on blood lipid management in the therapeutic area of cardiology; (ii) a clinical trial on blood sugar

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management in the therapeutic area of endocrinology; (iii) a clinical trial on chronic insomnia sleep management in the therapeutic area of neurology; and (iv) a clinical trial on obesity weight management in the therapeutic area of endocrinology.

Most of our research and development personnel are based in Hangzhou and Shanghai.

The following table sets forth a breakdown of our research and development expenses both in absolute amount and as a percentage of our total research and development expenses for the years indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except percentages)</i>					
Staff costs	18,100	76.2	93,309	70.5	203,453	86.1
IT service fees	1,613	6.8	30,583	23.1	24,989	10.6
Others	4,040	17.0	8,505	6.4	7,802	3.3
Total	23,753	100.0	132,397	100.0	236,244	100.0

Our research and development expenses increased significantly during the Track Record Period.

Through investments in research and development, we achieved a number of milestones during the Track Record Period. The following table demonstrates a selection of technological milestones that we achieved.

Hospital SaaS:

Time	Milestone
March 2020	Included virtual ward function
December 2020	Expanded functions to include solutions for insulin usage
August 2021	Expanded functions to include solutions for blood ketones, blood oxygen and vital signs monitoring

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Pharmacy SaaS

Time	Milestone
May 2019	Launched pharmacy SaaS
July 2019	Launch video-based consultation
June 2020	Launched PC-portal for video-based consultation
August 2020	Launched PC-based consultation for doctors

ClouDr. Health

Time	Milestone
May 2019	Included management functions for several new diseases
January 2020	Launched tiered memberships
July 2020	Launched Health Mall
April 2021	Launched fast consultation and specialized disease package functions

We expect research and development expenses to continue to increase in absolute amounts as we expand our technology team, enhance our data analytics capabilities and develop new features and applications to better serve various participants in the chronic condition management value chain. However, we expect these expenses to decrease as a percentage of our total revenue as we are able to leverage the growing scale of our business.

Staff costs are the largest component of our research and development expenses. Our expenditures on research and development staff allowed us to continually expand our research and development team with members with strong background and expertise in software, AI and big data, who play an instrumental role in strengthening our research and development capabilities and developing and enhancing our products. Other research expenditures on traveling expenses, depreciation and office expenses contribute to the enhancement of our technological capabilities by providing advanced hardware and technology support to our research and development personnel.

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INTELLECTUAL PROPERTY

We rely on a combination of patent, copyright, trademark and trade secret laws in China, as well as license agreements and other contractual protections, to protect our proprietary technology. We also rely on a number of registered trademarks to protect our brand.

As of the Latest Practicable Date, in China, we had 28 issued patents, which will expire between March 2025 and September 2040, and had 18 patent applications pending for examination. In addition, as of the Latest Practicable Date, we had 267 registered trademarks in China.

We vigorously protect our technology and proprietary rights. We have employed internal policies, confidentiality agreements, encryption and data security measures to protect our proprietary rights. However, there can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. From time to time, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. See “Risk Factors — Risks Related to Our Business and Industry — We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.”

COMPETITION

We believe that we are positioned favorably against our competitors. However, the markets for solutions in our industry are rapidly evolving. Our competitors may compete with us in a variety of ways, including by expanding their hospital/pharmacy network by launching competing products, expanding their product offerings or functionalities, conducting brand promotions and other marketing activities to acquire users and doctors and making acquisitions. In addition, some of our competitors are large, incumbent companies who are better capitalized than we are.

Moreover, we face competition in some specific areas of our business. For example, under our in-hospital/pharmacy solution, we face competition from other players who provide similar medical devices and consumables to hospitals/pharmacies. Under our individual chronic condition management platform, we face competition from other industry players who operate online platforms with consultation and prescription services for patient and doctor acquisition.

We believe that our ability to compete effectively depends on many factors, including our leading position in the industry, our scalable business model, the valuable doctor-patient relationships we foster and retain, our active user and doctor bases, our innovative technological

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capabilities, our capabilities in the health care value chain, our technological capabilities, quality control of our product and service offerings, our partnership with third parties, our marketing efforts, and the strength and reputation of our brand. See “— Our Competitive Strengths.”

Furthermore, as our business continues to grow rapidly, we face significant competition for highly skilled personnel, including management, engineers, product managers and risk management personnel. The success of our growth strategy depends in part on our ability to retain existing personnel and attract additional highly skilled employees.

EMPLOYEES

As of December 31, 2019, 2020 and 2021, we had 448, 1,492 and 1,407 employees. The following table sets forth the numbers of full-time staff dedicated to our business and operations categorized by function as of December 31, 2021:

Function	Number of employees
Selling and marketing	963
Research and development	364
General and administrative	80
Total	<u>1,407</u>

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 fund plans 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 competitive and fair remuneration. In order to effectively motivate our staff, we continually refine our remuneration and incentive policies through market research. We conduct performance evaluations for our employees quarterly to provide feedback on their performance. Compensation for our staff typically consists of base salary, a performance-based bonus, and share-based compensation for high-perform employees.

We typically enter into standard employment agreements and confidentiality agreements or clauses with our senior management and core personnel. These contracts include a standard non-compete covenant that prohibits the employee from competing with us, directly or indirectly

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during his or her employment and for two years after termination of his or her employment. We maintain a good working relationship with our employees, and we have not experienced any material labor disputes.

We use flexible staff for part of our business development efforts, in addition to our employees. We enter into service agreements with flexible staffing platforms that we use, who deploy their flexible staffing employees to us for specified scopes of work. These flexible staffing platforms bear the relevant costs of social insurance and housing funds or similar employee benefits for the flexible staff that we use.

PROPERTIES AND FACILITIES

We do not own any properties. We mainly operate in Hangzhou, Zhejiang and Shanghai, where we leased and occupied our office space with an aggregate floor area of approximately 5,114 square meters as of the Latest Practicable Date. A substantial majority of our employees are based in Hangzhou and Shanghai. As of the Latest Practicable Date, we also leased and occupied office buildings and pharmacies in various provinces with an aggregate floor area of approximately 7,805 square meters. These leases have expiration dates ranging from June 7, 2022 to January 31, 2041.

Certain lessors of our leased fulfillment centers have not provided us with their property ownership certificates or any other documentation proving their right to lease these properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant government authorities, our leases could be invalidated, and we may have to renegotiate the leases with the owners or the parties who have the right to lease the properties. If this were to happen, the terms of the new leases may be less favorable to us. See “Risk Factors — Risks Related to Our Business and Industry — Any disruption to the operation of our current fulfillment facilities, or to the development of our new facilities, could reduce or negatively impact sales and have a material adverse effect on our business, financial condition and results of operations”.

INSURANCE

In relation to our online consultation and prescription services provided through pharmacy SaaS and individual chronic condition management solution, we carry professional liability insurance covering a maximum of RMB20 million in aggregate claims over the course of a year, under which no claim had been made as of the Latest Practicable Date. We do not maintain product liability insurance for the medical devices, consumables and pharmaceuticals that we sell,

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as laws and regulations in China prohibit insurance for such products. See “Risk Factors — Risks Related to Our Business and Industry — We may not have sufficient insurance coverage to cover our business risks”.

We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide group accident insurance for all employees and supplementary medical insurance for all technology personnel and certain other personnel.

PRODUCT QUALITY AND SAFETY

We have put in place product quality and safety policies and related internal control system to (i) maintain and monitor the product safety and quality for the products we sell, (ii) avoid inappropriate sale of prescription medicines, and (iii) protect us against claims for unauthorized or contaminated products. Highlights of our product quality and safety policies and related internal control system include the following:

Product Safety and Quality. We select our suppliers based on, among others, qualification, reliability and volume. Before entering into any agreement, we perform background checks on suppliers and the products they provide, which include examining their business licenses and the relevant licenses and certificates for their products. We also take into consideration suppliers’ brand recognition and make inquiries about the market acceptance of their products among players in the industry. Depending on the circumstances, we sometimes selectively conduct on-site visits to assess and verify their location, scale of business, production capacity, property and equipment, human resources, research and development capabilities, quality control system and fulfillment capability. We generally select leading pharmaceutical manufacturers and distributors to ensure the product quality. We have established a team dedicated to the management of our suppliers with respect to product quality, logistics and returns. According to the relevant regulations, drugs and medical devices sold to our distributors may not be returned or replaced once sold for any reasons except for the reason of drug quality. As a result, we generally are not subject to return risks. See the section titled “Regulatory Overview — Regulations Relating to Drugs and Medical Devices — Pharmaceutical Operation.”

Prescription drug management. We have a stringent, AI-assisted prescription verification system to manage the risks associated with the sales of prescription drugs. We offer online prescription services for patients with pre-diagnosed diseases and only accept prescriptions from licensed healthcare practitioners, whose qualifications have been verified. We also require our registered doctors to complete their multi-site registration before authorizing them to renew prescriptions for patients. We utilize pharmacists and AI-assisted tools to verify the safety and accuracy of prescriptions issued on our platform.

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Warehousing and Logistics. We are committed to performing stringent quality control throughout every stage of our business operations including procurement, product inspection, warehousing, sales and delivery. We are actively involved in setting quality policies and standards, and improving quality control management through different means in our business operation. We have established a series of internal quality management protocols for our daily operation, providing guidance on and regulations of various aspects of our operations including, among others, the product quality, product shelf life management, product return, product recall and warehousing. Before warehousing, we inspect the appearance, packaging, labels and specifications of the products and examine the products according to the delivery orders and the inspection reports issued by the supplier. For products stored in our warehouse, we conduct regular quality maintenance, inspection and management, and monitor the storage conditions to ensure compliance. We have temperature-controlled warehouses to maintain suitable storage conditions for the quality and safety of our pharmaceutical products. In addition, certain specialty medicines are stored separately in safe and controlled settings and managed by professionally trained personnel. Before delivery from our warehouse or pharmacy stores, we inspect and ensure the quality of the products to be delivered.

During the Track Record Period and up to the Latest Practicable Date, there had not been any material medical and product quality and safety issues related to our business.

SEASONALITY

We experience seasonality in our business, mainly correlating to the seasonality patterns associated with hospital and pharmacy activities in China. For example, in the first quarter, which coincides with the Chinese New Year holiday, hospitals and pharmacies in China generally experience a lower volume of patient visits and other activities, and we typically see a lower demand for our products and solutions as a result. See “Risk Factors — Risks Related to Our Business and Industry — Our results of operations are subject to seasonal fluctuations.”

RISK MANAGEMENT AND INTERNAL CONTROL

We are committed to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. We have adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as financial reporting, information system, internal control, human resources and investment management.

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Financial reporting risk management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policy, budget management policy, treasury management policy, financial statements preparation policy and finance department and staff management policy. We have various procedures and IT systems in place to implement our accounting policies, and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department employees to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

Information system risk management

Certain types of healthcare data that we gain access to may be considered to be personal information under the applicable laws and regulations. Sufficient protection of healthcare data is critical to our success. We have implemented relevant internal procedures and controls to ensure the security of our IT infrastructure, that any healthcare data that we gain access to is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we had not experience any material system failure in our IT infrastructure, or any material leakage or loss of healthcare data.

Our IT system security department are responsible for ensuring the security of our IT infrastructure and ensuring that the usage, maintenance and protection of healthcare data are in compliance with our internal rules and the applicable laws and regulations. We provide regular trainings to our information technology teams.

Compliance and intellectual property risk management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations, as well as the protection of our intellectual property rights.

In accordance with these procedures, our in-house legal department performs the basic function of reviewing and updating the form of contracts we enter into with our customers and suppliers. Our legal department as well as business operation teams examine the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties or us to perform contractual obligations and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

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We also have in place detailed internal procedures to ensure that our in-house legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consent, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines and ensuring all necessary application, renewals or filings for trademark, copyright and patent registration have been timely made to the competent authorities.

Human resources risk management

We provide regular and specialized training tailored to the needs of our employees in different departments. Our human resource department regularly organizes internal training sessions conducted by senior employees or outside consultants on topics of interest. Our human resource department schedules online trainings, reviews the content of the trainings, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback. Through these trainings, we ensure that our staff's skill sets remain up-to-date, enabling them to better discover and meet consumers' needs.

We have in place internal policies approved by our management and have distributed them to all our employees. The handbook contains internal rules and guidelines regarding work ethics, fraud prevention mechanisms, negligence and corruption. We provide employees with regular training, as well as resources to explain the guidelines contained in the employee handbook.

Anti-bribery and anti-corruption policy

We have in place an anti-bribery and anti-corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conduct and our anti-bribery and anti-corruption measures. Improper payments prohibited by the policy include bribes, kickbacks, excessive gifts or facilitation payment, or any other payment made or offered to obtain an undue business advantage. In particular, we issued our policy relating to anti-bribery and anti-corruption in January 2021, which provides guidance for staff behavior, and the identification, monitoring and reporting of bribery and corruption events. We keep accurate books and records that reflect the substance of transactions and asset dispositions in reasonable detail. We specifically require that the employees submit all reimbursement requests related to entertainment related fee or gifts presented to third parties on behalf of us in accordance with our expense expenditure policy, and specifically record the reason for the expenditure. These expenses should be recorded in the financial system and marked as promotional gift expenses or entertainment expenses as appropriate. In addition, we require our employees to report and obtain pre-approval of all business courtesy expenses with a value of more than RMB300 per capita or equivalent for our

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review and supervision. We also require that the payment must not be used for any purpose other than those described in the supporting document. Misleading or incomplete entries in our books and records are not acceptable and subject to disciplinary actions. The payment made in violation of the expense approval process, cash management system or reimbursement system is strictly prohibited. Our finance department regularly monitors the effectiveness and supervises the implementation of the policy, and report to our board of directors the applicability, appropriateness and effectiveness of the policy periodically. Any improvement measures determined by our board of directors should be implemented as soon as possible. In addition, we regularly provide anti-bribery and anti-corruption trainings to all of employees. Our legal and compliance department keeps the training records. Furthermore, we have implemented robust internal control policies with regard to third parties for our business operations, including our customers and suppliers. The internal control measures we have put into place include those for onboarding screening processes for customers and suppliers, review and approval processes for contract terms for anti-bribery related provisions, pre- and post-review and approval processes for selling expenses, and a comprehensive compliance control framework. Our legal and compliance department is responsible for monitoring, accepting escalation, processing investigation and reporting of bribery and corruption events, together with our internal audit departments. We perform internal audit periodically, where they review relevant agreements, invoices, reimbursement materials, etc., audit whether there are any suspicious transactions and whether internal approval procedures comply with our decision-making and approval process and financial system, and report to the management promptly if any unusual issues are identified. We have set up a whistle-blow mechanism that includes a report channel, investigation procedures and responding actions for detected problems. We make our internal reporting channel open and available for our staff to report any bribery and corruption acts, and our staff can also make anonymous reports to our compliance and internal risk management department. Our compliance and internal risk management are responsible for investigating the reported incidents and taking appropriate measures. We conduct sufficient risk-based due diligence before hiring any third party and ensure that the hiring procedure is implemented fully in accordance with the anti-bribery and corruption policy. We also have regular trainings for employees regarding anti-bribery and corruption policy to facilitate better implementation. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any bribery incident by our employees in relation to all of our customers.

Investment risk management

Our investment strategy is to invest in or acquire businesses that are complementary to our business. We set up investment plans in line with our business strategies with inputs from various business departments.

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We generally intend to hold our investments for the long term. In order to manage the potential risks associated with investments, we generally require our investee companies to grant us customary minority investor protective rights.

Our investment department is responsible for investment project sourcing, screening, execution and post-investment risk management. This department sources investment projects in accordance with our investment strategy and preliminarily assesses the risks and potential of the investment projects. We employ different levels of approval and due diligence mechanisms corresponding to the specific circumstances involved in an investment project.

In addition, our investment department is responsible for monitoring the performance of each investment on a regular basis. The department is also responsible for preparing analysis reports and providing recommendations on measures to reduce any risks involved in each investment project and must report to the head of the department and then to our investment committee if there is any material change to the financial position of an investment.

Audit committee experience and qualification and board oversight

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, Mr. Zhang Saiyin, Mr. Lee Kar Chung Felix and Dr. Hong Weili, all of whom are independent non-executive Directors. Mr. Zhang Saiyin is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see the section headed “Directors and Senior Management” in this document.

We also maintain an internal audit department which is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee and senior management on any issues identified. Our internal audit department members are required to report to management to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the board of directors, if necessary.

Ongoing measures to monitor the implementation of risk management policies

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

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Two-invoice system and national centralized procurement using a VBP approach

Currently, the “two-invoice system” in China is strictly implemented and followed for the sales of drugs to public medical institutions at a national level; however, a clear, nation-wide implementation of the “two-invoice system” for medical devices and other medical consumables has not been established, and the application of the policy for these products its application differs among provinces in China. In particular, “two-invoice system” for medical devices and consumables has not been implemented in some provinces, and in those provinces that have implemented it, some only apply to sales of high-value medical consumables to public medical institutions, while a limited number of provinces more generally regulate sales of medical consumables to public medical institutions. See “Regulations.” During the Track Record Period and up to the Latest Practicable Date, the implementation of the “two-invoice system” had not affected our business and financial performance, because (i) in terms of drugs, based on our internal records and to our Directors’ best knowledge, we did not directly or indirectly sell any drugs to public medical institutions, and therefore, the implementation of the “two-invoice system” at a national level did not have any impact on the our business. We do not intend to directly or indirectly sell drugs to public medical institutions considering China’s current “two-invoice system” regulations, which may limit the prospect and potential of this portion of our business. In addition, under the “two-invoice system,” public medical institutions are required to verify the invoice issuance information in the drug distribution chain to ensure compliance, and therefore, public medical institutions are prohibited from procuring drugs from our distributors. In particular, under the Notice on Issuing the Implementing Opinions on Promoting the “Two-invoice System” for the Drug Procurement by Public Medical Institutions (Trial), public medical institutions undertake the obligation to verify the consistency between invoices, goods and records before they store and use drugs. The verification not only involves invoices from their distributors, but also includes the copy of invoices issued by the manufactures, both of which are required to be incorporated into the financial records of such public medical institution and to act as the certificate of payment by public medical institutions. According to Frost & Sullivan, it is industry norm that public medical institutions in China verify the invoice issuance information to ensure the distribution processes for the drugs procured are in compliance with the “two-invoice system” requirements. As a result, public medical institutions should not be able to procure drugs from our distributors after one invoice has been issued from pharmaceutical manufacturers to us, and another invoice has been issued from us to our distributors; (ii) in terms of medical devices and other medical consumable, according to Frost & Sullivan, provincial regulatory authorities in China implemented the “two-invoice system” with a focus on procurement of high-value medical consumables in public medical institutions. Our SKUs generally do not fall into this category, and as a result, our SKUs were generally not regulated under the “two-invoice system” at a provincial level; and (iii) there were only two provinces where we sold three non-high-value SKUs of medical consumables in 2020 and 2021 that were regulated under the “two-invoice system” at a provincial level. Revenues generated from the three SKUs in these two provinces accounted for approximately 0.01% of our

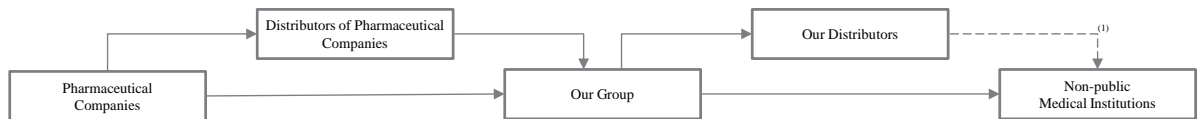
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total revenues in 2020 and the 2021. As such, during the Track Record Period the implementation of the “two-invoice system” did not have impact on 100% of our sales of pharmaceutical, 100% of our sales of medical devices and substantially all of our sales of medical consumables, except to the three SKUs in these two provinces. We were the sole party in the distribution chain for these three SKUs in 2020 and 2021, and therefore, this business was strictly in compliance with, and was not affected by, the implementation of the “two-invoice system”. As such, the distributorship practice, including downstream sales and upstream purchases, was not affected by the implementation of the “two-invoice system” during the Track Record Period and up to the Latest Practicable Date. In the view of our PRC Legal Advisor, Tian Yuan Law Firm, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with the “two-invoice system” in all material respects. The following diagrams illustrates our distributorship model with details our purchases and sales practices during the Track Record Period:

Distribution Model for Pharmaceuticals

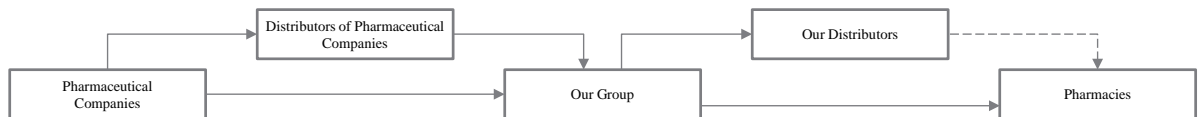
In-hospital Solution

We did not, and do not intend to, sell pharmaceuticals directly or indirectly to public hospitals; Sales of pharmaceuticals to non-public medical institutions are not regulated under the “two-invoice system”



Pharmacy Solution

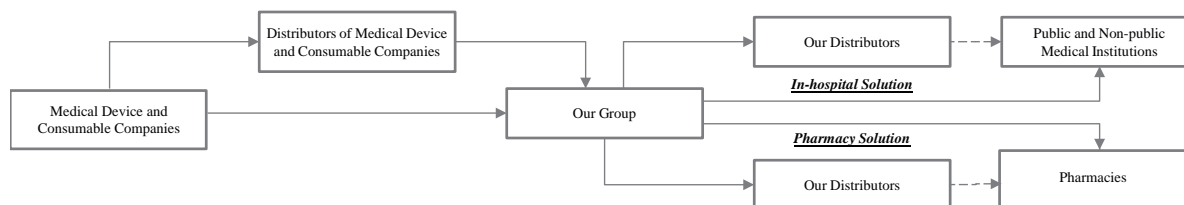
Sales of pharmaceuticals to pharmacies are not regulated under the “two-invoice system”



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Distribution Model for Medical Devices and Consumables

Sales of Medical Devices and Consumables that Are Not Regulated Under the “Two-invoice System”⁽²⁾



Sales of Medical Devices and Consumables that Are Regulated Under the “Two-invoice System”⁽³⁾

We engage in sales of 3 SKUs of medical consumables in two provinces (~0.01% of our total revenues in 2020 and 2021) that are regulated under the “two-invoice system”



Notes:

1. We have taken measures to ensure strict compliance with the “two-invoice system” and have implemented stringent internal control procedures for distribution of pharmaceuticals. We will continue to closely monitor the application, enforcement and evolution of the “two-invoice system” to mitigate our risks of future potential non-compliance. See “Business — Risk management and internal control — Two-invoice system and national centralized procurement using a VBP approach.”
2. According to Frost & Sullivan, provincial regulatory authorities in China implemented the “two-invoice system” with a focus on procurement of high-value medical consumables in public medical institutions. Our SKUs generally do not fall into this category, and as a result, our SKUs were generally not regulated under the “two-invoice system” at a provincial level.
3. There were only two provinces where we sold very limited number of non-high-value SKUs that were regulated under the “two-invoice system” at a provincial level. Revenues generated from the three SKUs in these two provinces accounted for approximately 0.01% of our total revenues in 2020 and the 2021. We were the direct distributor and the only distributor along in the distribution chain for these SKUs in these two provinces during the TRP, and therefore our business of this type was strictly in compliance with, and was not affected by, the implementation of the “two-invoice system.”

We have taken steps to ensure strict compliance with the “two-invoice system” and will continue to closely monitor the application, enforcement and evolution of the two-invoice system to mitigate our risks of future potential non-compliance. In particular, we monitor the list of medical devices and medical consumables that are subject to the “two-invoice system” as

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published from time to time by each provincial authority. We regularly assess our distribution practice for each of our SKUs to ensure compliance. We also periodically provide training to members of our management team as well as our sales and marketing team to enhance their knowledge about the latest laws and regulations in the healthcare and pharmaceutical industry. We require our sales and marketing team to promptly adjust the distributorship practice and relevant plans for our products based on the latest implementation status of the “two-invoice system” in different provinces. In addition, we require our distributors to be in compliance with applicable laws and regulations for the products procured from us. Any non-compliance activities conducted by distributors would entitle us to terminate the corresponding distribution agreements, and to claim compensation from them for losses caused by relevant breaches. We frequently communicate with our customers to ensure strict compliance with the “two-invoice system” by the relevant parties. During the Track Record Period, we were not aware of any non-compliance incidences with the “two-invoice system” by our distributors. We did not terminate any distributors during the Track Record Period due to their breach of distribution agreements or non-compliance incidents.

As of the Latest Practicable Date, our Directors confirm that we (i) had not been deemed to have violated or circumvented any national and/or local regulations, rules or policies in relation to the “two-invoice system”, (ii) had not been subject to any administrative fines or penalties by the competent authorities in relation to the “two-invoice system”, and (iii) had not received any warning or notice from any competent authorities in relation to the compliance with the “two-invoice system.” However, we cannot guarantee our distributors will be in full compliance with “two-invoice system,” as we have limited control over our distributors and are not able to fully restrict their further dealings with sub-distributors or end-costumers. Our PRC Legal Advisor, Tian Yuan Law Firm, has advised us that any of our distributor’s non-compliance with the “two-invoice system” will not cause us, as a supplier to such distributors, to be legally responsible for any liabilities under the “two-invoice system” because the relevant laws and regulations impose no direct liabilities on enterprises whose distributors are not in compliance the “two-invoice system”. However, any non-compliance incidents by our distributors may nevertheless adversely affect our reputation, divert the attention of our management from our operations and further cause adverse impact on our business and operation results.

The national centralized procurement process using a VBP approach has been implemented for sales of drugs and high-value medical consumables to public medical institutions. As such, the national centralized procurement process using a VBP approach did not have any impact on our business during the Track Record Period.

We believe, based on (i) the historical and current focus on high-value medical devices and consumables for the implementation of the “two-invoice system” and the national centralized procurement process using a VBP approach by provincial authorities, and (ii) the policy aims of the “two-invoice system” and the national centralized procurement process using a VBP approach to regulate high-value medical devices and consumables, it is less likely that the non-high-value medical devices and other medical consumables and pharmaceuticals that we sell will be subject to the “two-invoice system” in the near future.

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Going forward, we cannot assure you that future laws and regulations, particularly the potential expansion of the scope of products covered by the two-invoice system and the national centralized procurement using a VBP approach, would not render our business non-compliant, or that as we continue to grow and expand our business, we would always be in full compliance with the applicable laws and regulations relating thereto. For example, if the two-invoice system and/or the national centralized procurement using a VBP approach becomes widely adopted and implemented, including but not limited to the potential expansion of lists of medical devices and consumables regulated by certain provincial authorities under the two-invoice system and the potential expansion of the scope covered by the national centralized procurement using a VBP approach, our sales of the relevant products may be affected, and our revenue and profitability may suffer as a result. In addition, considering the current two-invoice system and the national centralized procurement using a VBP approach that regulate the sale of drugs to public medical institutions, we do not intend to sell drugs, directly or indirectly, to public medical institutions, and as such, our distributors cannot sell drugs procured from us to public medical institutions. Therefore, the implementation of the two-invoice system and the national centralized procurement using a VBP approach may cause us to lose business opportunities and limit the prospect and potential of our business. Furthermore, we cannot guarantee that our distributors will remain in full compliance with the two-invoice system and the national centralized procurement using a VBP approach as we have limited control over our distributors and are not able to direct their dealings with sub-distributors or end-costumers. Any of our distributor's non-compliance with the two-invoice system and/or the national centralized procurement using a VBP approach may adversely affect our reputation, divert the attention of our management from our operations and adversely affect our business and results of operations.

Please refer to “Risk Factors — Risks Related to Our Business and Industry — We are subject to risks associated with the ‘two-invoice system’ and national centralized procurement using a volume-based procurement approach, particularly the potential expansion of the scope of products covered thereby” for details.

LEGAL PROCEEDINGS AND NON-COMPLIANCES

We are not currently a party to any legal or administrative proceedings that we believe to be material to our business or financial condition. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, including patent, commercial, professional liability, product liability, employment, class action, and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. In addition, third parties may from time to time assert claims against us in the form of letters and other communications. The results of any future litigation or administrative proceeding cannot be predicted with certainty, and regardless of the outcome, litigation and administrative proceedings can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

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On February 5, 2021, March 15, 2021 and April 16, 2021, two different versions (5.6.5 on OPPO App Store and 5.7.0 on Huawei App Store) of our app *Cloudr. Health* (“智雲健康”) were examined and criticized by the MIIT or local administration. Version 5.6.5 of the app was criticized for way in which it requested permissions from users; Version 5.7.0 of the app was first criticized for the way in which it collected and using personal information and for the way in which it collected user consents and pushing targeted content. The three incidents were rectified through version updates within the time limit set by the relevant authorities. In the view of our PRC Legal Advisor, these issues were minor breaches of applicable regulations and they have both been rectified within the designated time limit and had no significant adverse impact on our business operation and financial performance.

In the view of Tian Yuan Law Firm, our PRC Legal Advisor, as of the Latest Practicable Date, our internet-based consultation and prescription services and the sales of prescribed drugs is in compliance in material respect with relevant PRC laws and regulations. The basis of our PRC Legal Advisor’s view may only includes, but is not limited to: (i) according to Measures for the Administration of Internet Diagnosis and Treatment (for Trial Implementation) (互聯網診療管理辦法(試行)), a medical institution shall carry out its internet diagnosis and treatment activities consistent with its offline diagnostic and treatment categories, which is consistent with the practice of our app; (ii) according to Administration of Internet Diagnosis and Treatment (for Trial Implementation), Internet diagnosis and treatment activities are not permitted for any patient receiving an initial diagnosis. Accordingly, we require patients to upload their previously issued prescription before obtaining consultation services requiring prescriptions from us; (iii) according to the Measures for the Administration of Prescriptions (處方管理辦法), medical practitioners on Internet hospitals are not allowed to prescribe unless they have completed the multi-site practice filing with competent authorities. We require all doctors issuing prescriptions on our platform to obtain such registrations; and (iv) according to the Measures for the Administration of Prescriptions, prescriptions are effective only on the date of prescription, when an extension is required under special circumstances, the prescription physician must indicate the effective period, which may not exceed 3 days. Prescriptions issued on our platform contain time stamps to comply with this requirement. However, we are unable to ensure that the sale of prescribed drugs by third party pharmacies through our platform is and will continue to be in full compliance with the relevant laws and regulations or any new laws and regulations that may be promulgated in the future. See “Risk Factors — Risks Related to Our Business and Industry — The sale of prescription drugs is subject to stringent scrutiny, which may expose us to risks and challenges.”

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material non-compliance incidents that have led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

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LICENSE, PERMITS AND APPROVALS

Awards

List of Awards			
Time	Event Name	Organized and Co-organized by	Awards
6/17/2020	Hurun China Mountain Goats 2020	Hurun Institute	Hurun China Mountain Goats 2020
6/29/2020	4th All Things Growth Conference	Hangzhou Municipal People’s Government, China Investment Development Promotion Association	2020 Hangzhou Quasi-unicorn Enterprise
7/30/2020	2020 China (Tianjin) High Growth Enterprise Development Forum	Tianjin Municipal Science and Technology Bureau and Great Wall Strategy Consulting	Great Wall Strategy Consulting 2019 China Unicorns
10/10/2020	Tianfu Health Talk — CHS 2020 5th China Healthcare Industry Upgrade Summit	Directed by China Health Information and Healthcare Big Data Society and Sichuan Provincial Healthcare Commission; co-sponsored by China Health Information and Healthcare Big Data Society, Committee of Medicine and Health Management and EqualOcean	2020 China Healthcare Industry Innovation Award — Best Health Management Innovation Enterprise
10/30/2020	2020 Best Anti-Covid-19 Private Employers	Hurun Baifu, Baifu Tianqi and 51Job	2020 Best Anti-Covid-19 Private Employers
12/13/2020	2020 China Health New Force Development Summit	Directed by People’s Daily, Wuxi Municipal People’s Government, co-sponsored by People’s Health, Wuxi Municipal Bureau of Science and Technology and Wuxi National Hi-Tech Industrial Development Zone	2020 China Healthcare New Force Businesses
12/26/2020	2020 China International Smart Hospital Expo	Directed by the National Healthcare Commission, the National Development and Reform Commission, and organized by China Hospital Association and China Physicians Association	2020 China Smart Hospital Top 10 Brand Creative Innovation Award

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Licenses and Permits

Throughout the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations in China.

No	Holder	Name of the License	Expiration Date	Description of the License
1	91health Shanghai	Medical Device Operation License	July 26, 2023	License for operation of Class III medical device
2	91health Shanghai	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
3	Hangzhou Kangming Information Technology Co., Ltd.	Value-added Telecommunication Business License	June 10, 2026	License for providing internet resource collaborative services
4	Hangzhou Kangming Information Technology Co., Ltd.	Online Drug Information Offering License	April 20, 2026	License for providing drugs information on the internet
5	Hangzhou Kangsheng Health Management Consultant Co., Ltd.	Medical Device Operation License	September 2, 2025	License for operation of medical device
6	Hangzhou Kangsheng Health Management Consultant Co., Ltd.	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
7	Hangzhou Kangsheng Health Management Consultant Co., Ltd.	Pharmaceutical Operation License	October 24, 2023	License for operation of pharmaceutical wholesale
8	Hangzhou Kangsheng Health Management Consultant Co., Ltd.	Certificate of Good Operation Practice for Pharmaceutical Products	October 24, 2023	Certificate for good practice for pharmaceutical operation
9	Hangzhou Kangsheng Health Management Consultant Co., Ltd.	Food Operation License	May 30, 2022	License for food operation business

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No	Holder	Name of the License	Expiration Date	Description of the License
10 . . .	Zhiyun Hongji (Shanghai) Medical Technology Co., Ltd.	Medical Device Operation License	July 15, 2025	License for operation of Class III medical device
11 . . .	Zhiyun Hongji (Shanghai) Medical Technology Co., Ltd.	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
12 . . .	Yinchuan Zhiyun Internet Hospital *	Medical Institution Practice License	January 6, 2025	License for general practice of medical institution
13 . . .	Hainan Zhiyun Internet Hospital *	Medical Institution Practice License	May 8, 2025	License for general practice of medical institution
14 . . .	Hainan Zhiyun Internet Hospital Co., Ltd.*	Online Drug Information Offering License	December 27, 2025	License for providing drugs information on the internet
15 . . .	Hainan Zhiyun Telemedicine Center	Medical Institution Practice License	May 8, 2025	License for general practice of medical institution
16 . . .	Hangzhou Zhiyun Qikang Biomedical Co., Ltd.	Pharmaceutical Operation License	March 31, 2026	License for operation of pharmaceutical wholesale
17 . . .	Hangzhou Zhiyun Qikang Biomedical Co., Ltd.	Medical Device Operation License	February 2, 2026	License for operation of Class III medical device
18 . . .	Hangzhou Zhiyun Qikang Biomedical Co., Ltd.	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
19 . . .	Jiangsu Xinwange Medical Technology Co., Ltd.	Medical Device Operation License	March 31, 2025	License for operation of Class III medical device
20 . . .	Jiangsu Xinwange Medical Technology Co., Ltd.	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
21 . . .	Yinbang Insurance Brokers Co., Ltd.	Operating Insurance Brokerage Business License	August 13, 2023	License for providing insurance brokerage business

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No	Holder	Name of the License	Expiration Date	Description of the License
22 . . .	Zhejiang Qilian Pharmaceutical Co., Ltd.	Pharmaceutical Operation License	July 9, 2024	License for operation of pharmaceutical wholesale
23 . . .	Zhejiang Qilian Pharmaceutical Co., Ltd.	Medical Device Operation License	May 9, 2024	License for operation of Class III medical device
24 . . .	Zhejiang Qilian Pharmaceutical Co., Ltd.	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
25 . . .	Zhejiang Qilian Pharmaceutical Co., Ltd.	Food Operation License	May 6, 2025	License for food operation business
26 . . .	Zhejiang Qilian Pharmaceutical Co., Ltd.	Certificate of Good Operation Practice for Pharmaceutical Products	July 9, 2024	Certificate for good practice for pharmaceutical operation
27 . . .	Yinchuan Zhiyun Internet Hospital* Co., Ltd.	Online Drug Information Offering License	August 2, 2026	License for providing drugs information on the internet
28 . . .	Hangzhou Kangming Information Technology Co., Ltd.	Filing Record of Third-party Platform for Medical Device Network Trading Services	N/A	Filing requirement for third-party platform for medical device network trading services
29 . . .	Yinchuan Zhiyun Internet Hospital Co., Ltd.	Value-added Telecommunications Business License	November 30, 2026	License for providing internet resource services
30 . . .	Yinchuan Zhiyun Internet Hospital Co., Ltd.	Class II Medical Device Operation Filing Record	N/A	Filing requirement for operation of Class II medical device
31 . . .	Hangzhou Kangming Information Technology Co., Ltd.	Third-Party Platform Filing Certificate for Online Sales Service of Medical Devices	N/A	License for operation of medical devices online
32 . . .	Chengdu Zhiyun Internet Hospital	Medical Institution Practice License	September 1, 2031	License for general practice of medical institution

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* *note:* The internet hospitals are the entities whose Medical Institution Practice Licenses allow us to conduct our online consultation and prescription services. According to the applicable PRC laws and regulations, an internet hospital should be supported by an offline medical institution. See “Regulatory Overview — Regulations Relating to the Online Medical Services — Internet Medical Services” for details. Our internet hospitals are supported by three respective offline medical institutions, namely Ningxia Xiang’an Hospital, Hainan Zhiyun Telemedicine Center, and the People’s Hospital of Wenjiang District of Chengdu. Among them, Hainan Zhiyun Telemedicine Center is our self-owned offline medical institution. The other two offline medical institutions are independent third parties of us. In addition, historically we acquired an offline medical institution, which historically offered limited offline diagnosis services and was later divested by us. We established the offline medical institution, namely Hainan Zhiyun Telemedicine Center, in order to meet the license requirements for setting up our corresponding internet hospital (i.e., Hainan Zhiyun Internet Hospital) as the supporting offline medical institution. Hainan Zhiyun Telemedicine Center did not provide any services to patients during the Track Record Period, which is industry norm for this type of supporting offline medical institutions established by internet hospital operators, according to Frost & Sullivan. With our three Medical Institution Practice Licenses held by three internet hospitals, we provide online medical services on an integrated basis to patients across China through our online applications including *ClouDr. Health* and *ClouDr. Pharmacy*. As of the Latest Practicable Date, we had over 94,000 registered doctors on our platform. There were 8 doctors that worked for us on a full-time basis and were registered with our medical institution as their principal practicing sites. In addition, there were over 14,800 doctors that worked for us on a part-time basis who had completed the multi-sites registration under our internet hospitals that can issue prescriptions on our platform. The rest of our registered doctors had not completed the multi-sites registration and had not conducted diagnosis and treatment or issued any prescriptions as of the same date. These doctors can act as supporting doctors and provide online pre-consultation and pre-diagnosis services, such as online triage, and review and cross-check issued prescriptions as part of our risk control procedures. As of the Latest Practicable Date, we had paid a total of 1,738 such supporting doctors for their services on our platform, as of the same date. Under applicable laws and regulations, our part-time doctors are allowed to provide diagnosis and treatment and prescribe medications on our internet hospitals when he or she has registered under a medical institution as his or her principal practicing site and have completed their multi-sites registration under our internet hospitals with competent medical authorities. In addition, under applicable laws and regulations, our part-time doctors are allowed to provide medical consultation services on our online platform without conducting the multi-sites registration, if such doctors don’t conduct diagnosis and treatment or issue prescriptions. Since the doctors of our online medical institutions who are required to complete their multi-sites registration under the PRC laws and regulations have completed such registration, no issues are expected to be caused in respect of their practicing activities and licenses. In the view of our PRC Legal Advisor, Tian Yuan Law Firm, during the Track Record Period and up to the Latest Practicable Date, our internet-based consultation and prescription services were in compliance with applicable laws and regulations in all material aspects. Our online consultation and prescription services focus on chronic condition management, which requires long-term treatment, the re-filling of prescriptions and condition management. According to “Long-term Prescription Management Standard (Trial)” issued by the NHC and NHSA in 2021, the prescription amount for long-term prescriptions should be no longer than 4 weeks, which amount can be no longer than 12 weeks chronic disease patients with stable conditions. As such, each chronic patient with the demand for long-term prescriptions need to gain prescriptions at least 4 times each year. Our online consultation and prescription services provide patients with convenient, efficient and comprehensive online consultation and prescription fulfilling experience and well as a “anytime, anywhere” healthcare management platform, which we believe can address long-term medical needs of chronic disease patients. See “— Our Individual Chronic Condition Management Solution for Individual Users” for details. During the Track Record Period and as of December 31, 2021, only one of our offline medical institutions had generated revenue from its offering offline diagnosis services, which is negligible compared to our revenues. Our internet hospitals are part of our infrastructure to support our online applications operating such as *ClouDr. Health* and *ClouDr. Pharmacy* in compliance with applicable PRC laws and regulations. During the Track Record Period, we provided the online consultation and prescription services through our online applications, recognized the corresponding revenues, costs and expenses at the companies operating our online applications and did not allocate revenues, costs and expenses among internet hospital institutions. As of the date of this document, we have divested the one offline medical institution that generated revenue for business reasons as part of our efforts to streamline our business operations to focus on online medical services. We believe this divestment had no material impacts on our business operations and financial performances, considering that (i) our ability to continue carry on our online medical services with the other three licenses, and (ii) the negligible revenues generated by the divested entity during the Track Record Period. During the Track Record Period, the revenues, costs and expenses from the offline diagnosis services of the divested medical institution were allocated to this divested company.