You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this document, including the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

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.

We have diverse monetization methods across our three service offerings. Under our in-hospital solution, we generate revenue primarily through (i) sales of hospital supplies, including medical devices, consumables and pharmaceuticals to hospitals; (ii) 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; and (iii) subscription fees for our hospital SaaS. Under our pharmacy solution, we generate revenue primarily through (i) sales of pharmacy supplies, including medical devices, consumables, pharmaceuticals and miscellaneous to pharmacies and (ii) subscription fees for our pharmacy SaaS, which we launched in 2019. Under our individual chronic condition management solution, we generate revenue primarily through sales of chronic condition products, including medical devices, consumables, pharmaceuticals and miscellaneous, membership fees, and others including insurance brokerage services and advertisement agent services.

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, issuance cost of financial liabilities at FVTPL, and listing expenses, was RMB149.5 million, RMB636.3 million and RMB444.0 million in 2019, 2020 and 2021, respectively. See "— 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.

BASIS OF PRESENTATION

Our historical financial information for the years ended December 31, 2019, 2020 and 2021 has been prepared in accordance with all applicable IFRSs issued by the International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. For the purpose of preparing our historical financial information, we have adopted all applicable new and revised IFRSs that were effective during the Track Record Period, except for any new standards or interpretations that are effective for the accounting period beginning on January 1, 2021. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2021 are set out in Note 33 to the Accountants' Report included in Appendix I to this document. Inter-company transactions, balances and unrealized gains or losses on transactions between companies in our Group are eliminated on consolidation.

KEY OPERATING DATA

The following tables set forth the key operating data for the years indicated:

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

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 generally increased during the Track Record Period as we continued to expand 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.

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 year.

(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 generally increased since 2019, when we started offering this service. The number grew significantly from 2019 to 2021, as we 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.

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.

We have been continually growing our individual user base as we attract more hospitals, doctors, and pharmacies to our platform. The number of registered users increased from 8.4 million as of December 31, 2019 to 17.1 million as of December 31, 2020, and further to 23.8 million as of December 31, 2021.

As we grew our individual user base, we focused on expanding third-party online pharmaceutical sales and launched premium membership services in 2020. As a result, the number of paying individual users rebounded by 821.6% from 39,692 in 2019 to 365,786 in 2020, and reached 660,535 in 2021.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations are affected by general factors affecting China's healthcare industry, in particular the chronic condition management industry, the pharmaceutical, consumable and medical device industry, the internet hospital industry, and the hospital and pharmacy SaaS industry, including China's overall economic growth, healthcare system reform, favorable regulatory environment, and digitalization and transformation of the healthcare value chain. Unfavorable changes in any of these general industry conditions could negatively affect the demand for our services and materially and adversely affect our results of operations.

In particular, we believe the following factors are the principal factors that have affected and will continue to affect our business, financial condition, results of operations and prospects:

- Trends in China's economic conditions and development of China's chronic condition management industry;

- Our ability to expand our hospital coverage across China and drive hospitals' engagement on our platform;

- Our ability to scale our network of industry participants;

- Our ability to enhance and expand our chronic condition management services for patients;

- Our ability to improve operating efficiency and achieve profitability; and

- Our ability to effectively invest in innovative product offerings and technologies.

Trends in China's Economic Conditions and Development of China's Chronic Condition Management Industry

Our business, financial condition, results of operations and prospects are significantly affected by the market demand for our chronic condition management products and services, which in turn is linked to China's overall economic conditions and the development of China's chronic condition management industry. China's chronic condition management industry is expected to be driven by various factors that include aging population and rising prevalence of chronic conditions, increasing awareness of health management, digitalization of healthcare infrastructure and favorable government policies. According to Frost & Sullivan, healthcare expenditures for chronic conditions in China are expected to grow from RMB4,100.6 billion in 2020 to RMB12,479.9 billion in 2030. See "Industry Overview — Overview of China's Chronic Condition Management Market." In addition, the continuous digital transformation of China's healthcare system as well as the growing market and social acceptance of internet healthcare has contributed to the increasing popularity of our solutions. We are the largest digital chronic condition management solution provider in China, according to the Frost & Sullivan Report, 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, which we believe positions us well to capture the tremendous opportunities that will be brought by the favorable trends in China's chronic condition management industry.

Our business, financial condition, results of operations and prospects are also affected by government policies and regulations applicable to China's healthcare industry. Government regulation and enforcement are evolving and subject to significant uncertainties, which affects the manner in which we conduct our business as well as our ability to further grow and expand our business. 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 Ability to Expand Our Hospital Coverage across China and Drive Hospitals' Engagement on Our Platform

Because China's healthcare services are heavily concentrated in public hospitals with more medical resources and doctor-patient relationships, we have adopted a "hospital-first" strategy to provide a refined chronic condition management experience for patients. As our partnerships with hospitals deepen, we are able to monetize by providing them with our in-hospital solution. Our hospital-first strategy has laid solid foundations for us to extend our businesses to out-of-hospital systems including online or in-person consultation, prescription services, real-time medical support, and remote chronic condition management. Our long-term success depends on our ability to continue to successfully execute our hospital-first strategy and further expand our hospital network across China.

We have been actively expanding our hospital network nationwide. Through the installation of *ClouDr. Yihui*, our first-of-its-kind chronic condition management SaaS product, we have further deepened our relationship with hospitals and expanded our base of transacting customers for our hospital SaaS solution.

As we expand our hospital network, we have been actively driving hospitals' engagement on our platform by enhancing and expanding our product and service offerings. We provide hospitals with hospital supplies including medical devices, consumables and pharmaceuticals. We are the exclusive distributor for several glucose monitoring devices and provide hospitals with access to a rich supply of high-quality glucose monitoring devices at competitive prices. We have also launched digital marketing services for pharmaceutical companies, through which hospitals and doctors gain access to variety of information of pharmaceuticals that helps them make more informed clinical decisions.

Our Ability to Scale Our Network of Industry Participants

Our results of operations and prospects also hinge on our ability to scale our network of industry participants. Leveraging our deep connections with hospitals, we have built up our platform spanning the chronic condition management value chain. As of December 31, 2021, we had accumulated over 172,000 pharmacies and over 87,000 registered doctors on our platform, providing seamless and low-stress experience to 23.8 million registered users. Our network thus allows us to connect various industry participants across the value chain.

The appeal of our platform depends on our ability to enhance and expand our product and service offerings. Utilizing our existing coverage, doctor-patient relationships, and supply chain capabilities, we will continue to introduce innovative and effective services tailored to customers' and users' evolving needs while maintaining our service quality in order to further enhance user experience and increase user stickiness. For example, we are enriching our service offerings to provide holistic solutions for industry stakeholders. We launched our pharmacy SaaS in 2019, which makes online consultation and prescription services easily accessible to walk-in pharmacy patients. We also provide other services to pharmacies through our pharmacy SaaS, including new retail and inventory management. For patients, on the other hand, we will continue to invest in developing and offering a wider array of services.

Our vibrant platform brings significant value to upstream participants along the healthcare value chain, such as pharmaceutical and medical device companies. Leveraging our existing network across hospitals and pharmacies, we plan to continue penetrating the upstream value chain, which in turn can help enhance our portfolio of product and service offerings. For example, we will continue to expand our partnerships with upstream pharmaceutical and medical device companies and provide pharmaceuticals and medical devices tailored to the needs of our end customers.

We currently generate revenue primarily from sales of medical devices, consumables, pharmaceuticals and miscellaneous, service fees from providing digital marketing services, and subscription fees for our SaaS products for hospitals and pharmacies. See "— Description of Major Components of Our Results of Operations — Revenues." Our future success is significantly dependent on our ability to further penetrate the healthcare system, expand our network and drive customers engagement. As we increase our interactions with various participants, we will further explore and diversify our monetization channels.

Our Ability to Enhance and Expand Chronic Condition Management Services for Patients

Through our expanding coverage of doctors and patients, we have helped establish an increasing number of real-world doctor-patient relationships. Those relationships enable us to build trust with patients and attract them to our platform from diverse channels. We plan to further enrich our offerings for patients so that we can better serve patients throughout the lifespan of their chronic condition management.

Our chronic condition management solution today cover not only diabetes, but many other chronic conditions as well. With AIoT-enabled blood glucose meters, blood pressure meters and other AIoT devices, patients with different chronic conditions who have access to our individual chronic condition management solution and others can easily log their results and monitor the status of their conditions. We also offer online coaching, consultation and prescription services that allow patients with different chronic conditions to easily receive remote medical care and interact with medical professionals. We are enriching our solution for patients on multiple fronts, including cooperation with partners to introduce portable devices for self-management integrating all major medical indicators such as glucose and blood pressure, exploring to upgrade our AIoT Center to support a wider array of medical devices such as noninvasive glucose devices to enable continuous monitoring and blood pressure monitors for hypertension condition management in the future, and expanding our supplies of pharmaceuticals and medical devices to meet patients' growing needs.

Our Ability to Improve Operating Efficiency and Achieve Profitability

Leveraging our digital chronic condition management platform, we will continue to improve our operating efficiency. As more hospitals and pharmacies adopt our SaaS products, more doctors and pharmacists shift to our platform, and we are able to provide pharmaceutical companies with more effective digital marketing services. As our services are more widely recognized, we expect to attract and acquire more industry participants, drive increasing interactions among them, identify and utilize more upselling opportunities and further grow our business volume in an increasingly efficient manner.

Our ability to achieve profitability depends on how we manage our cost of revenues and expenses. We believe our business model is highly scalable and has significant potential for economies of scale. Our hospital-first strategy and comprehensive solutions have helped us build an extensive network of hospitals and pharmacies, through which we have diversified our monetization channels and are able to offer our customers innovative solutions with higher margins. As a result, we have achieved significant progress on new business initiatives including service revenue streams such as digital marketing services. For example, our revenue from digital marketing services grew from RMB35.4 million in 2019 to RMB149.4 million in 2020. As a result of such efforts and progress, our overall gross margin increased significantly from 11.7% in 2019 to 27.7% in 2020 and further to 32.4% in 2021. The improvement of our gross margin during the Track Record Period is also driven by our increased pricing power benefiting from our growing business scale and improving supply chain capabilities.

Building on our advanced SaaS products as well as industry-wide brand recognition, we have maintained high customer stickiness. Leveraging our platform, we seek to reduce selling and marketing expenses as percentages of our revenue and enjoy higher operating leverage.

Our Ability to Effectively Invest in Innovative Product Offerings and Technologies

Our results of operations also depend on our ability to use technologies to empower our business. Accordingly, we intend to continue to invest in innovative product offerings and technologies to further digitalize and better serve China's chronic condition management industry.

In relation to our in-hospital solution, we are exploring to further upgrade our AIoT capabilities to achieve connectivity to a wider array of medical devices. Currently, our proprietary AIoT devices can connect to third-party medical devices, including mainstream glucose meters and vital sign monitors. We plan to further develop our AIoT capabilities to support more medical devices in hospitals such as blood oxygen monitors, and user-friendly devices such as sensor-enabled continuous glucose monitors.

For our pharmacy end customers, we have expanded our pharmacy SaaS to introduce value-added services including new retail and inventory management to help them expand online outreach and optimize business operations. For users of our individual chronic condition management solution and others, we provide more tailor-made medical services for chronic conditions backed by CDSS (clinical decision support system) technologies.

During the years ended December 31, 2019, 2020 and 2021, we spent RMB23.8 million, RMB132.4 million and RMB236.2 million on research and development, respectively. Our relentless focus on technologies, product development, and user experience, together with our hospital-first strategy, has propelled us to become the largest digital chronic condition management solution provider in China, according to the Frost & Sullivan Report, 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, we expect to continuously invest significant resources to enhance our technology capabilities, drive the digitalization of chronic condition management, and develop more innovative products and solutions. We also expect to continue to invest in the fields of AIoT and data analytics to strengthen our technological advantage and further solidify our position as the market leader.

IMPACT OF COVID-19 ON OPERATIONS

Since late January 2020, the outbreak of a novel strain of coronavirus, later named COVID-19, has affected China and many parts of the world. In order to contain the spread of the coronavirus, the Chinese government imposed widespread lockdowns, closure of workplaces and restrictions on mobility and travel to contain the spread of the virus, including restrictive visit measures for venues such as hospitals. The COVID-19 pandemic also resulted in temporary closures of many corporate offices, manufacturing facilities and factories across China. Many of the quarantine measures within China have since been relaxed. However, relaxation of restrictions on economic and social activities may lead to new cases which may lead to re-imposed restrictions. 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.

During the early stage of the COVID-19 outbreak, primarily due to the 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. As the situation in China eased, we have resumed normal operations and have seen an increase in the demand for our solutions and a bounce-back in the demand for our products. The negative impact of the COVID-19 outbreak during the early stage did not materially affect our financial performance. Our revenue 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. The recent upticks in cases in different parts of China have not had a material impact on our operations. However, since early 2021, the installation of our hospital SaaS has been affected due to social distancing and other precautions taken by many hospitals.

In addition, certain impacts from the COVID-19 outbreak on our financial performance in 2020 and early 2021 may be one-off and non-recurring. In 2020, we saw an increase in the demand for our online consultation, prescription and retail services, as more patients became accustomed to online medical services in order to minimize potential exposure to the COVID-19 virus. However, any such increase in demand for our services as a result of the shift in consumption pattern associated with the COVID-19 outbreak may be temporary and may not be sustainable after the COVID-19 outbreak ends. In addition, after the COVID-19 outbreak ends, we may stop receiving one-off benefits from COVID-19-related government policy support, such as relief from social security payment obligations.

Although there is still considerable uncertainty as to the longer-term effects of the COVID-19 pandemic, we currently do not anticipate any material deviation from our development and expansion plans due to the COVID-19 pandemic. As of December 31, 2021, we had cash and cash equivalents of RMB1.1 billion. We believe that our current level of liquidity is sufficient for us to successfully navigate an extended period of uncertainty.

We cannot assure you, however, that the COVID-19 pandemic will not further escalate or have a material adverse effect on our future results of operations, financial position or prospects. For more details, please refer to “Risk Factors — Risks Related to Our Business and Industry — Our business operations and financial performance have been and may continue to be affected by the COVID-19 outbreak.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experiences and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in note 2 to the Accountants' Report in Appendix I to this document.

Significant Accounting Policies

Revenue and other income

Income is classified by us as revenue when it arises from the sale of goods, the provision of services in the ordinary course of our business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of our revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

We transfer control of goods or services and recognizes revenue over time, if one of the following criteria is met:

— The customer simultaneously receives and consumes the benefits provided by our performance as we perform;

— Our performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— Our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

We derive revenue from sales of hospital supplies, pharmacy supplies and chronic condition products, digital marketing services, providing hospital SaaS and pharmacy SaaS, premium membership services and others.

(a) Sales of hospital supplies, pharmacy supplies and chronic condition products

Revenue from sales of hospital supplies, pharmacy supplies and chronic condition products is recognized at the point in time when control of the asset is transferred to customer, generally on acceptance of the products by the customer.

(b) Digital marketing services

Digital marketing services involve provision of professional medical marketing services to pharmaceutical companies. The revenue is generally recognized when the services are rendered and completed.

(c) Hospital SaaS and pharmacy SaaS

We provide hospitals with SaaS products that deliver digitalized clinic care for patients in-hospital. The pharmacy SaaS facilitates pharmacies with customer and resource management, such as in-store online consultation and prescription services for customers. We charge hospital/pharmacy a subscription fee with respect to the software offerings. Typical SaaS product contracts has terms of one year. The subscription fee is recognized over the contract period.

(d) Premium membership services

We provide instant, professional care for chronic conditions and other health management services for individuals through our individual chronic condition management platform. We charge individual members annual membership fees based on membership tiers and service packages. The membership fee is recognised over the service period.

(e) Others

Others includes insurance brokerage services and advertisement agent services.

— Providing insurance brokerage services

We provide insurance brokerage services with respect to consumer healthcare packages of different insurance companies for individual consumers on a retail basis or for corporate customers for the benefit of their employees on a whole sales basis, as an agent through our insurance brokerage service. The commission fees are generally charged as a percentage of sales of insurance slips depending on the product category and terms of contract companies.

— Advertisement agent services

Revenue from advertisement agent services is primarily derived from commissions received for assisting advertising clients in obtaining advertising time on media platform. When we act in the capacity of an agent rather than as the principle in a transaction, the revenue recognized is the net amount of commission made by us.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or fair value through other comprehensive income (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Financial liabilities at FVTPL

We designated the convertible redeemable preferred shares as financial liabilities at FVTPL. They are initially recognised at fair value. Subsequent to initial recognition, the convertible redeemable preferred shares are re-measured to fair value at the end of each reporting period with changes in fair value being recognised in profit or loss, except that changes in fair value of the convertible redeemable preferred shares that are attributable to changes in its own credit risk are presented in other comprehensive income.

The convertible loans contain both a debt component and an embedded derivative component (conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of our own equity instruments). The convertible loans are accounted in its entirety at fair value. Subsequent to initial recognition, the convertible loans are re-measured to fair value at the end of each reporting period with changes in fair value being recognised in profit or loss, except that changes in fair value of the convertible loans that are attributable to changes in its own credit risk are presented in other comprehensive income.

Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

Significant Accounting Estimates and Judgements

Expected credit losses for receivables

The credit losses for trade receivables and other receivables are based on assumptions about the expected loss rates. We use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on our past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and we may make additional loss allowances in future periods.

Fair value of financial instruments

The financial instruments issued by us mainly represent convertible redeemable preferred shares and convertible loans which are not traded in an active market and the respective fair value is determined by using valuation techniques. The discounted cash flow method was used to determine our equity value, followed by option pricing models to determine the fair value of financial instruments with preferred rights and convertible rights, which involved the use of significant accounting estimates and judgements.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss and other comprehensive income with line items in absolute amounts and as percentages of our revenues for the periods indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Revenue	524,438	100.0	839,123	100.0	1,756,731	100.0
Cost of sales	(462,868)	(88.3)	(606,367)	(72.3)	(1,186,707)	(67.6)
Gross profit	**61,570**	**11.7**	**232,756**	**27.7**	**570,024**	**32.4**
Other net income	4,765	0.9	5,732	0.7	29,916	1.7
Selling and marketing expenses(1)	(149,179)	(28.4)	(626,020)	(74.6)	(787,280)	(44.8)
Administrative expenses(1)	(74,394)	(14.2)	(316,753)	(37.7)	(272,327)	(15.5)
Research and development expenses(1)	(23,753)	(4.5)	(132,397)	(15.8)	(236,244)	(13.4)
Loss from operations	**(180,991)**	**(34.5)**	**(836,682)**	**(99.7)**	**(695,911)**	**(39.6)**
Finance costs	(57,802)	(11.0)	(57,802)	(6.9)	(61,962)	(3.5)
Change in fair value of financial liabilities	(326,583)	(62.3)	(2,003,371)	(238.7)	(3,397,634)	(193.4)
Loss before taxation	**(565,376)**	**(107.8)**	**(2,897,855)**	**(345.3)**	**(4,155,507)**	**(236.5)**
Income tax	(13)	(0.0)	966	0.1	2,314	0.1
Loss for the year	**(565,389)**	**(107.8)**	**(2,896,889)**	**(345.2)**	**(4,153,193)**	**(236.4)**
Attributable to:						
Equity shareholders of the Company	(557,397)	(106.3)	(2,866,975)	(341.7)	(4,138,913)	(235.6)
Non-controlling interests	(7,992)	(1.5)	(29,914)	(3.5)	(14,280)	(0.8)
Loss for the year	**(565,389)**	**(107.8)**	**(2,896,889)**	**(345.2)**	**(4,153,193)**	**(236.4)**
Loss per share						
Basic and diluted *(RMB)*	(7.70)		(34.87)		(42.88)	
Other comprehensive income/(loss) for the year (after tax)						
Exchange difference on translation of:						
Financial statements of overseas subsidiaries	(3,161)	(0.6)	145,590	17.4	131,932	7.5
Total comprehensive loss for the year	**(568,550)**	**(108.4)**	**(2,751,299)**	**(327.9)**	**(4,021,261)**	**(228.9)**
Attributable to:						
Equity shareholders of the Company	(560,558)	(106.9)	(2,721,385)	(324.3)	(4,006,981)	(228.1)
Non-controlling interests	(7,992)	(1.5)	(29,914)	(3.6)	(14,280)	(0.8)
Total comprehensive loss for the year	**(568,550)**	**(108.4)**	**(2,751,299)**	**(327.9)**	**(4,021,261)**	**(228.9)**

Notes:

(1) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,		
	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
		(in thousands)	
Selling and marketing expenses	6,173	7,358	58,178
Administrative expenses	32,254	195,611	130,644
Research and development expenses	596	4,262	33,797
Total	**39,023**	**207,231**	**222,619**

ADJUSTED NET LOSS (NON-IFRS MEASURE)

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net loss (non-IFRS measure) (defined below) as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that the presentation of this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items such as certain non-cash items and certain transaction costs related to financing activities. We believe that this measure provides useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, the use of non-IFRS measure has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for the analysis of, our results of operations or financial conditions as reported under IFRS. In addition, the non-IFRS financial measure may be defined differently from similar terms used by other companies.

We define "adjusted net loss (non-IFRS measure)" as loss for the year or period, adding back (i) change in fair value of financial liabilities, (ii) share-based compensation expenses, (iii) listing expenses, and (iv) issuance cost of financial liability at FVTPL.

For the years ended December 31, 2019, 2020 and 2021, our adjusted net loss (non-IFRS measure) was approximately RMB149.5 million, RMB636.3 million and RMB444.0 million, respectively.

The following table sets forth the reconciliations of our non-IFRS financial measure for the fiscal years ended December 31, 2019, 2020 and 2021 to loss for the year, which is the nearest measure prepared in accordance with IFRS:

	For the Year Ended December 31,		
	2019	2020	2021
	(in thousands, except for percentage)		
Loss for the year	(565,389)	(2,896,889)	(4,153,193)
Add:			
Change in fair value of financial liabilities[1]	326,583	2,003,371	3,397,634
Share-based compensation expenses[2]	39,023	207,231	222,619
Listing expenses[3]	—	—	37,391
Issuance cost of financial liability at FVTPL[4]	50,278	49,976	51,554
Adjusted net loss (non-IFRS measure)	**(149,505)**	**(636,311)**	**(443,995)**
Adjusted net loss margin (non-IFRS measure) (%)[5]	**(28.5)**	**(75.8)**	**(25.3)**

Notes:

(1) Change in fair value of financial liabilities represents the gains or losses arising from change in fair value of our issued convertible redeemable preferred shares and convertible loans, which was recognized as a financial liability at fair value change through profit or loss. Such changes are non-cash in nature.

(2) Share-based compensation expenses relate to the share awards we offered to our employees, directors and consultants under the Pre-IPO Equity Incentive Scheme, which are primarily non-cash in nature and commonly added back to IFRS measures in calculating similar non-IFRS measures adopted by other companies in our industry.

(3) Listing expenses are commonly added back to IFRS measures in calculating similar non-IFRS financial measures.

(4) Issuance cost of financial liability at FVTPL is commonly added back to IFRS measures in calculating similar non-IFRS financial measures, primarily because it represents the professional service cost in connection with preferred shares financing and only relates to the scale of financing from the preferred share investors. We do not expect to have such issuance cost after we become a listed company.

(5) Represents adjusted net loss (non-IFRS measure) divided by the total revenue for the year indicated.

Revenues

During the Track Record Period, we generated revenues from three revenue streams: (i) in-hospital solution, (ii) pharmacy solution, and (iii) individual chronic condition management solution and others. We experienced significant growth in our revenue and shifts in the revenue mix during the Track Record Period in pace with the continuous growth and evolution of our businesses. We launched hospital SaaS for hospitals in 2016, formed our first exclusive partnership to regionally sell medical devices and consumables with a global leading company in chronic condition management in 2017 and continue to develop distributorship relationship with other suppliers for medical devices and consumables for chronic condition management, and launched pharmacy SaaS for online consultation and prescription in 2019. In 2019, we generated the majority of our total revenues from pharmacy supplies by leveraging our relationships with pharmaceutical companies and access to upstream suppliers. Since 2020, our in-hospital solution has become our largest source of revenue, contributing 50.3% and 72.4% of our total revenues in 2020 and 2021, respectively, as we ramped up our hospital supplies, digital marketing services and hospital SaaS by continuing to implement our hospital-first strategy and expanding our hospital network. Within pharmacy solution, we generate the majority of our revenues from sales of pharmacy supplies. However, our pharmacy SaaS has become an increasingly significant source of revenue since its launch in 2019, contributing 4.4% and 19.9% of our total revenues from pharmacy solution in 2020 and 2021, respectively. As our business grows and evolves, we may continue to experience shifts in our revenue mix. During the Track Record Period, we have generated a majority of our revenues from sales of hospital supplies, pharmacy supplies and individual chronic condition management products. Nevertheless, we have seen a rise in our revenues from digital marketing service and SaaS and others as a percentage of our total revenues. We expect to continue to generate a significant portion of our revenues from hospital supplies, pharmacy supplies and chronic condition products to individual users, depending on, among others, market conditions and the execution of our business strategies, as it is usually difficult for Chinese public hospitals to approve significant budgets for software products given their public and welfare nature, according to the Frost and Sullivan Report, and our pharmacy SaaS was only launched in 2019.

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

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Revenues:						
In-hospital solution	177,216	33.8	422,175	50.3	1,272,738	72.4
Pharmacy solution	326,887	62.3	345,607	41.2	349,967	19.9
Individual chronic condition management solution and others[(1)]	20,335	3.9	71,341	8.5	134,026	7.7
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 consists of (i) hospital supplies, in which we generate revenue by providing medical devices, consumables and pharmaceuticals to hospital end customers, primarily through distributors; (ii) hospital SaaS, which helps digitalize hospitals' chronic condition treatment and management and for which we charge subscription fees; and (iii) digital marketing services, which involves the provision of professional medical marketing services to pharmaceutical companies and for which we receive a percentage of the revenues our pharmaceutical company customers generate from the sales of the pharmaceuticals for which we provide digital marketing services.

The following table sets forth a breakdown of our revenue from in-hospital solution both in absolute amount 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	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
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	**177,216**	**100.0**	**422,175**	**100.0**	**1,272,738**	**100.0**

Note:

(1) Hospital supplies include medical devices, such as blood glucose meters, vital sign monitors and testing devices, 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. We expect continued growth of this business in the foreseeable future as we further expand our hospital network, continue to improve our supply chain capabilities, and continue to invest in the development and marketing of our hospital SaaS.

Pharmacy Solution

Our pharmacy solution consists of (i) pharmacy supplies, in which we generate revenue by providing medical devices, consumables, pharmaceuticals and miscellaneous under a wholesale model or directly to pharmacy customers; and (ii) pharmacy SaaS, in which we provide pharmacies with online consultation and prescription capabilities, new retail service and inventory management service for which we charge subscription fees.

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 blood pressure meters, consumables, such as glucose testing strips, pharmaceuticals, including both OTC and prescription drugs, and other miscellaneous items.

Our revenue from our pharmacy solution has grown during the Track Record Period. Since the launch of our pharmacy SaaS in 2019, it has grown significantly. We expect our revenue from pharmacy solution to continue to grow as we further expand our pharmacy network, leverage our supply chain advantages, and develop and improve products and services for pharmacies.

Individual Chronic Condition Management Solution and Others

Our individual chronic condition management solution and others are provided through online platforms and mobile apps, consisting of (i) sales of chronic condition products, including medical devices, consumables, pharmaceuticals and miscellaneous, through our online pharmacies and since 2020, our e-commerce platform Health Mall; (ii) premium membership services, for which we charge individual members annual membership fees based on membership tiers and service packages; and (iii) others, which includes insurance brokerage services and advertisement agent services.

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		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
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 during the Track Record Period. We expect our revenue from individual chronic condition management solution and others to continue to grow as we further expand our individual user base, optimize our membership system and develop and improve our premium membership services.

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	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
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**

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	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
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**

We experienced fluctuations in the gross margin of each revenue stream during the Track Record Period, primarily due to the ongoing shifts in the product and service mix within each revenue stream during each period as our business grew and evolved. For more details, please see our year-to-year comparison of gross profit and gross margin in "— Year-to-Year Comparison of Results of Operations." In particular, we experienced decreases in the gross margins of our in-hospital solution and individual chronic condition management solution and others in 2021, as compared with 2020. The decrease in the gross margin of our in-hospital solution was primarily due to the rapid growth of our hospital supplies business, which has a relatively lower margin compared with hospital SaaS and digital marketing services. Hospital supplies accounted for 59.2% and 67.1% of our revenue from in-hospital solution in 2020 and 2021, respectively. This change in product and service mix was primarily the result of our increased focus on hospital supplies for monetization with respect to hospital end customers, as we view hospital SaaS not as a direct contributor to our revenues, but rather as a strategic advantage that we use to build sticky relationship with hospitals, understand their needs and contribute to the revenue growth of our hospital supplies and digital marketing services. See “Business — Our Business Models — In-Hospital Solution — The “AIM” Model.” The decrease in the gross margin of our individual chronic condition management solution and others, on the other hand, was primarily due to the growth of our insurance brokerage services, which has a relatively lower margin.

We are at a relatively early stage of our monetization efforts. As our business further grows and evolves, we expect to continue to experience shifts in our product and service mix across the different revenue streams and, consequently, fluctuations in the gross margin of each revenue stream. However, we do not expect these fluctuations to have a material negative impact on our path to profitability. As a result of our continued efforts to increase monetization from customers and grow our higher-margin businesses, we achieved consistent and meaningful improvement in our overall gross margin during the Track Record Period. We recorded gross margin of 11.7%, 27.7% and 32.4% in 2019, 2020 and 2021, respectively. Going forward, we expect our overall gross margin to increase to a level higher than what we recorded in 2021 and prior years. See “Summary — Business Sustainability.”

The below table sets forth a breakdown of our gross profit and gross margin by products and services for the years presented:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except for percentages)					
Gross Profit						
Product Gross Profit						
Sales of hospital and pharmacy supplies, and individual chronic condition management products	17,291	3.7	38,736	6.3	124,001	10.3
Hospital supplies	7,775	6.0	28,658	11.5	107,170	12.5
Pharmacy supplies	6,554	2.0	5,305	1.6	15,139	5.0
Individual chronic condition management products	2,962	18.9	4,773	13.7	1,692	3.2
Service Gross Profit						
Digital marketing	29,630	83.6	130,566	87.4	351,158	87.1
SaaS and others[(1)]	14,649	88.7	63,454	85.4	94,865	65.1
Total	**61,570**	**11.7**	**232,756**	**27.7**	**570,024**	**32.4**

Note:

(1) Include gross profit from revenues generated from subscription fees of hospital and pharmacy SaaS, service fees and membership fees from individual chronic condition management solution, and others.

We experienced fluctuations in our product and service gross profit margins during the Track Record Period. In particular, our product gross margin was 3.7%, 6.3% and 10.3% in 2019, 2020 and 2021, respectively. Since 2020, we have gradually shifted our focus to pursuing higher margins as part of our efforts to achieve profitability. We have adopted a price review mechanism to optimize our product pricing while phasing out certain low-margin product sales. Meanwhile, our increased scale has enhanced our pricing power. For example, our pricing of products for pharmacy end customers has benefited from the increasing penetration of our pharmacy SaaS, with the number of pharmacy stores that installed our pharmacy SaaS increasing from 3,002 in 2019 to 111,413 in 2020 and further to 172,279 in 2021. Our efforts to optimize pricing, coupled with our increased scale, have enabled us to achieve overall higher product pricing levels and higher product gross margins in 2020 and 2021, despite the regulatory, competition and other pricing restrictions and pressures we face. However, we cannot guarantee that the increasing trend in our product gross margin will continue or that our future efforts to improve pricing will not be curbed by the pricing restrictions and competition that our products are subject to. See "Risk Factors — Risks Related to Our Business and Industry — Pharmaceuticals, consumables and medical devices are subject to and will continue to be subject to price restrictions, price competition and regulations in China, which could adversely affect our profitability and results of operations."

We also experienced fluctuations in the respective gross profit margins of the sales of hospital supplies, pharmacy supplies and individual chronic condition management products during the Track Record Period. In particular: (i) the gross margin of our pharmacy supplies significantly increased from 1.6% in 2020 to 5.0% in 2021, as we reduced the scale of sales of certain lower-margin pharmacy supplies as part of our effort to pursue higher-margin businesses; (ii) the gross margin of our individual chronic condition management products significantly decreased from 13.7% in 2020 to 3.2% in 2021, primarily due to the impact of discounts provided to individual customers as part of our effort to promote sales to individual customers to drive the growth of our individual chronic condition management solution; and (iii) the gross margin of our SaaS and others decreased form 85.4% in 2020 to 65.1% in 2021, primarily due to a decrease in the gross margin of others which was primarily attributable to the growth of our insurance brokerage services, which has a relatively lower margin.

Other Net Income

Our other net income primarily consists of government grants, interest income, net gain on disposal of a subsidiary foreign exchange gain/(loss), and others. Government grants were mainly incentives provided by local government authorities, including various forms of government financial incentives, which are generally non-recurring in nature.

The following table sets forth a breakdown of our other net income both in absolute amount and as a percentage of our total other net income for the years indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Government grants	391	8.2	3,138	54.7	17,715	59.2
Interest income	4,243	89.0	4,133	72.1	10,729	35.9
Net gain on disposal of a subsidiary	—	—	—	—	618	2.1
Foreign exchange gain/(loss)	304	6.4	140	2.4	(153)	(0.5)
Others	(173)	(3.6)	(1,679)	(29.2)	1,007	3.3
Total	**4,765**	**100.0**	**5,732**	**100.0**	**29,916**	**100.0**

Selling and Marketing Expenses

Our selling and marketing expenses consist of (i) staff costs related to selling and marketing activities, including share-based compensation expenses amounting to RMB6.2 million, RMB7.4 million and RMB58.2 million in 2019, 2020 and 2021, respectively, (ii) promotion fees, including branding and other marketing expenses, (iii) travel expenses, and (iv) other selling and marketing expenses such as amortization of intangible assets acquired.

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

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Staff costs	75,206	50.4	275,973	44.1	611,582	77.7
Promotion fees	46,227	31.0	271,770	43.4	93,607	11.9
Travel expenses	11,213	7.5	36,817	5.9	32,986	4.2
Others	16,533	11.1	41,460	6.6	49,105	6.2
Total	**149,179**	**100.0**	**626,020**	**100.0**	**787,280**	**100.0**

Our selling and marketing expenses increased significantly during the Track Record Period. We expect our selling and marketing expenses in absolute amounts to continue to increase in the foreseeable future as we implement new business initiatives and promote our products and services and our selling and marketing expenses as a percentage of revenue will decrease in the future as we will benefit from economies of scale and improve our operational efficiency cost.

Administrative Expenses

Our administrative expenses primarily consist of (i) staff costs related to general corporate functions, including accounting, finance, tax, legal and human resources, including share-based compensation amounting to RMB32.3 million, RMB195.6 million and RMB130.6 million in 2019, 2020 and 2021, respectively, (ii) professional fees consisting of legal service, audit and other professional service fees, (iii) depreciation and amortization, and (iv) other administrative expenses such as tax and surcharge.

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

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Staff costs	52,956	71.2	237,491	75.0	195,394	71.7
Professional fees	11,186	15.0	48,535	15.3	51,549	18.9
Depreciation and amortization	2,109	2.9	5,228	1.7	3,528	1.3
Others	8,143	10.9	25,499	8.0	21,856	8.1
Total	**74,394**	**100.0**	**316,753**	**100.0**	**272,327**	**100.0**

Our administrative expenses increased significantly during the Track Record Period. We expect our administrative expenses to continue to increase in absolute amounts in the foreseeable future in line with our business expansion and our status as a public company, but to decrease as a percentage of our total revenue in the long run as we leverage the scale of our business. We plan to continue to hire additional qualified employees to support our business operations and planned expansion.

Research and Development Expenses

Our research and development efforts mainly focus on enhancing our core technological capabilities, such as big data and AI, and developing new products and solutions. Our research and development expenses primarily consist of (i) staff costs related to research and development activities, including share-based compensation amounting to RMB0.6 million, RMB4.3 million and RMB33.8 million in 2019, 2020 and 2021, respectively, (ii) IT service fees related to research and development activities such as bandwidth and data center costs, and (iii) other research and development expenses such as rental for facilities used for research and development.

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	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
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. Staff costs related to research and development personnel were the major component of our research and development expenses during the Track Record Period. Our R&D team has assisted us in enhancing our core technological capabilities, especially AI technologies and knowledge base. For example, our R&D team has developed a proprietary "medical algorithm engine" as our foundational medical know-how, based on machine learning and neural network technologies, and as another example, the team has also developed a proprietary AI-assisted consultation process that has made consultation and prescription processes on our platform highly efficient and lowered the risks involved. For related details, see "Business Our Technology." Our R&D team has also assisted us in developing our new products and solutions, including (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. For related details, see "Business — Research and Development."

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, but to decrease as a percentage of our total revenue as we will benefit from economies of scale and improve our operational efficiency cost.

Finance Costs

Our finance costs consist of interest expenses, interest on lease liabilities, issuance cost of financial liabilities at FVTPL, and other financial cost such as bank charges. The following table sets forth a breakdown of our finance costs both in absolute amount and as a percentage of our total finance costs for the years indicated:

	For the Year Ended December 31,					
	2019		2020		2021	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(in thousands, except percentages)					
Interest expenses	6,996	12.1	7,245	12.5	9,269	15.0
Interest on lease liabilities	133	0.2	282	0.5	338	0.5
Issuance cost of financial liabilities at FVTPL	50,278	87.0	49,976	86.5	51,554	83.2
Other financial cost	395	0.7	299	0.5	801	1.3
Total	**57,802**	**100.0**	**57,802**	**100.0**	**61,962**	**100.0**

Change in Fair Value of Financial Liabilities

Our change in fair value of financial liabilities represents the change in fair value of our financial liabilities which consist of convertible redeemable preferred shares and convertible loans issued to investors. We designated convertible redeemable preferred shares and convertible loans as financial liabilities at fair value through profit or loss. They are initially recognized at fair value at the time of issuance. We recognize changes in the carrying amount of convertible redeemable preferred shares and convertible loans as of each reporting date in profit or loss. Transaction costs that relate to the issue of convertible redeemable preferred shares and convertible loans are included in profit or loss. If the convertible redeemable preferred shares are converted into ordinary shares, the carrying amount of the financial liabilities is transferred to share capital and share premium.

In the fiscal years ended December 31, 2019, 2020 and 2021, our change in fair value of financial liabilities was loss of RMB326.6 million, loss of RMB2,003.4 million and loss of RMB3,397.6 million, respectively. Prior to the Global Offering, our convertible redeemable preferred shares have not been traded in an active market and their value at each respective reporting date is determined using valuation techniques. See note 24 to the Accountants' Report in Appendix I to this document for details regarding our convertible redeemable preferred shares and convertible loans. Upon the completion of the Global Offering, all of our convertible redeemable preferred shares will be automatically converted to our ordinary shares. In July 2021, all of the convertible loans were converted into convertible redeemable preferred shares. See "— Indebtedness".

Taxation

Our principal applicable taxes and tax rates are set forth as follows:

PRC

Our subsidiaries established in the PRC (excluding Hong Kong) are subject to PRC corporate income tax rate of 25% and 20% (micro and small business) during the Track Record Period. The PRC Corporate Income Tax Law allows enterprises to apply for certificates of "High and New Technology Enterprise" ("**HNTE**"), which entitle the qualified enterprises to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. Our subsidiary Hangzhou Kangsheng was qualified as a HNTE and was entitled to the preferential tax rate of 15% for the three calendar years ended December 31, 2019, 2020 and 2021. According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC which has been effective from January 1, 2018 to December 31, 2020, an additional 75% of their qualified research and development expenses we incurred are allowed to be deducted from taxable income under the PRC income tax law and its relevant regulations. Since January 1, 2021, an additional 100% of qualified research and development expenses incurred are allowed to be deducted from taxable income under the PRC income tax law and relevant regulations.

Cayman Islands

Pursuant to the laws of the Cayman Islands, we are not subject to any income tax in the Cayman Islands. In addition, upon our payment of dividends to our shareholders, no Cayman Islands withholding tax will be imposed.

Hong Kong

Our subsidiary incorporated in Hong Kong are subject to Hong Kong profit tax at 16.5% of the estimated assessable profit. No provision for Hong Kong profits tax has been made, as our subsidiaries incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong profit tax during the Track Record Period.

YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenues

Our revenues increased by 109.4% from RMB839.1 million in 2020 to RMB1,756.7 million in 2021. The increase was primarily driven by the increase in revenue from in-hospital solution.

In-hospital solution. Revenue from in-hospital solution increased by 201.5% from RMB422.2 million in 2020 to RMB1,272.7 million in 2021, as a result of the growth of our hospital supplies and digital marketing services. Revenue from hospital supplies increased by 241.5% from RMB250.1 million to RMB854.1 million, primarily due to our continued implementation of our hospital-first strategy and efforts to expand our hospital network and enhance engagement with hospitals. As a result, the number of transacting customers for our in-hospital solution (excluding pharmaceutical companies) increased from 436 in 2020 to 949 in 2021, and the number of hospitals that directly or indirectly purchased hospital supplies from us increased from 1,431 in 2020 to 2,101 in 2021. Revenue from digital marketing services increased by 169.7% from RMB149.4 million to RMB403.0 million, primarily due to our continued efforts to enhance and expand our digital marketing services to reach more doctors and patients by leveraging our broadened hospital network. As a result, the number of transacting pharmaceutical companies increased from 13 in 2020 to 15 in 2021, and the number of SKUs we marketed through digital marketing services increased from 16 in 2020 to 22 in 2021. Revenue from hospital SaaS decreased by 30.9% from RMB22.7 million to RMB15.7 million, as a result of our increased focus on hospital supplies for monetization with respect to hospital end customers.

Pharmacy solution. Revenue from pharmacy solution increased by 1.3% from RMB345.6 million in 2020 to RMB350.0 million in 2021, as a result of the growth of our pharmacy SaaS. Revenue from pharmacy SaaS increased substantially from RMB15.1 million to RMB49.0 million, primarily due to the continued expansion of our pharmacy network and our continued investment in the development and upgrading of our pharmacy SaaS. As a result of these factors, the number of pharmacy stores that installed our pharmacy SaaS increased from 111,413 in 2020 to 172,279 in 2021, the number of SaaS-paying pharmacy stores increased from 44,086 in 2020 to 84,389 in 2021, and the number of transacting customers increased from 327 in 2020 to 683 in 2021. Revenue from hospital SaaS decreased by 30.9% from RMB22.7 million to RMB15.7 million, as a result of our increased focus on hospital supplies for monetization with respect to hospital end customers.

Individual chronic condition management solution and others. Revenue from our individual chronic condition management solution and others increased by 87.9% from RMB71.3 million in 2020 to RMB134.0 million in 2021, as a result of the growth in our chronic condition products, premium membership services and others. Revenue from chronic condition products increased by 52.2% from RMB34.8 million to RMB53.0 million and revenue from premium membership services increased by 59.7% from RMB14.2 million to RMB22.7 million, primarily due to our continued efforts to expand our user base and enrich our product and service offerings, as a result of which the number of paying individual users increased from 365,786 in 2020 to 660,535 in 2021. Revenue from others increased by 161.7% from RMB22.3 million in 2020 to RMB58.3 million in 2021, primarily as a result of the growth of our insurance brokerage services, as we continued to diversify monetization channels to further drive our growth.

Cost of sales

Our cost of sales increased by 95.7% from RMB606.4 million in 2020 to RMB1,186.7 million in 2021, primarily due to an increase in cost of goods sold from RMB576.7 million in 2020 to RMB1,084.1 million in 2021. This increase in cost of goods sold was, in turn, primarily the result of the significant growth in the scale of our hospital supplies business, the revenue contribution of which increased from RMB250.1 million in 2020 to RMB854.1 million in 2021.

Gross profit and gross margin

As a result of the foregoing, in 2020 and 2021, our gross profit was RMB232.8 million and RMB570.0 million, respectively, and our overall gross margin was 27.7% and 32.4%, respectively. The change in the overall gross margin was a result of the mix of revenue streams and the changes in gross margin of each of these revenue streams.

In-hospital solution. Our gross margin in in-hospital solution decreased from 42.6% in 2020 to 37.2% in 2021, primarily due to the rapid growth of our hospital supplies business, which has a relatively lower margin than hospital SaaS and digital marketing services. Hospital supplies accounted for 59.2% and 67.1% of our revenue from in-hospital solution in 2020 and 2021, respectively. This was primarily the result of our increased focus on hospital supplies for monetization with respect to hospital end customers, as we view hospital SaaS not as a direct contributor to our revenues, but rather as a strategic advantage we can use to build sticky relationship with hospitals, understand their needs and contribute to the revenue growth of our hospital supplies and digital marketing services. See "Business — Our Business Models — In-Hospital Solution — The "AIM" Model."

Pharmacy solution. Our gross margin in pharmacy solution increased from 5.5% in 2020 to 17.8% in 2021, primarily due to a continued revenue mix shift to higher-margin revenue sources as part of our growth strategy. This was primarily attributable to the proportion of revenue from our pharmacy SaaS, which has a relatively higher margin, increased from 4.4% in 2020 to 14.0% in 2021, as a result of our continued efforts to develop and market our pharmacy SaaS. Secondarily, we also reduced the scale of certain lower-margin sales of pharmacy supplies as part of our effort to pursue higher-margin businesses.

Individual chronic condition management solution and others. Our gross margin in individual chronic condition management solution and others decreased from 47.7% in 2020 to 25.9% in 2021, primarily due to the growth of our insurance brokerage services, which has a relatively lower margin.

Selling and marketing expenses

Our selling and marketing expenses increased by 25.8% from RMB626.0 million in 2020 to RMB787.3 million in 2021, primarily due to an increase in staff costs from RMB276.0 million in 2020 to RMB611.6 million in 2021, as we continued to expand our business development team to support our business growth. The increase in staff costs was also partially driven by an increase in share-based compensation associated with sales and marketing staff from RMB7.4 million in 2020 to RMB58.2 million in 2021. This increase in staff costs was partially offset by a decrease in promotion fees from RMB271.8 million in 2020 to RMB93.6 million in 2021, which was primarily due to a one-time re-branding marketing event that included online marketing activities on 25 social media platforms and 13 other online platforms and offline advertisements at bus and metro stations, elevators in residential buildings and CBDs in 17 top-tier cities across China to elevate our *ClouDr* brand among hospitals, pharmacies and patients in 2020, which caused us to incur additional promotion fees in 2020.

Administrative expenses

Our administrative expenses decreased by 14.0% from RMB316.8 million in 2020 to RMB272.3 million in 2021, primarily attributable to a decrease in staff costs from RMB237.5 million in 2020 to RMB195.4 million in 2021 due to a decrease in share-based compensation associated with administrative staff from RMB195.6 million in 2020 to RMB130.6 million in 2021.

Research and development expenses

Our research and development expenses increased by 78.4% from RMB132.4 million in 2020 to RMB236.2 million in 2021, primarily attributable to an increase in the staff costs related to research and development personnel from RMB93.3 million in 2020 to RMB203.5 million in 2021. This increase in the staff costs related to research and development personnel was, in turn, primarily due to our continued expansion of the research and development team from 255 full-time employees as of December 31, 2020 to 364 full-time employees as of December 31, 2021 as part of our effort to further strengthen our research and development capabilities to support and drive the growth of our business and an increase in share-based compensation associated with research and development staff from RMB4.3 million in 2020 to RMB33.8 million in 2021. Our R&D team is responsible for the software, hardware and SaaS solution development. As of December 31, 2021, we had 53 registered software copyrights and 28 patents.

Loss from operations

As a result of the foregoing, our loss from operations decreased by 16.8% from RMB836.7 million in 2020 to RMB695.9 million in 2021.

Finance costs

Our finance costs increased by 7.2% from RMB57.8 million in 2020 to RMB62.0 million in 2021, primarily attributable to an increase in issuance cost of financial liabilities at FVTPL as we entered into additional private financing in 2021 to raise capital to support our growth.

Change in fair value of financial liabilities

We recorded change in fair value of financial liabilities of a loss of RMB2,003.4 million and a loss of RMB3,397.6 million in 2020 and 2021, respectively. In each year, these losses were due to the change in fair value of convertible redeemable preferred shares and convertible loans issued to investors as a result of the increase in fair value of equity interest of our Company. See note 24 to the Accountants' Report in Appendix I to this document for details regarding our convertible redeemable preferred shares and convertible loans.

Income tax

We recorded income tax of RMB966 thousand and RMB2.3 million in 2020 and 2021, respectively. The change was primarily due to the realization of increased deferred tax liabilities.

Loss for the period

As a result of the foregoing, our loss increased by 43.4% from RMB2,896.9 million in 2020 to RMB4,153.2 million in 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenues increased by 60.0% from RMB524.4 million in the fiscal year ended December 31, 2019 to RMB839.1 million in the fiscal year ended December 31, 2020. The increase was primarily driven by the increase in revenue from in-hospital solution.

In-hospital solution. Revenue from in-hospital solution increased by 138.2% from RMB177.2 million in the fiscal year ended December 31, 2019 to RMB422.2 million in the fiscal year ended December 31, 2020, as a result of the growth of our hospital supplies, hospital SaaS and digital marketing services. Revenue from hospital supplies increased by 92.5% from RMB129.9 million to RMB250.1 million and revenue from hospital SaaS increased by 91.1% from RMB11.9 million to RMB22.7 million, primarily due to our continued implementation of the hospital-first strategy and efforts to expand our hospital network and enhance our engagement with hospitals, as a result of which the number of transacting customers (excluding pharmaceutical companies) increased from 309 in 2019 to 436 in 2020, and the number of hospitals that directly or indirectly purchased hospital supplies from us increased from 1,016 in 2019 to 1,431 in 2020. Leveraging our deepened engagement with hospitals, we achieved a 75% retention rate in 2020 with respect to hospitals that directly or indirectly purchased hospital supplies from us (see "— Key Operating Data — In-hospital Solution"), which also contributed to the rapid revenue growth of our hospital supplies business. Revenue from digital marketing services increased substantially from RMB35.4 million to RMB149.4 million, primarily due to our continued efforts to enhance and expand our digital marketing services to reach more doctors and patients by leveraging our broadened hospital network, as a result of which the number of transacting pharmaceutical companies increased from five in 2019 to 13 in 2020, and the number of SKUs we marketed through digital marketing increased from six in 2019 to 16 in 2020.

Pharmacy solution. Revenue from pharmacy solution increased by 5.7% from RMB326.9 million in the fiscal year ended December 31, 2019 to RMB345.6 million in the fiscal year ended December 31, 2020, primarily as a result of the growth of our pharmacy SaaS. Revenue from pharmacy SaaS, which we launched in 2019, increased substantially from RMB24.0 thousand to RMB15.1 million, primarily due to the expansion of the geographic coverage of our pharmacy network and our continued investment in the development and upgrading of our pharmacy SaaS, as a result of which the number of pharmacy stores that installed our pharmacy SaaS increased from

3,002 as of December 31, 2019 to 111,413 as of December 31, 2020, including a number of large pharmacy chain customers, and the number of SaaS-paying pharmacy stores increased from 2,346 in 2019 to 44,068 in 2020.

Individual chronic condition management solution and others. Revenue from individual chronic condition management solution and others increased by 251.2% from RMB20.3 million in the fiscal year ended December 31, 2019 to RMB71.3 million in the fiscal year ended December 31, 2020, as a result of the growth in our chronic condition products, premium membership services and others. Revenue from chronic condition products increased by 121.9% from RMB15.7 million to RMB34.8 million and revenue from premium membership services increased from nil to RMB14.2 million, primarily due to our continued effort to expand our user base and enrich our product and service offerings, as a result of which the number of paying individual users increased from 39,692 in 2019 to 365,786 in 2020. Revenue from others increased substantially from RMB4.6 million in the fiscal year ended December 31, 2019 to RMB22.3 million in the fiscal year ended December 31, 2020, as a result of the growth of our insurance brokerage services as we continued to diversify monetization channels to further drive our growth.

Cost of sales

Our cost of sales increased by 31.0% from RMB462.9 million in the fiscal year ended December 31, 2019 to RMB606.4 million in the fiscal year ended December 31, 2020, primarily due to an increase in cost of goods sold from RMB455.2 million in 2019 to RMB576.7 million in 2020. This increase in cost of goods sold was in turn primarily the result of the significant growth in scale of our hospital supplies business, whose revenue contribution increased from RMB129.9 million in 2019 to RMB250.1 million in 2020.

Gross profit and gross margin

As a result of the foregoing, in the fiscal years ended December 31, 2019 and 2020, our gross profit was RMB61.6 million and RMB232.8 million, respectively, and our gross margin was 11.7% and 27.7%, respectively. The change in the overall gross margin was a result of the changes in gross margin of each of the following three revenue streams.

In-hospital solution. Our gross margin in in-hospital solution increased from 27.1% in the fiscal year ended December 31, 2019 to 42.6% in the fiscal year ended December 31, 2020, primarily due to a continued revenue mix shift to higher-margin revenue sources. That shift was in turn primarily the result of our efforts to enhance and expand our digital marketing services and pursue higher margins as part of our growth strategy. The proportion of revenue from digital marketing services, which has a relatively higher margin, increased from 20.0% in 2019 to 35.4% in 2020.

Pharmacy solution. Our gross margin in pharmacy solution increased from 2.0% in the fiscal year ended December 31, 2019 to 5.5% in the fiscal year ended December 31, 2020. This increase was primarily due to a revenue mix shift as a result of the launch of our pharmacy SaaS in 2019 as part of our efforts to pursue higher-margin businesses, with our pharmacy SaaS, which has a relatively higher margin, accounting for 4.4% of our revenue from pharmacy solution in 2020.

Individual chronic condition management solution and others. Our gross margin in individual chronic condition management solution and others increased from 35.3% in the fiscal year ended December 31, 2019 to 47.7% in the fiscal year ended December 31, 2020, primarily due to a revenue mix shift as we launched premium membership services, which has a relatively higher margin and contributed 19.9% of our revenue from individual chronic condition management solution and others in 2020.

Selling and marketing expenses

Our selling and marketing expenses increased by 319.6% from RMB149.2 million in the fiscal year ended December 31, 2019 to RMB626.0 million the fiscal year ended December 31, 2020. As we continuously assess and identify new business growth opportunities, we launched new selling and marketing initiatives such as a one-off re-branding marketing event that included online marketing activities on 25 social media platforms and 13 other online platforms and offline advertisements at bus and metro stations, elevators in residential buildings and CBDs in 17 top-tier cities across China to elevate our *ClouDr* brand among hospitals, pharmacies and patients in 2020, and continued our selling and marketing efforts to promote our products and solutions. As a result, we expanded our business development team from 260 full-time employees as of December 31, 2019 to 899 full-time employees as of December 31, 2020 to support our business growth, leading to a significant increase in staff costs from RMB75.2 million in 2019 to RMB276.0 million in 2020. We also increased our promotion fees from RMB46.2 million in 2019 to RMB271.8 million in 2020, primarily due to the one-off re-branding marketing event that included online marketing activities on 25 social media platforms and 13 other online platforms and offline advertisements at bus and metro stations, elevators in residential buildings and CBDs in 17 top-tier cities across China to elevate our *ClouDr* brand among hospitals, pharmacies and patients in 2020. Those increases in staff costs and promotion fees were the primary reasons for the increase of our selling and marketing expenses from 2019 to 2020.

Administrative expenses

Our administrative expenses increased by 325.8% from RMB74.4 million in the fiscal year ended December 31, 2019 to RMB316.8 million in the fiscal year ended December 31, 2020. This increase was primarily attributable to (i) an increase in the staff costs related to general administrative personnel from RMB53.0 million in 2019 to RMB237.5 million in 2020, primarily due to the increase of share-based compensation from RMB32.3 million to RMB195.6 million, and an increase of the general administrative personnel headcount to support our growing business; and (ii) increased professional fees for professional services received, which in turn was the result of the additional legal and accounting services we engaged in connection with our private financings.

Research and development expenses

Our research and development expenses increased significantly from RMB23.8 million in the fiscal year ended December 31, 2019 to RMB132.4 million in the fiscal year ended December 31, 2020, primarily attributable to an increase in the staff costs related to research and development personnel from RMB18.1 million in 2019 to RMB93.3 million in 2020. This increase in staff costs was in turn primarily due to our continued expansion of the research and development team from 162 full-time employees as of December 31, 2019 to 500 full-time employees as of December 31, 2020 as part of our effort to further strengthen our research and development capabilities to support and drive the growth of our business. Our R&D team is responsible for the software, hardware and SaaS solution development. As of December 31, 2020, we had 30 registered software copyrights and 28 patents.

Loss from operations

As a result of the foregoing, our loss from operations increased from RMB181.0 million in the fiscal year ended December 31, 2019 to RMB836.7 million in the fiscal year ended December 31, 2020.

Finance costs

Our finance costs remained stable at RMB57.8 million in both 2019 and 2020.

Change in fair value of financial liabilities

Our change in fair value of financial liabilities increased from a loss of RMB326.6 million in the fiscal year ended December 31, 2019 and to a loss of RMB2,003.4 million in the fiscal year ended December 31, 2020, due to the change in fair value of convertible redeemable preferred shares and convertible loans issued to investors as a result of the increase in fair value of equity interest of our Company. See note 24 to the Accountants' Report in Appendix I to this document for details regarding convertible redeemable preferred shares and convertible loans.

Income tax

We recorded income tax of RMB13.0 thousand and negative RMB1.0 million in the fiscal years ended December 31, 2019 and 2020, respectively. The change was primarily due to the realization of increased deferred tax liabilities.

Loss for the year

As a result of the foregoing, our loss increased substantially from RMB565.4 million in the fiscal year ended December 31, 2019 to RMB2,896.9 million in the fiscal year ended December 31, 2020.

DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

Current Assets/Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2019	**2020**	**2021**	**2022**
		(in thousands of RMB)		(Unaudited)
Current assets:				
Inventories	141,968	59,405	110,924	140,889
Trade and bills receivables	159,159	298,545	497,266	675,367
Prepayments, deposits and other receivables	223,824	260,371	420,045	455,968
Financial assets at FVTPL	—	—	28,000	14,386
Cash and cash equivalents	601,164	914,226	1,090,575	747,853
Restricted cash	—	—	134,922	67,370
Total current assets	**1,126,115**	**1,532,547**	**2,281,732**	**2,101,833**
Current liabilities:				
Trade payables	52,507	76,032	67,763	119,926
Other payables and accrued expenses	150,037	184,935	456,555	345,496
Contract liabilities	22,697	120,737	93,593	99,625
Bank and other loans	83,900	203,511	114,383	84,595
Lease liabilities	2,750	4,373	4,123	3,295
Financial liabilities at FVTPL	1,720,329	4,478,160	8,907,708	9,467,309
Total current liabilities	**2,032,220**	**5,067,748**	**9,644,125**	**10,120,246**
Net current liabilities	**(906,105)**	**(3,535,201)**	**(7,362,393)**	**(8,018,413)**

We had net current liabilities of RMB906.1 million, RMB3,535.2 million, RMB7,362.4 million and RMB8,018.4 million as of December 31, 2019, 2020 and 2021 and April 30, 2022, respectively. Our net current liabilities position as of each of these dates was primarily attributable to financial liabilities at FVTPL, partially offset by current assets including our balance of cash and cash equivalents, financial assets measured at fair value through profit or loss, trade and bills receivables, and prepayments, deposits and other receivables. See "— Liquidity and Capital Resources" for further details on change of the balance of our cash and cash equivalents.

Our net current liabilities increased from RMB3,535.2 million as of December 31, 2020 to RMB7,362.4 million as of December 31, 2021 and further increased to RMB8,018.4 million as of April 30, 2022, primarily due to an increase in financial liabilities at FVTPL, which in turn was due to an increase in the value of convertible redeemable preferred shares as a result of the increase in the fair value of the equity interest of our Company.

Inventories

Our inventories represent finished goods. The following table sets forth inventories as of the dates indicated:

	As of December 31,		
	2019	**2020**	**2021**
		(in thousands of RMB)	
Inventories:			
Finished goods	141,968	59,405	110,924

Our inventories increased by 86.7% from RMB59.4 million as of December 31, 2020 to RMB110.9 million as of December 31, 2021, primarily due to the substantial growth of our hospital supplies business. This was partially offset by our continued adjustment in the business model of product sales to individual end customers from a primarily "first-party relationship" to a primarily "third-party relationship". Under the "first-party relationship" model, we maintained relatively high levels of inventories as we handled product sourcing, warehousing and logistics and used third-party marketplaces as the retailer of the products we sell. Under the "third-party relationship" model, on the other hand, we act as the retailer through our online pharmacies to sell the products of third parties who handle sourcing, warehousing and logistics, as a result of which we maintain lower levels of inventories. We began the transition from the "first-party relationship" model to the "third-party relationship" model in 2020, primarily to boost the variety of our product offerings and to lower supply chain costs. This transition led to the decline of our inventory levels for our individual chronic condition management solution.

Our inventories decreased by 58.2% from RMB142.0 million as of December 31, 2019 to RMB59.4 million as of December 31, 2020, primarily due to the gradual phase-out of our cooperation with Customer A (see "Business — Customers") to distribute medical devices and consumables, which had required us to maintain high levels of inventories in 2019. 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 products on Customer A's platform. Our inventory levels declined as a result.

The following table sets forth the turnover days of our inventories for the year indicated:

	For the Year Ended December 31,		
	2019	2020	2021
Inventory turnover days[(1)]	71.3	62.2	28.2

Notes:

(1) Inventory turnover days for a given year are equal to average gross inventory balances at the beginning and the end of the year divided by the cost of goods sold during the year and then multiplied by the number of days during the year.

Our inventory turnover days decreased from 71.3 in the fiscal year ended December 31, 2019 to 62.2 in the fiscal year ended December 31, 2020, which was primarily due to the decrease in inventories for reasons stated above and was also partially driven by our continued revenue mix shift, with higher portions of revenue from SaaS products and digital marketing services for which we generally do not maintain inventories. Our inventory turnover days decreased further to 28.2 days in 2021, which was primarily due to our continued revenue mix shift, enhanced inventory turnover control and more efficient supply chain management.

As of April 30, 2022, RMB109.9 million, or 99.1% of our inventory balance as of December 31, 2021, had been sold or utilized.

Trade and Bills Receivables

Trade and bills receivables primarily consist of outstanding amounts payable by third parties. The following table sets forth our trade and bills receivables as of the dates indicated:

	As of December 31,		
	2019	**2020**	**2021**
	(in thousands of RMB)		
Trade receivables	148,186	289,294	484,250
Less: loss allowance	(4,725)	(13,082)	(15,800)
	143,461	276,212	468,450
Bills receivables	15,698	22,333	28,816
Total	**159,159**	**298,545**	**497,266**

Our trade and bills receivables increased by 87.5% from RMB159.2 million as of December 31, 2019 to RMB298.5 million as of December 31, 2020 and increased by 66.6% to RMB497.3 million as of December 31, 2021. Such increases were primarily due to the fast growth of our in-hospital solution, which contributed 33.8%, 50.3% and 72.4% of our total revenues in 2019, 2020 and 2021, respectively, resulting in larger trade receivables as the average collection period from hospital end customers and the related distributors is typically longer than that in other parts of our business.

Our exposure to credit risk arising from bills receivables is limited because the counterparties for these arrangements are banks and financial institutions with good credit standing, which we consider to have low credit risk. Our trading terms with the majority of our customers are on credit. The credit period is generally 0-180 days for customers for our in-hospital solution and 0-30 days for the rest of our customers. Our finance department closely reviews the aging analysis of our trade and bills receivables on a monthly basis. Our sales personnel are responsible for monitoring the collectability of the receivables of their respective customer accounts and actively follow up with the relevant customers in case of any delay in payment. Our sales department, finance department and legal department have monthly meetings to discuss overdue trade receivables and identify the appropriate solutions. If necessary, certain overdue trade receivables are reported to the general manager of the relevant subsidiaries.

We measure loss allowances for trade receivables as an amount equal to lifetime expected credit losses (ECLs), which is calculated using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. Moreover, we perform individual credit evaluations on all customers who have high credit risk such as litigation issues. These evaluations focus on the customers' past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. For details of our impairment policy related to trade receivables and credit risk disclosures, please also refer to notes 2(j)(i) and 27(a) of Appendix I Accountants' Report.

As a result of our efforts, as of April 30, 2022, RMB256.2 million, or 54.7%, of the trade receivables balance as of December 31, 2021, had been settled. Besides, as of April 30, 2022, RMB4.4 million, or 15.1%, of the bill receivables balance as of December 31, 2021, had been settled. Our Directors are of the view that there is no material recoverability issue with respect to the outstanding balance of our trade and bills receivables as of December 31, 2021 and that sufficient provisions have been made for our trade and bills receivables as of December 31, 2021 based on the facts that: (i) we continued to provide products and services to most of our customers during the Track Record Period; and (ii) our customers during the Track Record Period have a good track record with us and have been making consistent and regular payments.

The aging analysis of the trade and bills receivables based on invoice date is as follows:

	As of December 31,		
	2019	**2020**	**2021**
	(in thousands of RMB)		
Trade and bills receivables			
Within three months	145,270	272,813	348,533
Four to six months	13,139	9,657	78,413
Seven to twelve months	750	16,075	70,320
Total	**159,159**	**298,545**	**497,266**

The following table sets forth the turnover days of our trade and bills receivables for the year indicated:

	For the Year Ended December 31,		
	2019	**2020**	**2021**
Trade and bills receivable turnover days(1) .	74.1	103.4	85.7

Notes:

(1) Trade and bills receivable turnover days for a given year are equal to average gross trade and bills receivable balances at the beginning and the end of the year divided by the sum of revenue during the year and then multiplied by the number of days during the year.

Our trade and bills receivable turnover days increased from 74.1 in the fiscal year ended December 31, 2019 to 103.4 in the fiscal year ended December 31, 2020, primarily due to the fast growth of our in-hospital solution and the typically longer average collection period for hospital end customers and the related distributors. Our trade and bills receivable turnover days decreased to 85.7 days in 2021 as a result of our increased receivables collection efforts.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables include (i) prepayments for inventories and services, which are mostly advances made to our suppliers for purchasing inventories including medical devices, consumables, pharmaceuticals and miscellaneous; (ii) deposits, which are primarily security deposits provided to pharmaceutical companies in relation to our digital marketing services and product sales; (iii) advances due from third parties including third-party loans; (iv) purchase rebate with suppliers, which are rebates offered by certain suppliers to us as incentives for our continued purchases from them; (v) value-added tax recoverable, which is recoverable value-added tax from daily business operations, calculated by deducting output value-added tax from input value-added tax; (vi) amounts due from staff in relation to share-based payment and others, which are mostly amounts payable by participants in our Pre-IPO Equity Incentive Scheme to purchase RSUs; (vii) amounts due from investors in relation to issuance of convertible redeemable preferred shares and convertible loans, which are amounts payable by investors to purchase the convertible redeemable preferred shares and convertible loans they subscribed for in our private financings; (viii) prepayments for costs incurred in connection with the proposed listing of the Company's shares, which are capitalized listing-related expenses to be recognized as a deduction from equity upon the completion of the Global Offering; (ix) prepayments for listing expenses, which are prepaid listing-related fees and expenses expected to be charged to our consolidated statements of profit or loss and other comprehensive income; and (x) others. The following table sets forth our deposits, prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Prepayments for inventories and services	89,132	99,832	164,679
Deposits	29,429	67,199	139,538
Advances due from third parties	33,034	46,620	33,601
Purchase rebate with suppliers	19,768	11,129	15,616
Value-added tax recoverable	10,257	15,757	29,949
Amounts due from staffs in relation to share-based payment and others	3,069	10,520	18,641
Amounts due from investors in relation to issuance of convertible redeemable preferred shares and convertible loans	36,974	1,957	—
Prepayments for costs incurred in connection with the proposed listing of the Company's shares	—	—	8,762
Prepayments for listing expenses	—	—	240
Others	2,161	7,357	9,019
Total	**223,824**	**260,371**	**420,045**

Our prepayments, deposits and other receivables increased by 61.3% from RMB260.4 million as of December 31, 2020 to RMB420.0 million as of December 31, 2021, primarily due to (i) an increase in deposits, mainly caused by the growth of our digital marketing services; (ii) an increase in value-added tax recoverable due to an increase in input value-added tax as a result of our business growth; and (iii) an increase in purchase rebate with suppliers, mainly attributable to our increased purchases from suppliers in line with our business growth. This was partially offset by a decrease in advances due from third parties as we settled certain loans to third parties in 2021.

Our prepayments, deposits and other receivables increased by 16.4% from RMB223.8 million as of December 31, 2019 to RMB260.4 million as of December 31, 2020, primarily due to an increase in deposits as a result of the growth of our digital marketing services, in relation to which we are required to provide security deposits to certain pharmaceutical company customers, partially offset by a decrease in amounts due from investors in relation to issuance of convertible redeemable preferred shares as investors made payment in 2020 for the preferred shares they had subscribed for.

As of April 30, 2022, RMB200.9 million, or 47.8%, of our prepayments, deposits and other receivables balance as of December 31, 2021, had been utilized or settled.

Trade Payables

Trade payables represent payables for inventories and services provided to us that remain unpaid. The following table sets forth our trade payables as of the dates indicated:

	As at December 31,		
	2019	**2020**	**2021**
	(in thousands of RMB)		
Payables for inventories and services	52,507	76,032	67,763

Our trade payables decreased by 10.9% from RMB76.0 million as of December 31, 2020 to RMB67.8 million as of December 31, 2021, primarily due to improving working capital efficiency driven by our increasing receivables collection efforts. Our trade payables increased by 44.8% from RMB52.5 million as of December 31, 2019 to RMB76.0 million as of December 31, 2020, primarily due to our significant ramp-up of sales of medical devices, consumables, pharmaceuticals and miscellaneous and the corresponding procurement amount from suppliers.

The following table sets forth the turnover days of our trade payables for the year indicated:

	For the Year Ended December 31,		
	2019	**2020**	**2021**
Trade payable turnover days[(1)]	23.6	38.7	22.1

Notes:

(1) Trade payable turnover days for a given year are equal to average trade payable balances at the beginning and the end of the year divided by the sum of cost of revenue during the year and then multiplied by the number of days during the year.

Our trade payable turnover days increased from 23.6 days in the fiscal year ended December 31, 2019 to 38.7 days in the fiscal year ended December 31, 2020, primarily due to the increasing trade payables for reasons stated above. Our trade payable turnover days decreased to 22.1 days in 2021, primarily as a result of our improved working capital management efficiency in receivables collection and payables settlement.

The following table sets forth the aging analysis of our trade payables as at the dates indicated:

	As of December 31,		
	2019	**2020**	**2021**
	(in thousands of RMB)		
Trade payables			
Within one year	52,068	76,032	67,763
Over one year	439	—	—
Total	**52,507**	**76,032**	**67,763**

As of April 30, 2022, RMB37.8 million, or 55.8%, of our trade payables balance as of December 31, 2021, had been settled.

Other Payables and Accrued Expenses

Other payables and accrued expenses include (i) salary and welfare payables to our full-time employees; (ii) payables for flexible staff, which are primarily compensation for flexible staff deployed by flexible staffing platforms that we use as part of our business development efforts; (iii) payables for acquiring subsidiaries and exclusive rights, which are amounts payable for the acquisition of certain subsidiaries and rights to conduct digital marketing services for certain pharmaceutical brands; (iv) refund liabilities, which are expected refunds payable to customers; (v) payables for listing expenses, which are listing-related fees and expenses expected to be paid; (vi) advance from a non-controlling shareholder of a subsidiary of the Group, which represents a loan that one of our subsidiaries borrowed from its minority shareholder; (vii) payables for repurchase of convertible redeemable preferred shares, which are amounts payable for the repurchase of our convertible redeemable preferred shares from shareholders; (viii) payables for issuance cost of financial liabilities at FVTPL, which are payables for financial advisory services in connection with our private financings; (ix) payables for insurance premium, which are insurance premiums collected from the insured on behalf of insurance companies as part of our services for the insurance companies but not yet remitted to those insurance companies; (x) tax payables; and (xi) deposits and others. The following table sets forth our other payables and accrued expenses as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Salary and welfare payables	11,495	56,376	86,041
Payables for flexible staff	20,237	78,684	124,203
Tax payables	275	1,521	9,928
Payables for acquiring of subsidiaries and exclusive rights	9,462	18,137	13,420
Refund liabilities	8,272	14,646	18,424
Payables for listing expenses	—	—	25,333
Advance from a non-controlling shareholder of a subsidiary of the Group	—	—	1,000
Payables for repurchase of convertible redeemable preferred shares	43,984	8,117	—
Payables for issuance cost of financial liabilities at FVTPL	43,523	—	13,477
Payables for insurance premium	—	—	134,922
Deposits and others	12,789	7,454	29,807
Total	**150,037**	**184,935**	**456,555**

Our other payables and accrued expenses increased by 146.9% from RMB184.9 million as of December 31, 2020 to RMB456.6 million as of December 31, 2021, primarily due to (i) an increase in the payables for insurance premium as of December 31, 2021, due to an increase in the scale of our insurance brokerage services in 2021, through which we sell healthcare insurance packages from insurance companies to customers and collect insurance premiums from the insured on behalf of certain insurance companies which are then payable to these insurance companies; and (ii) an increase in deposits and others, due to an increase of sales deposits and accrued business expenses as a result of our business growth. Our other payables and accrued expenses increased by 23.3% from RMB150.0 million as of December 31, 2019 to RMB184.9 million as of December 31, 2020, which was primarily due to an increase in staff costs, including both salary and welfare payables and payables for flexible staff, as we continuously expanded our labor force in line with our overall growth and expansion.

As of April 30, 2022, RMB346.6 million, or 75.9%, of our other payables and accrued expenses balance as of December 31, 2021, had been settled.

Contract Liabilities

Contract liabilities primarily relate to the consideration received from customers. Our contract liabilities decreased by 22.5% from RMB120.7 million as of December 31, 2020 to RMB93.6 million as of December 31, 2021, primarily due to a decrease in advances from customers for medical devices, consumables, pharmaceuticals and miscellaneous. Our contract liabilities increased significantly from RMB22.7 million as of December 31, 2019 to RMB120.7 million as of December 31, 2020, primarily due to an increase in payment from customers for our services as a result of the growth of our pharmacy SaaS and premium membership services for individuals.

As of April 30, 2022, RMB32.6 million, or 34.8%, of our contract liabilities balance as of December 31, 2021, had been settled.

Bank and Other Loans

Bank and other loans represent our short-term borrowings made from banks. Our bank and other loans decreased by 43.8% from RMB203.5 million as of December 31, 2020 to RMB114.4 million as of December 31, 2021, primarily due to our repayment of certain loans in 2021. Bank and other loans increased by 142.6% from RMB83.9 million as of December 31, 2019 to RMB203.5 million as of December 31, 2020, primarily due to additional bank borrowings we took to meet the demand of our business expansion. See "— Indebtedness" for more details.

Financial liabilities at FVTPL

Our financial liabilities at FVTPL consist of convertible redeemable preferred shares and convertible loans that we issued to investors in our private financings. See note 24 to the Accountants' Report in Appendix I to this document for details of our financial liabilities at FVTPL.

We had financial liabilities at FVTPL of RMB1,720.3 million, RMB4,478.2 million, RMB8,907.7 million and RMB9,467.3 million as of December 31, 2019, 2020 and 2021 and April 30, 2022, respectively. See "— Indebtedness."

Upon the closing of a qualified IPO as defined in the agreements related to our private financings, our convertible redeemable preferred shares will automatically be converted into ordinary shares. Upon such conversion, the redemption rights will automatically cease, such that the carrying amount of the financial liabilities will be transferred to share capital and share premium in our consolidated statements of financial position. As such, it is expected we will switch into a net asset position upon listing.

Non-Current Assets/Liabilities

The following table sets forth our non-current assets and non-current liabilities as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Non-current assets:			
Property, plant and equipment	6,796	24,300	36,213
Intangible assets	29,191	111,478	164,583
Goodwill	—	19,017	25,625
Total non-current assets	**35,987**	**154,795**	**226,421**
Non-current liabilities:			
Lease liabilities	1,704	2,182	4,800
Deferred tax liabilities	—	10,630	14,359
Total non-current liabilities	**1,704**	**12,812**	**19,159**

Property, Plant and Equipment

Our property, plant and equipment primarily consist of electronic and production equipment such as servers, office equipment, motor vehicles, leasehold improvement and right-of-use assets. Our property, plant and equipment increased by 257.6% from RMB6.8 million as of December 31, 2019 to RMB24.3 million as of December 31, 2020 and increased by 49.0% to RMB36.2 million as of December 31, 2021, primarily due to our continued spending on research and development equipment, office equipment and office furniture to meet the increased demand of daily operation and research and development activities in line with our continued expansion and growth of business.

Intangible Assets

Our intangible assets primarily comprise exclusive rights, software and patent and license. Below is a breakdown of our intangible assets other than goodwill by nature:

	As of December 31,		
	2019	**2020**	**2021**
	(in thousands of RMB)		
Exclusive rights	28,824	60,482	96,310
Licenses	—	32,888	20,076
Softwares	—	7,105	9,212
Customer relationships	—	10,677	38,699
Others	367	326	286
Total	**29,191**	**111,478**	**164,583**

For intangible assets with finite lives, we amortize them over their useful economic lives, and the amortization begins when such intangible assets are available for use and are tested for impairment when there is an indicator of impairment. At each reporting date, we reviewed the internal and external sources of information to assess whether there are any indications that intangible assets may be impaired. As at December 31, 2019, 2020 and 2021, our management was not aware of any significant adverse changes in circumstances, which indicate that the carrying amount may not be recoverable. For the intangible assets that are acquired through business combination and allocated to the cash-generating units (CGUs) including allocated goodwill, impairment assessments have been conducted as at December 31, 2020 and no impairment loss was recognized.

Our intangible assets increased by 47.6% from RMB111.5 million as of December 31, 2020 to RMB164.6 million as of December 31, 2021, primarily due to (i) our acquisition of rights to conduct digital marketing services for certain pharmaceutical brands, and (ii) an increase in customer relationships, as a result of our acquisition of certain subsidiaries with valuable customer relationships. Our intangible assets increased substantially from RMB29.2 million as of December 31, 2019 to RMB111.5 million as of December 31, 2020, primarily due to our acquisition of the exclusive rights to conduct digital marketing services for certain pharmaceutical brands. During the Track Record Period, we purchased the exclusive rights to conduct digital marketing services for certain pharmaceutical brands of products, including primarily medicines related to chronic condition management. Upon our acquisition of such rights for a brand, we became the exclusive provider of digital marketing services for that brand within a certain region of China as agreed with the pharmaceutical company customer. These exclusive rights generally remain effective for a period between 2 and 5 years and can be renewed subject to the approval of the customers.

Goodwill

We recorded goodwill of nil, RMB19.0 million and RMB25.6 million as of December 31, 2019, 2020 and 2021, respectively. The goodwill as of December 31, 2020 and 2021 was the result of certain acquisitions we made as part of our effort to expand our business. See note 28 to the Accountants' Report in Appendix I to this document for details regarding our acquisitions of subsidiaries and the accumulation of goodwill as a result of the acquisitions.

For purpose of impairment testing, goodwill acquired through business combination is allocated to respective CGUs representing the lowest level within our Company for which the goodwill is monitored for internal management purpose.

The significant CGUs include Jiangsu Xinwange Medical Technology Co., Ltd. ("**Jiangsu Xinwange**"), Yinbang Insurance Brokerage Co., Ltd. ("**Yinbang Insurance**"), Shanghai Yitong Culture Media Co., Ltd. ("**Shanghai Yitong**") and Zhejiang Qilian Medicine Co., Ltd. ("**Zhejiang Qilian**"). The goodwill allocated to the significant CGUs are set out as follows:

	At December 31,	
	2020	**2021**
	RMB'000	*RMB'000*
Jiangsu Xinwange	8,337	8,337
Yinbang Insurance	8,033	8,033
Shanghai Yitong	2,253	2,253
Zhejiang Qilian	—	6,015

Impairment review on the goodwill has been conducted by the management as of December 31, 2020 and 2021. The recoverable amounts of the CGUs determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates.

Key assumptions of the significant CGUs as of December 31, 2020 and 2021 are set out as follows:

As of December 31, 2020

	Jiangsu Xinwange	Yinbang Insurance	Shanghai Yitong
Revenue 2021 (% annual growth rate)	200.0%	50.0%	5.0%
Revenue 2022-2025 (% annual growth rate)	6.0%-8.0%	6.0%-20.0%	6.0%-9.0%
Long-term growth rate	3.0%	3.0%	3.0%
Pre-tax discount rate	13.0%	21.0%	23.5%

As of December 31, 2021

	Jiangsu Xinwange	Yinbang Insurance	Shanghai Yitong	Zhejiang Qilian
Revenue 2022 (% annual growth rate)	5.0%	15.0%	10.0%	4.4%
Revenue 2023-2026 (% annual growth rate)	5.0%	8.0%-14.0%	5.0%-10.0%	3.0%
Long-term growth rate	3.0%	3.0%	3.0%	3.0%
Pre-tax discount rate	12.6%	21.1%	22.5%	12.7%

We determined the recoverable amounts of the cash-generating units (CGUs) based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a five-year period. Management forecasted the revenue from each CGUs based on the current economic and industry conditions, the available financial and human resources, the historical financial performance, the available products mix and sales channels.

As of December 31, 2020, our management forecasted high revenue growth rates for the CGUs, Jiangsu Xinwange and Yinbang Insurance, especially for the year 2021, which is the year following the acquisition, as we continued to launch new initiatives including adjusting and expanding the CGUs' products mix, exploring diversification of the sales channel based on our current business resources and expanding the hospital SaaS solution to the CGUs' end customers to drive higher monetization.

The decrease in forecasted annual growth rate as of December 31, 2021 is mainly due to the following reasons: (i) our management forecasts that the annual growth rate would be front-loaded (higher annual growth rates in the years since acquisition) due to the expectation of diminishing marginal effect from synergies; and (ii) the higher revenue base for the year ended December 31, 2021 on which the growth rate is based.

Details of the headroom calculated based on the recoverable amounts deducting the carrying amount allocated for the significant CGUs as of December 31, 2020 and 2021 are set out as follows:

	At December 31,	
	2020	2021
	RMB'000	*RMB'000*
Jiangsu Xinwange	20,495	51,781
Yinbang Insurance	5,227	11,553
Shanghai Yitong	457	643
Zhejiang Qilian	—	19,833

Management have undertaken sensitivity analysis on the impairment test of goodwill. The following table sets out the hypothetical changes to annual growth rate during the 5-year forecast and pre-tax discount rate that would, in isolation, have removed the remaining headroom respectively as of December 31, 2020 and 2021:

As of December 31, 2020

	Jiangsu Xinwange	Yinbang Insurance	Shanghai Yitong
Annual growth rate of revenue during the 5-year forecast	-1.4%	-3.0%	-1.1%
Pre-tax discount rate	1.3%	2.2%	0.9%

As of December 31, 2021

	Jiangsu Xinwange	Yinbang Insurance	Shanghai Yitong	Zhejiang Qilians
Annual growth rate of revenue during the 5-year forecast	-8.3%	-7.1%	-2.1%	-9.1%
Pre-tax discount rate	3.1%	6.2%	3.0%	1.1%

The Directors determined no impairment on goodwill was required as at December 31, 2020 and 2021 with reference to the recoverable amounts. With regard to the assessment of the VIU of the CGUs, the Directors believe that any reasonably possible change in any of the above key assumptions would not cause the carrying value, including goodwill, of the CGUs to exceed the recoverable amounts.

As at December 31, 2021, the Directors did not identify any significant adverse changes in the CGUs' operation and considered that there was sufficient headroom based on impairment review at December 31, 2020. Therefore, no impairment indicator of goodwill was noted at December 31, 2021.

Deferred Tax Liabilities

Deferred tax liabilities arise from deductible and taxable temporary differences, being the differences between the carrying amounts of liabilities for financial reporting purposes and their tax bases. We recorded deferred tax liabilities of nil, RMB10.6 million and RMB14.4 million as of December 31, 2019, 2020 and 2021, respectively.

Directors', Joint Sponsors' and Reporting Accountants' Views on Valuation of Financial Assets and Liabilities Categorised with Level 3 of Fair Value Measurement

Our Directors' view:

- Financial assets at FVTPL: Financial assets at FVTPL represent wealth management products held by us and those assets were categorized with level 3 of fair value measurement during the Track Record Period. The fair value of the financial assets at FVTPL was estimated using a discounted cash flow model. The significant unobservable inputs are the interest return rates. We have a team headed by the finance manager performing valuation for wealth management products which are categorized into Level 3 of the fair value hierarchy. The team reports to our head of the finance department. In determining the fair value of our financial assets, our Directors adopted the following procedures: (i) reviewed the contract terms of the respective wealth management products, understood their nature, and discussed with the finance team on the classification of the wealth management products; (ii) reviewed the valuation working papers and results prepared by the finance team; (iii) carefully considered all information especially those non-market related information input; (iv) analyzed and discussed with the finance team regarding the contents of the valuation analysis, including, but not limited to, the basis of computation, the assumptions and valuation methodologies on which the valuation is based, and the basis of the interest return rates; and (v) reviewed the retrospective analysis results of settled similar wealth management products and assessed the appropriateness of the valuation models, assumptions and parameters used by the finance team. Based on the above procedures, our Directors are of the view that the valuation of our financial assets at FVTPL categorized within the level 3 of fair value measurement is fair and reasonable.

- Financial liabilities at FVTPL: In relation to the valuation of the financial liabilities at FVTPL, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the relevant contract terms of the investment agreements signed with investors, understood the nature of the financial instruments issued, and discussed with the finance team on the classification of the financial instruments; (ii) engaged an independent qualified professional valuer, confirmed with the valuer that it was independent from us and that there is no conflict of interests of the valuer, reviewed the qualifications, experience of the valuer and its work scope to ensure that the valuer possessed the experience, qualifications and expertise to compile the valuation report properly; (iii) provided necessary financial and non-financial information, including, but not limited to, historical financial performance, financial forecast and industry conditions, so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iv) carefully considered all information and discussed these information internally with the operation team, finance team, investment and financing team, especially non-market related information input, such as fair value of our ordinary shares, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; (v) reviewed and analyzed the valuation working papers and results prepared by the valuer, and enquired with the valuer about the methodologies, computations and parameters, as necessary; and (vi) reviewed the comparison results of the equity fair value of our Company prepared by the valuer with the recent implied financing value of our Company when available. Based on the above procedures, the Directors are of the view that the valuation of the financial liabilities at FVTPL is fair and reasonable.

Joint Sponsors' view: In relation to the fair value assessment of the financial assets and liabilities categorized with level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes and disclosure in the Accountant's Report contained in Appendix I to this document; (ii) discussing with us and the Reporting Accountants regarding the valuation methodology, and the key basis and assumptions for the valuation of the financial liabilities and assets; (iii) obtaining and reviewing the credentials of the valuer involved in the valuation; and (iv) discussing with the valuer regarding the valuation basis and methodologies adopted by the valuer. Having considered the work done by our management, the Directors and the Reporting Accountants, and the relevant due diligence done as stated above, nothing material has come to the Joint Sponsors' attention that indicates that the Directors have not undertaken independent and sufficient investigation and due diligence, or that the Directors' reliance on the work products of the independent valuer is unreasonable or excessive.

Reporting Accountants' view: The Reporting Accountants have conducted their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" ("**HKSIR 200**") issued by the Hong Kong Institute of Certified Public Accountants to express an opinion on Historical Financial Information (as defined in Appendix I to this document). This standard requires that the Reporting Accountants plan and perform their work to obtain reasonable assurance about whether the Historical Financial Information as a whole is free from any material misstatement.

Details of the valuation measurement of financial assets at FVTPL and financial liabilities at FVTPL, particularly the valuation techniques and key inputs, including significant unobservable inputs, and the relationship of unobservable inputs to valuation are disclosed in Notes 24 and 27(d) to the Accountants' Report in Appendix I to this prospectus. The Reporting Accountants' opinion on our historical financial information for the Track Record Period as whole is set out in the Appendix I to this prospectus.

KEY FINANCIAL RATIOS

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

	For the Year Ended December 31,		
	2019	**2020**	**2021**
Total revenue growth (%)	110.0	60.0	109.4
Gross margin (%)	11.7	27.7	32.4
Adjusted net loss margin (non-IFRS measure) (%)[1]	(28.5)	(75.8)	(25.3)

Note:

(1) Represents adjusted net loss (non-IFRS measure) divided by the total revenue for the year indicated.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we had funded our cash requirements principally from capital contribution from shareholders, financing through issuance and sales of convertible redeemable preferred shares in private placement transactions and bank loans. We had cash and cash equivalents of RMB601.2 million, RMB914.2 million and RMB1,090.6 million as of December 31, 2019, 2020 and 2021, respectively.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any plans for material additional external financing.

The following table sets forth our cash flows for the years indicated:

	For the Year Ended December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Operating cash flows before movement in working capital	(130,844)	(581,400)	(390,964)
Changes in working capital	(229,478)	(143,004)	(140,074)
Restricted cash collected from the insured on behalf of insurance companies	—	—	(134,922)
Income tax paid	(13)	(69)	(373)
Net cash used in operating activities	**(360,335)**	**(438,465)**	**(666,333)**
Net cash generated from/(used in) investing activities	3,405	(160,196)	(155,497)
Net cash generated from financing activities	813,589	918,406	1,015,371
Net increase in cash and cash equivalents	456,659	319,745	193,541
Cash and cash equivalents at the beginning of the year	143,782	601,164	914,226
Effect of foreign exchange rate changes	723	(6,683)	(17,192)
Cash and cash equivalents at the end of the year	**601,164**	**914,226**	**1,090,575**

Our net operating cash outflows amounted to RMB666.3 million in the fiscal year ended December 31, 2021. Going forward, we will try to improve our net operating cash flows position by continuing to make various efforts to sustain our revenue growth and achieve profitability, including:

- **Expanding our customer base.** Our hospital SaaS facilitates our frequent interaction with hospitals and enables us to have a better understanding of them and to monetize their demands. Our successful partnership with our existing hospital end customer base allows us to showcase our value proposition and help 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. Our extensive reach of hospitals, pharmacies, doctors and patients allows us to provide more effective digital marketing services to pharmaceutical companies.

- **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. For our pharmacy solution, we will focus on the monetization from our pharmacy SaaS. 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.

- **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. We will continue to grow our higher-margin businesses, including digital marketing and pharmacy SaaS, and expect our gross profit margin will remain at the same level as 2021 or be slightly higher than what we had in 2021 in the next few years.

- **Benefiting from earlier investments and economies of scale.** During the Track Record Period, we made significant investment in expanding the teams across different functions and enhancing our brand recognition. As we continue to grow our business and enhance the network that we built around hospitals, pharmacies, doctors, patients, and pharmaceutical companies, we will benefit from economies of scale, improve our operational efficiency, and acquire customers at lower costs. As a result, our selling and marketing expenses, administrative expenses and research and development expenses as a percentage of revenue will decrease in the future.

See "Summary — Business Sustainability" for details.

Net Cash Used in Operating Activities

Net cash used in operating activities primarily comprises our loss for the year and non-cash and non-operating items, adjusted by changes in working capital.

In the fiscal year ended December 31, 2021, net cash used in operating activities was RMB666.3 million, which was primarily attributable to our loss before taxation of RMB4,155.5 million, as adjusted by (i) non-cash items, which primarily included changes in fair value of financial liabilities of RMB3,397.6 million, equity-settled share-based payment expenses of RMB222.6 million, issuance cost of financial liabilities at FVTPL of RMB51.6 million and amortization of RMB71.1 million; and (ii) cash used for working capital, which primarily resulted from an increase in trade and bills receivables and other receivables of RMB213.9 million, partially offset by an increase in trade and other payables and accrued expenses of RMB118.0 million. The increase in trade and bills receivables and other receivables was primarily due to the fast growth of our in-hospital solution, which resulted in larger trade receivables as the average collection period from hospital end customers and the related distributors is typically longer than that in other parts of our business. The increase in trade and other payables and accrued expenses was primarily due to the growth of our sales of medical devices, consumables, pharmaceuticals and miscellaneous and the corresponding procurement amount from suppliers.

In the fiscal year ended December 31, 2020, net cash used in operating activities was RMB438.5 million, which was primarily attributable to our loss before taxation of RMB2,897.9 million, as adjusted by (i) non-cash items, which primarily comprised changes in fair value of financial liabilities of RMB2,003.4 million, equity-settled share-based payment expenses of RMB207.2 million, issuance cost of financial liabilities at FVTPL of RMB50.0 million, and amortization of RMB28.0 million; and (ii) cash released from working capital, which primarily resulted from an increase in trade and other payables and accrued expenses of RMB97.8 million, a decrease in inventories of RMB84.2 million and an increase in contract liabilities of RMB93.6 million, partially offset by an increase in trade and bills receivables and other receivables of RMB132.5 million. The increase in trade and other payables and accrued expenses was primarily due to the growth of our sales of medical devices, consumables, pharmaceuticals and miscellaneous and the corresponding procurement amount from suppliers. The decrease in inventories was primarily due to the gradual phase-out of our cooperation with Customer A (see "Discussion of Certain Key Balance Sheet Items — Current Assets/Liabilities — Inventories"). The increase in contract liabilities was primarily due to an increase in advances from customers for medical devices, consumables, pharmaceuticals and miscellaneous. The increase in trade and bills receivables and other receivables was primarily due to the fast growth of our in-hospital solution, which resulted in larger trade receivables as the average collection period from hospital end customers and the related distributors is typically longer.

In the fiscal year ended December 31, 2019, net cash used in operating activities was RMB360.3 million, which was primarily attributable to our loss of RMB565.4 million, as adjusted by (i) non-cash items, which primarily comprised changes in fair value of financial liabilities of RMB326.6 million, issuance cost of financial liabilities at FVTPL of RMB50.3 million, and equity-settled share-based payment expenses of RMB39.0 million; and (ii) cash used for working capital, which primarily resulted from an increase in trade and bills receivables and other receivables of RMB149.3 million and an increase in inventories of RMB103.2 million, partially offset by an increase in trade and other payables and accrued expenses of RMB3.4 million. The increase in trade and bills receivables and other receivables was primarily due to the fast growth of our in-hospital solution, which resulted in larger trade receivables as the average collection period from hospital end customers and the related distributors is typically longer. The increase in inventories was primarily due to our cooperation with Customer A in 2019, which required us to maintain high levels of inventories (see "Discussion of Certain Key Balance Sheet Items — Current Assets/Liabilities — Inventories"). The increase in trade and other payables and accrued expenses was primarily due to the growth of our sales of medical devices, consumables, pharmaceuticals and miscellaneous and the corresponding procurement amount from suppliers.

Net Cash Used in/Generated from Investing Activities

In the fiscal year ended December 31, 2021, net cash used in investing activities was RMB155.5 million, which was mainly attributable to (i) payment for purchase of wealth management products of RMB6,434.5 million; (ii) payment for the purchase of property, plant and equipment and intangible assets of RMB88.7 million; and (iii) acquisition of subsidiaries, net of cash acquired, of RMB43.7 million, partially offset by proceeds from sales of wealth management products of RMB6,406.5 million.

The wealth management products we purchased during the Track Record Period consisted primarily of onshore and offshore short-term structured deposits and agreement deposits. We only invest in products offered by state-controlled or reputable licensed commercial banks that are considered low-risk and offer higher rates of return as compared with time deposits. Our investment department, consisting of personnel with finance or accounting degrees and experience in investment, is responsible for sourcing, purchasing and monitoring the performance of the wealth management products. Before proceeding with any investment proposal, our investment department assesses our cash flow levels, operational needs and capital expenditures. Our investment strategy related to the wealth management products aims to minimize the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, and to generate investment returns for the benefits of our shareholders. We make our investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including but not limited to macroeconomic environment, general market conditions and the expected profit or potential loss of the investment. Our chief financial officer and senior investment manager, both of whom hold finance-related degrees and have years of experience in financial or investment management, review the investment proposals made by the investment department. We plan to hold such investments after the completion of the Global Offering. In order to optimize returns and mitigate risks of our investment, we closely monitor the performance of our wealth management products and have subsequent portfolio management and risk-warning mechanism in place.

In the fiscal year ended December 31, 2020, net cash used in investing activities was RMB160.2 million, which was mainly attributable to (i) payment for purchase of wealth management products of RMB310.0 million; (ii) acquisition of subsidiaries, net of cash acquired, of RMB82.6 million; (iii) advances to third parties of RMB38.4 million; and (iv) payment for the purchase of property, plant and equipment and intangible assets of RMB40.5 million, partially offset by settlements received from advances to third parties of RMB10.2 million.

In the fiscal year ended December 31, 2019, net cash generated from investing activities was RMB3.4 million, which was mainly attributable to proceeds from sale of wealth management products of RMB368.0 million, partially offset by payment for purchase of wealth management products of RMB328.0 million and acquisition of subsidiaries, net of cash acquires, of RMB22.3 million.

Net Cash Generated from Financing Activities

In the fiscal year ended December 31, 2021, net cash generated from financing activities was RMB1,015.4 million, which was primarily attributable to (i) proceeds from issuance of convertible redeemable preferred shares and convertible loans of RMB1,183.5 million and (ii) proceeds from bank and other loans of RMB370.3 million, partially offset by (i) repayment of bank and other loans of RMB476.6 million and (ii) payment of repurchase of convertible loan for issuance of convertible redeemable preferred shares of RMB214.4 million.

In the fiscal year ended December 31, 2020, net cash generated from financing activities was RMB918.4 million, which was primarily attributable to (i) proceeds from issuance of convertible redeemable preferred shares and convertible loans of RMB950.0 million; (ii) proceeds from bank and other loans of RMB326.1 million; and (iii) proceeds from issuance of convertible redeemable preferred shares to settle convertible loans of RMB66.5 million, partially offset by (i) repayment of bank and other loans of RMB208.0 million; (ii) issuance cost of convertible redeemable preferred shares of RMB92.5 million; and (iii) payment of repurchase of convertible loans for issuance of convertible redeemable preferred shares of RMB75.8 million.

In the fiscal year ended December 31, 2019, net cash generated from financing activities was RMB813.6 million, which was primarily attributable to (i) proceeds from issuance of convertible redeemable preferred shares and convertible loans of RMB832.7 million; and (ii) proceeds from bank and other loans of RMB205.9 million, partially offset by (i) repayment of bank and other loans of RMB185.7 million; (ii) payment of repurchase of convertible redeemable preferred shares and convertible loans of RMB6.0 million; and (iii) issuance cost of convertible redeemable preferred shares of RMB24.3 million.

INDEBTEDNESS

Borrowings

As of December 31, 2019, 2020 and 2021 and April 30, 2022, we had bank and other loans of RMB83.9 million, RMB203.5 million, RMB114.4 million and RMB84.6 million, respectively.

Borrowings are classified as current liabilities. All borrowings are repayable within one year or on demand and the effective annual interest rates ranged from 3.60% to 8.64% as of April 30, 2022, being the indebtedness statement date.

As of April 30, 2022, being the indebtedness statement date, we had approximately RMB13.3 million in unutilized banking facilities.

All of our banking facilities are subject to the fulfilment of covenants relating to certain of our balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If we were to breach the covenants, the drawn down facilities would become payable on demand. We regularly monitor our compliance with these covenants. Our Directors confirm that there was no delay or default in the repayment of borrowings during the Track Record Period and up to the Latest Practicable Date. Our Directors also confirm that they are not aware of any breach of any of the covenants contained in our bank loan arrangements and other borrowing arrangements or any event of default during the Track Record Period and up to the Latest Practicable Date, nor are they aware of any restrictions that will limit our ability to drawdown on our unutilized facilities.

Financial Liabilities at FVTPL

Our financial liabilities at FVTPL consist of convertible redeemable preferred shares and convertible loans. The following table sets forth the amount of our financial liabilities at FVTPL as of the dates indicated:

	As of December 31,			As of April 30,
	2019	2020	2021	2022
	(in thousands of RMB)			(Unaudited)
Convertible redeemable preferred shares	1,548,365	4,329,603	8,907,708	9,467,309
Convertible loans	171,964	148,557	—	—
Total	**1,720,329**	**4,478,160**	**8,907,708**	**9,467,309**

As of December 31, 2019, 2020 and 2021 and April 30, 2022, our convertible redeemable preferred shares had fair value of RMB1,548.4 million, RMB4,329.6 million, RMB8,907.7 million and RMB9,467.3 million, respectively. For further information regarding the Preferred Shares, see note 24 to the Accountants' Report in Appendix I to this prospectus. In the second and third quarters of 2021, we issued a total number of 47,856,701 series E+ Preferred Shares to investors for a total cash consideration of US$184 million.

Our convertible loans consist convertible loans issued to certain investors in previous financings. Upon the successful completion of the Overseas Direct Investments Registration with the period specified in the relevant agreements, the convertible loans are convertible into our convertible redeemable preferred shares. As of December 31, 2019, 2020 and 2021 and April 30, 2022, our convertible loans had fair value of RMB172.0 million, RMB148.6 million, nil and nil, respectively. For further information regarding the convertible loans, see note 24 to the Accountants' Report in Appendix I to this prospectus. In July 2021, all the convertible loans were converted into convertible redeemable preferred shares.

Lease liabilities

Our lease liabilities are in relation to properties that we lease for our office premises, fulfillment centers and research and development activities. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2019	2020	2021	2022
	(in thousands of RMB)			
				(Unaudited)
Current	2,750	4,373	4,123	3,295
Non-current	1,704	2,182	4,800	4,339
Total	**4,454**	**6,555**	**8,923**	**7,634**

The table below categorizes our minimum lease payments into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date.

	As of December 31,			As of April 30,
	2019	2020	2021	2022
	(in thousands of RMB)			
				(Unaudited)
Within 1 year	2,880	4,569	4,447	3,534
After 1 year but within 2 years	1,159	2,113	2,842	3,055
After 2 years but within 5 years	653	279	2,184	1,447
Total	**4,692**	**6,961**	**9,473**	**8,036**

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured as of the Latest Practicable Date.

CONTINGENT LIABILITIES

As of December 31, 2019, 2020 and 2021 and April 30, 2022, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

The following table sets forth our capital expenditures for the years indicated:

	For the Year Ended December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Acquisition of subsidiaries, net of cash acquired	(22,266)	(82,647)	(43,696)
Payment for the purchase of property, plant and equipment and intangible assets	(4,246)	(40,529)	(88,683)
Payment for purchase of wealth management products	(328,000)	(310,000)	(6,434,475)
Advances to third parties	(9,100)	(38,432)	(9,881)
Total	**(363,612)**	**(471,608)**	**(6,576,735)**

We intend to fund our future capital expenditures and long-term investments with our existing cash balance, cash generated from operating activities, and proceeds from the Global Offering. See the section headed "Future Plans and Use of Proceeds" for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

Our acquisitions of subsidiaries during the Track Record Period were accounted for as acquisitions of assets or business combinations. See page I-56 and I-95 of the Accountants' Report in Appendix I to this document for details about acquisitions accounted for as acquisitions of assets and acquisitions that constitute business combinations, respectively.

See "Business — Risk Management and Internal Control — Investment Risk Management" for a discussion of our investment policy and investment risk management.

CONTRACTUAL OBLIGATIONS

As of December 31, 2019, 2020 and 2021, we did not have any significant commitments.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into a number of related party transactions, primarily including (i) key management personnel remuneration, and (ii) guarantees provided by related parties on the our bank loans.

We had the following transactions with related parties during the Track Record Period:

	For the Year Ended December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Salaries and other emoluments	934	1,359	4,164
Discretionary bonuses	216	479	1,809
Retirement scheme contributions	53	11	189
Share based payment expenses	25,811	188,450	127,276
Total	**27,014**	**190,299**	**133,438**

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Guarantees provided by related parties on the Group's bank loans at the end of the reporting	83,900	203,511	10,420
Advance from a non-controlling shareholder of the Group	—	—	7,300
Repayment to a non-controlling shareholder of the Group	—	—	6,300

The related parties providing guarantees include Mr. Kuang and his spouse and the ultimate beneficial owner of a non-controlling shareholder of a subsidiary. The guarantees provided by Mr. Kuang and his spouse have been released as of the date of this document. The remaining guarantees will be released upon the repayment of the related bank loans and will not be released upon the completion of the Global Offering unless the related bank loans have been repaid by then. Advance from a non-controlling shareholder of the Group represents a loan that Zhejiang Qilian Medicine Co., Ltd., or Qilian, borrowed from a minority shareholder of Qilian to support its operations. We acquired 55% equity interest of Qilian in the six months ended June 30, 2021. Repayment to a non-controlling shareholder of the Group represents the partial repayment Qilian has made to the lending shareholder. We expect Qilian to repay the remaining portion of the loan in 2022 in accordance with its agreement with the minority shareholder and carry the loan after the completion of the Global Offering if that occurs before the repayment.

The following table sets forth the outstanding balances of our transactions with related parties as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Amounts due from Mr. Kuang Ming in relation to issuance of convertible redeemable preferred shares	2,093	1,957	—
Amounts due from Mr. Kuang Ming in relation to share-based payment	40	6,892	11,877
Amounts due from Ms. Xu Lili in relation to share-based payment	—	—	192
Amounts due to non-controlling shareholders	—	—	1,000
Total	**2,133**	**8,849**	**13,069**

The balances with related parties are unsecured and non-trade in nature. Amounts due from Mr. Kuang in relation to issuance of convertible redeemable preferred shares have been settled in July 2021. Amounts due from Mr. Kuang and Ms. Xu in relation to share-based payment will be fully settled before the completion of the Global Offering. Amounts due to a non-controlling shareholder of Qilian will be settled in 2022 as described above.

See note 29 to the Accountants’ Report in Appendix I to this document for details regarding our material related party transactions.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risks (such as currency risk and interest rate risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management and approved by the executive directors.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in our financial loss. Our credit risk is primarily attributable to trade receivable. Our exposure to credit risk arising from cash and cash equivalents and bills receivables are limited because the counterparties are banks and financial institutions with good credit standing, which we consider to have low credit risk.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. The receivables from the five largest debtors at December 31, 2019, December 31, 2020 and December 31, 2021 represented 42%, 41% and 35% of the total trade receivables respectively, while 14%, 12% and 11% of the total trade receivables were due from the largest single debtor respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer’s past payment history, financial position and other factors. Normally, we do not obtain collateral from customers.

We measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix. As our historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between our different customer bases.

Liquidity Risk

Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of our non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date we can be required to pay:

	Within 1 year or on demand	More than 1 and but less than 2 years	More than 2 but less than 5 years	More than 5 years	Total
	(in thousands of RMB)				
At December 31, 2019					
Bank and other loans	86,161	—	—	—	86,161
Trade payables	52,507	—	—	—	52,507
Other payables and accrued expenses	150,037	—	—	—	150,037
Financial liabilities at FVTPL	1,720,329	—	—	—	1,720,329
Lease liabilities	2,880	1,159	653	—	4,692
	2,011,914	1,159	653	—	2,013,726
At December 31, 2020					
Bank and other loans	207,808	—	—	—	207,808
Trade payables	76,032	—	—	—	76,032
Other payables and accrued expenses	184,935	—	—	—	184,935
Financial liabilities at FVTPL	4,478,160	—	—	—	4,478,160
Lease liabilities	4,569	2,113	279	—	6,961
	4,951,504	2,113	279	—	4,953,896
At December 31, 2021					
Bank and other loans	115,337	—	—	—	115,337
Trade payables	67,763	—	—	—	67,763
Other payables and accrued expenses	456,555	—	—	—	456,555
Financial liabilities at FVTPL	8,907,708	—	—	—	8,907,708
Lease liabilities	4,447	2,842	2,184	—	9,473
	9,551,810	2,842	2,184	—	9,556,836

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our interest rate risk arises primarily from cash at banks, wealth management products issued by banks, bank and other loans and lease liabilities. Instruments bearing interest at variable rates and fixed rates expose us to cashflow interest rate risk and fair value interest rate risk respectively. We regularly review our strategy on interest rate risk management in the light of the prevailing market condition. Details of the description of our interest rate risk profile are presented in notes 27(c) to the Accountants' Report in Appendix I to this document.

Fair Value Measurement

The following table presents the fair value of our financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

- Level 3 valuations: Fair value measured using significant unobservable.

We engaged AVISTA Group Limited, an external valuer to perform valuations for the financial instruments, including convertible redeemable preferred shares and convertible loans. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by our management.

During the fiscal years ended December 31, 2019 and 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. Our policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. Details of our fair value measurements have been disclosed in notes 27(d) to the Accountants' Report in Appendix I to this document.

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. We had negative cash flows from operations during the Track Record Period. Our net cash used in operating activities was RMB316.4 million, RMB474.3 million and RMB666.3 million, respectively, during the fiscal years ended December 31, 2019, 2020 and 2021. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

DISTRIBUTABLE RESERVES

As of December 31, 2021, we did not have any distributable reserves.

LISTING EXPENSES

Based on the Offer Price of HK$30.50 per Share, we expect to incur listing expenses approximately in the amount of RMB84.0 million. During the Track Record Period, we incurred listing expenses in the amount of RMB46.2 million, of which RMB37.4 million was recognized in the consolidated statements of profit or loss and other comprehensive income, and RMB8.8 million was capitalized as deferred listing expense in the consolidated statements of financial position as of December 31, 2021 to be recognized as a reduction in equity upon the listing. We expect to incur additional listing expenses of approximately RMB37.8 million in 2022, of which approximately RMB31.4 million is expected to be recognized in our consolidated statements of profit or loss and other comprehensive income, and approximately RMB6.4 million is expected to be charged against equity upon the listing under the relevant accounting standards. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from the estimate. Based on the Offer Price of HK$30.50 per Share, the estimated amount of listing expenses will account for approximately 16.9% of the expected gross proceeds of the Global Offering (assuming the Overallotment Option is not exercised).

The balance of underwriting-related expenses of approximately RMB13.2 million, which mainly includes underwriting commission, is expected to be accounted for as a deduction from equity upon the completion of the Global Offering. The balance of non-underwriting-related expenses approximately of RMB70.8 million primarily include fees and expenses of legal advisors and accountants of RMB48.7 million and other fees and expenses.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Company prepared in accordance with Rule 4.29 of the Listing Rules and is set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible liabilities attributable to equity shareholders of our Company as if the Global Offering had taken place on December 31, 2021.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as at December 31, 2021 or at any future dates.

	Consolidated net tangible liabilities of the Group attributable to equity shareholders of our Company as at December 31, 2021 (1)	Estimated net proceeds from the Global Offering (2)	Estimated impact upon the conversion of the Preferred Shares in issue as at December 31, 2021 (3)	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of our Company	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of our Company per Share (4)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HK$(5)*
Based on an Offer Price of HK$30.50 per Share . . .	(7,306,557)	451,549	8,907,708	2,052,700	4.00	4.65

Notes:

(1) The consolidated net tangible liabilities of our Company attributable to equity shareholders of our Company as at December 31, 2021 is arrived at after (i) deducting goodwill of RMB25,625,000 and intangible assets of RMB164,583,000 and (ii) adjusting the share of intangible assets attributable to non-controlling interests of RMB21,603,000 from the total deficit attributable to equity shareholders of our Company of RMB7,137,952,000 as at December 31, 2021, which is extracted from the Accountants' Report set out in Appendix I to this document.

(2) The estimated net proceeds from the Global Offering are based on the issuance of 19,000,000 Shares and the indicative Offer Price of HK$30.50 per Share, after deduction of the estimated underwriting fees and other related expenses related to Global Offering (excluding approximately RMB37,391,000 listing expenses which have been accounted for prior to December 31, 2021) and takes no account of any Shares that may be issued upon exercise of the Over-allotment Option, and excluding any Shares which may be issued or repurchased by our Company pursuant to the general mandates, and any Shares which may be issued pursuant to the Pre-IPO Equity Incentive Scheme.

The estimated net proceeds from the Global Offering are converted into RMB at an exchange rate of HK$1.1632 to RMB1 published by PBOC prevailing on June 14, 2022. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted into RMB, or vice versa, at that rate or at any other rate or at all.

(3) As at December 31, 2021, the aggregate carrying amount of convertible redeemable preferred shares was RMB8,907,708,000. Upon the Listing, the convertible redeemable preferred shares will be automatically converted into ordinary shares of our Company and will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to equity shareholders of our Company would be increased by RMB8,907,708,000 for the conversion of convertible redeemable preferred shares to ordinary shares had the Global Offering been taken place on December 31, 2021.

(4) The unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 513,708,584 Shares were in issue (which is calculated based on 96,756,026 Shares in issue (excluding the 73,329,635 treasury shares held by Prime Forest Assets Limited, as depositary, which are reserved for future delivery upon exercise or vesting of share awards granted under the Company's 2015 Global Share Plan) as at December 31, 2021, 397,952,558 Shares would been converted from the convertible redeemable preferred shares in issue as at December 31, 2021 and 19,000,000 Shares to be issued under the Global Offering) without taking into account of any Shares which may be issued upon exercise of the Over-allotment Option, any Shares which may be issued or repurchased by the Company pursuant to the general mandates, and any Shares which may be issued pursuant to the Pre-IPO Equity Incentive Scheme.

(5) The unaudited pro forma adjusted net tangible assets attributable to equity shareholders of our Company per Share is converted into Hong Kong dollars at an exchange rate of RMB1 to HK$1.1632 published by PBOC prevailing on June 14, 2022. No representation is made that RMB amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate or at any other rate or at all.

(6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company to reflect any trading result or other transactions of the Group subsequent to December 31, 2021.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2021, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document, and there is no event since December 31, 2021 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.