
BUSINESS

MISSION

Our mission is to provide users with comprehensive and professional on-demand healthcare services. We strive to address the diverse unmet healthcare needs with our convenient, express and professional healthcare product and service offerings with superior accessibility and affordability.

OVERVIEW

We are a pioneer and leader in providing express digital healthcare service in China. Since our inception in 2014, we have been facilitating the transformation and upgrade of China's healthcare industry by pioneering on-demand pharmaceutical retail and medical consultation, primarily with online-to-offline solutions.

Driven by the aging of the population, the advancement of Internet-based technologies, the market-oriented reforms of healthcare systems in China, and market uncertainties such as the COVID-19 outbreak, the digital health and wellness market has been growing rapidly since 2015, revealing significant unmet demands in healthcare services, such as pharmaceutical retail and medical consultation, and creating immense market opportunities for on-demand healthcare services. Meanwhile, we have connected industry participants including medical professionals, pharmacies, pharmaceutical companies, and other stakeholders along the entire value chain to construct a technology-driven, user-centric, and closed-loop ecosystem featuring healthcare product and service offerings. Leveraging our integrated online and offline operations, we provide our users with a full suite of on-demand healthcare products and services, such as drug express, online medical consultation and chronic disease and healthcare management:

- **Drug Express:** We strive to provide our users with streamlined on-demand drug purchase experience, with products delivered to the purchasers within 28 minutes on a 24/7 basis in regions covered by our express delivery service. Through our drug express offering, we provide our users with express access to OTC drugs, prescription drugs and healthcare products in a timely and convenient fashion. We have established an omni-channel access network for our drug express offering, including our own online platforms such as our own mobile App and WeChat mini program, third-party online platforms, online distributors and offline purchase directly made at our smart pharmacies. As of the Latest Practicable Date, we have established a network of 348 smart pharmacies across 17 cities in China, delivering products through our delivery force nationwide. Under our drug express business, we directly source products from our pharmaceutical enterprises partners, and deliver such products to users from our smart pharmacies. Meanwhile, we also offer delivery options such as regular delivery, pre-order delivery, and offline pickup to meet users' individualized needs. In addition, we provide 24-hour purchase guidance from pharmacists to our users.
- **Online Medical Consultation:** We provide our users with online medical consultation services through our Internet hospitals and our medical team, featuring medical conditions such as chronic diseases. As of the Latest Practicable Date, our medical team mainly included 18 full-time and 73 part-time doctors, more than 800 external doctors we were connected to through our collaboration with a third-party medical institutions and other medical professionals. Our online medical consultation service is provided on a 24/7 basis, where users are promptly matched with appropriate doctors and communicate with them through messages or voice calls. We capitalize on our online medical consultation traffic and provide our users with solutions integrating pharmaceutical products and services.

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- ***Chronic Disease and Healthcare Management:*** In synergy with our drug express and online medical consultation service offerings, we provide a portfolio of chronic disease and healthcare service offerings, including medication and dosage guidance, additional consultation reminders, prescription renewal, health information feedback and healthcare knowledge management. We currently focus on chronic diseases such as liver diseases, skin diseases, cardiovascular diseases and diabetes, and plan to gradually expand our coverage to more chronic diseases in the future. Our chronic disease and healthcare management service offering helps doctors efficiently track, manage, and communicate with users, and helps users establish individualized health profiles, which facilitates the improvement of patients' drug compliance and our precise prediction of their full life-cycle healthcare demands.

Benefiting from our broad network of smart pharmacies, our capability in express delivery and our resources along the value chain, we operate a fast-growing business. In 2019, 2020 and 2021, our drug express service offering recorded a total of 26.4 million, 40.5 million and 60.3 million sales orders, respectively, through our online direct sales channel and offline channel; during the same periods, our online medical consultation service offering recorded a total of 2.2 million, 4.4 million and 6.8 million online consultations, respectively, contributing sales orders (including OTC drugs, prescription drugs, and healthcare products) to our drug express business with revenue of RMB27.6 million, RMB75.6 million and RMB331.9 million, respectively, and our chronic disease and healthcare management service offering contributed sales orders (sales of drugs related to chronic disease, such as liver diseases, skin diseases, cardiovascular diseases and diabetes) to the drug express business with revenue of RMB215.8 million, RMB514.8 million and RMB846.9 million, respectively.

In 2019, 2020 and 2021, our revenue was RMB1,275.6 million, RMB2,228.6 million and RMB3,678.7 million, respectively, with a CAGR of approximately 69.8% from 2019 to 2021. With our first-mover advantage in the digital health and wellness industry, we can fully seize the opportunities brought by the rapid growth of the industry and achieve long-term development.

COMPETITIVE STRENGTHS

We believe that the following competitive advantages distinguish us from our competitors and contribute to our success.

Pioneer and leader in the provision of express digital healthcare service in China, underpinned by our unique online and offline operations

We are a pioneer and leader in providing express digital healthcare service in China. We are the largest product and service provider in the on-demand retail pharmacy industry and a top three service provider in the digital retail pharmacy industry in China by revenue in 2020, according to Frost & Sullivan. We strive to provide our users with streamlined on-demand drug purchase experience, with products delivered to the purchasers within 28 minutes on a 24/7 basis in regions covered by our express delivery service.

We strengthen our market leadership in China's digital retail pharmacy market and on-demand retail pharmacy market through our business model which integrates online and offline operations. According to the Frost & Sullivan Report, we are the first company to provide self-operated, Internet-based on-demand healthcare service in China. With such first-mover advantages and consistent improvement of our business model, we have redefined how pharmaceutical and healthcare products are purchased. We have thus far established good reputation for the delivery of high-quality product and service offerings, gained trust from an expanding user base, and retained our users, all of which underpin our competitive advantage in competing with our competitors. In 2019, 2020 and 2021, we recorded a total of 26.4 million, 40.5 million and 60.3 million sales orders, respectively, from our online direct sales model and offline

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channels combined. Our online channels significantly contributed to our results of operations during the Track Record Period. In 2019, 2020 and 2021, our sales orders from online direct sales accounted for 90.8%, 92.9% and 92.5% of our total sales orders during the same periods, respectively.

For our online operations, we have improved our operational efficiency through the insights obtained from the data we collected and processed and the technology we developed in the operation of our business. Such AI- and big-data-related technologies, such as smart site selection, smart drug selection, smart distribution and smart consultation, have organically connected the offline operations of our smart pharmacies to achieve high operational efficiency. We also strive to meet the on-demand health needs of our users by providing service offerings such as online medical consultation and chronic disease and healthcare management. As of the Latest Practicable Date, we have assembled a team of 18 full-time and 73 part-time doctors, as well as more than 800 external doctors whom we are connected to through our collaboration with a third-party medical institution to provide our users with online medical consultation. In 2019, 2020 and 2021, we recorded a total of approximately 2.2 million, 4.4 million and 6.8 million online consultations, respectively.

For our offline operations, we have developed our nationwide network of smart pharmacies in key cities in China, with the location of each pharmacy precisely selected based on our advanced technologies such as the electronic-zoning ("**E-zoning**") technology. As of the Latest Practicable Date, our nationwide pharmacy network consisted of 348 smart pharmacies spanning across 17 cities in China. We empower our smart pharmacies and form core advantages such as intelligent location, smart operation and smart delivery. In addition, our brand advantage has also attracted certain pharmacy partners to join and adopt our brands or to sell products on our platforms in order to gain better access to users. We have also built our professional delivery team, which strive to provide our users with seamless on-demand drug purchase service within 28 minutes on a 24/7 basis in regions covered by our express delivery service. As of December 31, 2021, we had assembled a force of more than 2,800 riders to deliver products procured from more than 6,000 pharmaceutical and pharmaceutical distribution enterprises from our pharmacies to users.

Therefore, we believe that our pioneering and unique model integrating online and offline operations defines our market leadership position and will continue to drive our future business growth.

Our full range of on-demand healthcare service offerings which provide superior user experience and facilitate the growth of our user base

We have developed and have been constantly upgrading and refining our user-centric business model to address the changing demands of users. We strive to provide our users with superior experience through the synergy of different product and service offerings, and by connecting users closely with different participants in our ecosystem and along our value chain.

We provide on-demand, professional, omni-channel and data-driven drug purchase service offerings. Among various delivery options, our drug express offering strive to provide our users with seamless online drug purchase service within 28 minutes on a 24/7 basis in regions covered by our express delivery service, which efficiently addresses the common concerns among users regarding timeliness, late-night accessibility and privacy. At the same time, we provide our users with 24-hour medication guidance by our medical professionals. In 2019, 2020 and 2021, our average monthly night orders per smart pharmacy, representing on-demand sales orders received by our smart pharmacies through our self-operated online platforms from 10pm to 8am, amounted to 1,686, 1,724 and 2,185, respectively. We also highly value the privacy of our users. For individual users, based on their refill cycle and medication habits, we also send timely reminders to accurately address their demand for renewing prescriptions. Riding on the combination of our product and service offerings, we are able to provide superior drug purchase experience to our users and promote our business growth. The total number of sales orders from our online direct sales channel and offline channel increased from approximately 26.4 million in 2019 to 60.3 million in 2021, representing a CAGR of 51.1%.

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We provide convenient and professional online medical consultation services. We provide users with 24-hour online medical consultation and prescription renewal service through our own Internet hospital or medical institution partners to address users’ needs for convenient access to online medical consultation and purchase of prescription drugs. Our medical team, which consists of full-time and part-time doctors, as well as the external doctors we are connected to, allows users to independently select doctors by doctors’ detailed background and their individual needs and have their quests quickly responded by professionals. In order to improve the quality of our services, we adopt a user feedback system where we could gain a deeper understanding of user experience from the ratings provided by our users. We can then continuously enhance and optimize the consultation service process and user experience accordingly. In order to secure a professional medical service team, we implemented a stringent selection process on medical professionals participating in online medical consultation services. Furthermore, we provide continuous training and development programs, as well as regular feedback to our medical professionals. Our online medical consultation service offering recorded a total of 2.2 million, 4.4 million, and 6.8 million online consultations, in 2019, 2020 and 2021, representing a CAGR of 75.81% from 2019 to 2021.

We also provide a series of other health management services. Leveraging the synergy effect of our integrated product and services offerings, we provide all-round health services offerings such as chronic disease and healthcare management, psychological consultation services, psychological evaluation services, psychological online courses and clinical appointment. Our chronic disease and healthcare management service provides users with high-quality services such as guidance on medicine usage and dosage, additional consultation reminders prescription renewal, while our psychological consultation provides users with service options to obtain professional advice from psychologists. We are also in the process of exploring efforts in areas such as DTP pharmacies and new specialty drug, to address the massive needs in chronic disease and healthcare management, especially in areas such as liver disease, cancer, cardiovascular and diabetes. We cooperate with a third-party online clinical appointment platform, so as to provide users with the option of making clinical appointments through our platforms. Our portfolio of health management services provide users with comprehensive and in-depth medical services, forming a strong binding relationship with our users.

In addition, the above full range of on-demand healthcare service offerings are conveniently provided through an omni-channel network which facilitates our reach to user groups with different demographic characteristics and the growth of our user base. The omni-channel network, including our own online platforms, third-party online platforms of renowned on-demand and e-commerce companies, distributors and offline channels, provides users with more convenient consumption experience, enhances the accessibility of our product and service offerings, and subsequently expands our user bases.

Riding on our diversified product and service offerings, we are able to expand our user base at low costs. Our superior user experience is evidenced by our number of sales orders; and the synergy among our product and service offerings is evidenced by high conversion rates. Furthermore, we use our online medical consultation service as a cross-selling tool to facilitate our drug express offerings, which drive our users of online consultation service to our drug express service. The conversion rate of our users from prescription renewal to making purchase on our self-operated online platforms was 69.9%, 68.8% and 77.5% in 2019, 2020 and 2021, respectively. See “— Our Products and Service Offerings — Online Medical Consultation.”

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End-to-end capabilities along our value chain empowering participants in our ecosystem

We have established an ecosystem encompassing participants such as our users, our delivery force, pharmacies, pharmaceutical enterprises and medical professionals. We have strengthened our relationship with participants in our ecosystem to enhance our end-to-end capabilities along our value chain.

- **Delivery:** As of December 31, 2021, we had a professional drug delivery team of more than 2,800 riders. We set stringent standards on temperature and humidity control of the delivery equipment, as well as the demeanor of the riders through the delivery process. With our competency in delivery, we have been granted the option to make deliveries with our fulfillment and delivery resources for the orders placed in our stores on third-party platforms, which signifies our leading delivery capability in the industry. We adopted the "in-store" delivery mode and generally assigned over several professional "in-store" delivery riders to meet the requirements of our quality service. We also strive to deliver our products to users within 28 minutes on a 24/7 basis in regions where we provide express delivery service, creating excellent delivery experience for our users. In addition, empowered by our technologies, we are able to constantly sharpen our fulfillment capacity and enjoy increasing efficiency in fulfillment during the Track Record Period.
- **Pharmacies:** We are dedicated to the digitalization of traditional pharmacies, greatly improving the operating efficiency of our own smart pharmacies while attracting third-party partner pharmacies to join our platform. Our smart pharmacies are backed by our technology capabilities such as smart site selection, smart drug selection, smart distribution and smart consultation. We have been enhancing our engagement of third-party pharmacies on our platform, empowering them with online traffic while promoting our brands simultaneously. In addition, based on data analysis on users' demands, we also provide a broad portfolio of product and service offerings for both our own smart pharmacies and third-party partner pharmacies on our platform.
- **Pharmaceutical enterprises:** Our understanding of user accumulated throughout our business is able to empower pharmaceutical enterprises and provide them with enhanced online and offline marketing capabilities. In particular, in 2015, we established the FSC Pharmaceutical Alliance with various pharmaceutical enterprises to achieve in-depth cooperation, including but not limited to research, development and marketing. In return, pharmaceutical enterprises offered us customized development and procurement strategies, enabling us to achieve higher procurement efficiency and to maintain a lower inventory level via our enhanced product portfolio. We have achieved strategic cooperation with GSK CH, Renhe Pharmaceuticals, Bayer Healthcare, CR Pharmaceuticals, Jointown Pharmaceuticals and other pharmaceutical enterprises and pharmaceutical distribution enterprises, which helps us to reduce intermediary costs of procurement, optimize our product portfolio and improve our service quality in serving our users.
- **Medical Professionals:** Through the doctors and pharmacists in our medical teams, we offer users with medication consultation services as well as advice on drug purchases provided on a 24/7 basis to enhance user experience. In addition, we established our own Hainan Internet Hospital and carried out strategic cooperation with other third-party Internet hospitals in order to provide our users with remote disease diagnosis, health guidance, chronic disease and healthcare management, and prescription renewal. As of the Latest Practicable Date, we had a team of 18 full-time and 73 part-time doctors, more than 800 external doctors that we were connected to through our collaboration with a third-party medical institution and 427 pharmacists, which effectively meets the needs of our users for real-time consultation with the support from our platform and technologies.

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Proprietary technology platform and strong research and development technical competencies

Our portfolio of healthcare product and service offerings is supported by our comprehensive technological capabilities. We have established a proprietary technology platform with multiple systems to support our business operations and innovation. As we gradually built up our database over the years, we have been constantly refining, extending and enhancing our understanding of users, including but not limited to their health conditions, browsing and purchasing habits, and geographic locations. Relying on continuous data labelling and analysis process, we are able to effectively customize the development strategy for each individual pharmacy in site selection, scheduling and operations. Eventually, we leverage multi-dimensional big data to enhance our product and service offerings and extend our engagement in other fields such as online medical care and medical insurance. In addition, we have also built on big data and the knowledge mapping of users' health, medicine and medical treatment, both separately and in a combined manner, for in-depth data analysis. Based on each individual user's drug purchase history, medical treatment course, relapse visits and drug dependence, we are able to predict such user's needs for healthcare product and service offerings, to send accurate and timely healthcare notification regarding medication, and to offer customized healthcare solutions tailored to address the specific needs of such user. Further, such customized solutions are supplemented by our comprehensive product mix, including OTC drugs, prescription drugs and healthcare products, among others. We believe that the implementation of technology in all aspects of our business also facilitates the enhancement of our closed-loop business chain, and encourage more activities on our platforms.

We believe that our strong research and development system has the following key technological advantages:

- **Smart site selection:** We select the location of our smart pharmacies based on big data and our proprietary E-zoning technology, which enable us to achieve optimal efficiency in the coverage by the network of our smart pharmacies. Generally, we consider a smart pharmacy's surrounding conditions, such as the number of users, users' lifestyle, road conditions, sales history of the its nearby communities and data based on field tests by our riders, and our delivery capacity would be allocated dynamically based on the actual operation with systemic upgrade and optimization.
- **Smart operation:** Our smart pharmacies are operated based on data analysis, which facilitates the ongoing improvement in our operational efficiency and business performance via various functions such as the smart procurement, selection, delivery and fulfillment of drugs, as well as the precise prediction of the flow of sales orders.
- **Smart delivery:** We conduct real-time analysis of logistics schedules and local traffic, offering AI-based smart solutions to the planning of delivery path and the scheduling of logistics distribution capacity, leading to an improvement in the efficiency, timeliness, and effectiveness of our delivery process.
- **Smart user management:** We implement precise marketing and personalized recommendations by leveraging multi-dimensional labels of our users, which also facilitate the efficient operations of our smart pharmacies.

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As of the December 31, 2021, our IT team consists of 278 IT engineering and data analysis professionals with extensive experience in the Internet and technology industries. Our IT team works closely with other business departments to provide solutions covering all aspects of our business, including but not limited to the enhancement of our business model and technical support for our business operations. We have also been continuously increasing our investments in research and development activities. In 2019, 2020 and 2021, our research and development expenses amounted to approximately RMB52.4 million, RMB82.1 million and RMB96.2 million, respectively.

Experienced management team and unique strategic resources

Our management team has both innovative spirit and industry foresight, and their leadership have enabled us to fulfil the unmet needs of health and wellness in China via online and offline solutions. We are committed to providing our users with comprehensive and superior on-demand healthcare services. Our management team is led by Mr. Yang Wenlong, among others. Mr. Yang Wenlong has more than 21 years of experience in the China’s medical and healthcare industry, while our senior management team has more than 19 years of work experience on average, with sophisticated educational background. In addition, Mr. Yang also serves as the chairman of the Board of Renhe Group, a major pharmaceutical enterprise, which may provide us with unique strategic resources on broad distribution network, solid sales capacity at retail point-of-sales, and reliable and steady OEM supply chain capabilities.

Our success have also been built by our strategy to ride on the capabilities of our strategic shareholders, including but not limited to our strategic cooperation with our strategic shareholders on the co-development of smart delivery medicine kits, and on bulk purchases of drugs.

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We strive to provide our users with customized, professional, one-stop on-demand healthcare solutions, through our ecosystem encompassing the provision of treatment, diagnosis, pharmaceutical products and medical insurance. We plan to adopt the following strategies to achieve our goals:

Further expand the scale of our business

We plan to continue to expand the geographic coverage of our business operations. In addition to expanding business coverage in existing cities, we also plan to expand our self-operated smart pharmacies into other cities, through both organic growth and acquisitions of offline pharmacies. Building upon our current coverage in first-tier and major second-tier cities, we strive to further penetrate into other second-tier and selected third-tier cities, especially those in affluent regions with high population densities and strategic locations with a broader user base. Meanwhile, we plan to cooperate with third-party offline pharmacies and hospitals or other medical institutions for regions across China that are not yet covered by our network, to bring their products and services to our online platform and enable them to provide on-demand healthcare products and services to users in such regions.

We have a user-centric mindset, and plan to expand our user base nationwide through our omni-channel network. We will continue to promote and strengthen our brand awareness and plan to cooperate with more third-party channels, especially new online channels, to attract more users to enjoy the product and service offerings on our online platform. We will also continue to enhance our user engagement capabilities and the retentions of our users by offering more holistic on-demand healthcare services. We believe an enlarged active user community will lead to increasing number of transactions and orders for our healthcare product and service offerings.

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Further expand our healthcare product and service offerings

To better serve our users and provide them with the ultimate and all-rounded on-demand healthcare products and services, we will continue to expand the scope of our current offerings. For our drug express services, we will continue to increase the variety of products offered under each category on our platform, especially, prescription drugs, healthcare products such as cosmeceuticals, and home medical devices. For our online medical consultation business and chronic disease and healthcare management business, we intend to establish specialized departments, especially in andrology, liver diseases and skin diseases, to attract more high-calibre medical experts and thus provide broader and more specialized online medical services to our users. We also plan to continue tracking and converting more users to our platform leveraging our user data and our portfolio of product and service offerings. Furthermore, with our advantage in a nationwide network of smart pharmacies and delivery force, we plan to explore new DTP business model and expand the scale of our business in new specialty drugs.

Aside from our existing business offerings, we are devoted to further expanding into new business areas, such as on-demand point-of-care testing covering fields including bone and vessel health, as well as cross-border e-commerce for pharmaceutical and healthcare products. We strive to enrich our product and service offerings along our core business, including providing employee welfare benefits plans for corporate clients, offering healthcare management solutions for insurance clients, exploiting research and development services such as patient recruitment and monitoring for real-world studies, among others. The increasing cooperation with these business clients will further enhance the varieties of our product and service offerings.

Improve our end-to-end capabilities to enhance user experience

We are committed to remaining user-centric, consistently enhancing our user experience by improving our end-to-end capabilities.

Dedicated to providing timely and reliable on-demand fulfillment services, and to optimizing user experience, we plan to strengthen our warehousing and delivery capabilities, by enlarging our nationwide pharmacy network, and accelerating the growth of our delivery teams. We are committed to expanding the scope and depth of our strategic cooperation with pharmaceutical enterprises, and establishing a diversified cooperation network. In addition, we expect to explore additional healthcare scenarios for our product and service offerings to serve more users.

To further improve our online medical user experience, we intend to strengthen the development of online consultation and medication services, primarily in the following areas:

- **Medical professionals:** We plan to expand the team of our medical professionals, including full-time and part-time doctors, external doctors, and our pharmacists, with seasoned industry experience. We also intend to continue optimizing the management of our medical team, and enhance the collaboration mechanism among medical professionals within our medical team.
- **Medical institutions:** We intend to enhance our relationship with medical institutions, by increasing the number and variety of medical institutions we collaborate with, and enhancing the depth and breadth we collaborate with such medical institutions.
- **Online partners:** We plan to enrich the coverage of our online healthcare services to further develop our one-stop service capability, including but not limited to online consultation, common disease prevention and control, daily check-up, chronic disease and healthcare management, high-end and personalized health management, among others.

Based on the above, we will strengthen our end-to-end capabilities in connecting to resources to enhance and broaden our product and service offerings, striving to form a complete closed-loop of on-demand healthcare services.

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Further enhance our investment in technologies

We aim to enhance our operational efficiency and refine the portfolio of product and service offerings we provide to users by further investing in technologies. We strive to leverage on technology innovations, including AI, 5G and IoT to further improve the technology infrastructure for our existing product and service offerings, such as online medical consultation, online diagnosis, and chronic disease and healthcare management, so as to provide our users with better experience. In particular, to maintain our proven fulfillment capabilities, we plan to upgrade technologies related to our smart pharmacies and our delivery system, including but not limited to, our smart dispatching system, our smart scheduling system for the flow of our sales orders, and our E-zoning system which optimizes of the layout of our smart pharmacy network.

In addition to enhancing our existing systems with advanced technologies, we are also dedicated to the development of new technology platforms and systems to achieve higher operational efficiency and to explore additional scope of product and service offerings we can offer to our users. Such technology-enabled new systems that we are in the process of developing include a knowledge management platform encompassing big data on medical products and services, healthcare resources and healthcare profile of users, and a system organizing and arranging e-prescriptions under the current trend of prescription outflow in which in-hospital prescriptions can be fulfilled by out-hospital channels, and an online payment system enabling the payment for our healthcare product and service offerings by public health insurance and commercial insurance.

We are dedicated to recruiting and retaining top talent in the industry. Striving to recruit technical talents to strengthen our core competencies in research and development, we aim to expand our talent pool to ensemble a team of professionals specialized in areas such as algorithm, software development, data structure, search engine, product, development and data analysis.

Selectively pursue strategic alliances, investments, and acquisitions for long-term development

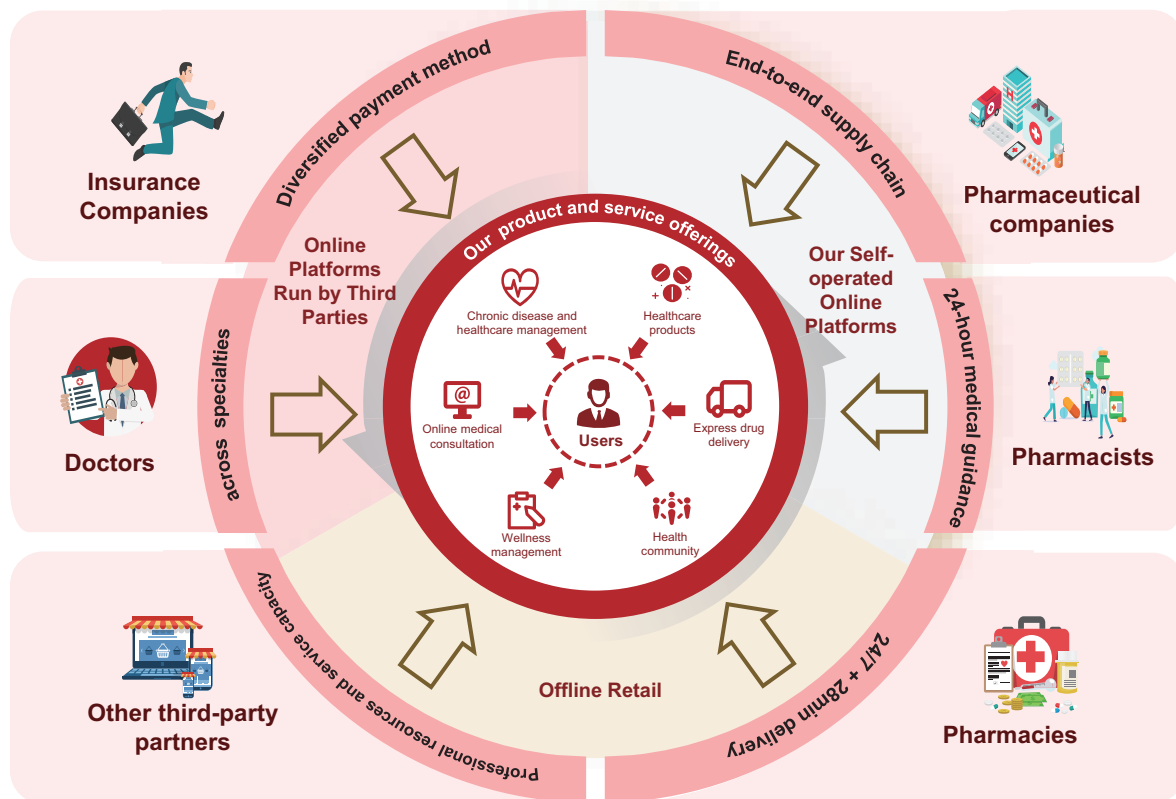
Complementing to our organic growth strategy, we aim to further fuel our business growth through establishing strategic alliances with partners and pursuing investments and acquisitions with synergistic businesses. We also seek acquisition or cooperation opportunities with companies covering daily disease detection and rapid detection technology to furnish our new business segments and enrich our offerings to customers. In addition, we plan to collaborate with companies with cutting-edge AI and big data technology so as to quickly improve our technical competitive strength in the pharmaceutical retail and online consultation businesses. As of the Latest Practicable Date, we have not identified any quickly acquisition or investment targets.

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OUR ECOSYSTEM AND ITS PARTICIPANTS

We create a vibrant ecosystem through the product and service offerings we provide, connecting our users, medical professionals, pharmacies, pharmaceutical companies, insurance companies and other participants in the ecosystem. Focused on providing premium-quality products and services to our users, our ecosystem is able to attract participants by offering unique value propositions to each of them based on their respective roles in the ecosystem. We have transformed how medical and healthcare products and services are delivered in today’s new retail era via this ecosystem, and have established a reputation as a trusted and successful company among our ecosystem participants. We believe that the value we create for the participants in our ecosystem drives our business, and our ability to enhance such value propositions will be instrumental for our future.

The following diagram illustrates the network effects and interaction between participants within our ecosystem.



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The following are key participants benefiting from our ecosystem, and the value propositions our ecosystem offers them:

- *Users:*
 - Our users primarily consist of consumers and patients who purchase pharmaceutical products and healthcare services provided in our ecosystem. In 2019, 2020 and 2021, we received a total of 26.4 million, 40.5 million and 60.3 million sales orders, respectively, through our online direct sales channel and offline channel combined. As of December 31, 2021, the registered users on our own platforms amounted to 33.0 million.
 - Our platforms offer a one-stop portal for users to access extensive healthcare resources in a user-friendly way. We provide our users with a wide range of OTC and prescription drugs, health and wellness products, and online medical services, all of which are accessible at the fingertips of them. Our products and service offerings address users' demand for access to medical products and services that are expressly delivered, conveniently prepared, 24/7 accessible, individually tailored, with user-friendly protection of privacy. We also collaborate with our medical partners to address users' demands for products and services treating severe diseases and chronic diseases. Our users benefit from our ecosystem by generating demands for the pharmaceutical products and healthcare services provided by other participants in our ecosystem, strengthening digital user persona and driving the evolution of our ecosystem with their demands, preferences and feedbacks.
- *Medical Professionals:*
 - We have assembled a team of full-time, part-time and external doctors, pharmacists and other medical professional across specialties, including but not limited to cardiovascular and cerebrovascular diseases, dermatology diseases, respiratory diseases, gastroenterology diseases, chronic diseases and oncology, to provide online consultation services. See "— Online Medical Consultation — Our Medical Team." As of the Latest Practicable Date, we had assembled a team of 18 full-time doctors, 73 part-time doctors, and more than 800 external doctors that we were connected to through our collaboration with a third-party medical institution. As of December 31, 2019, 2020 and 2021 and the Latest Practicable Date, we have collaborated with two, two, one and one third-party medical institutions, respectively. In addition, as of the Latest Practicable Date, we also had a team of 427 pharmacists providing guidance to our users in the process of purchasing OTC and prescription drugs.
 - Our ecosystem benefits doctors and pharmacists by providing them with fast and easy access to the large pool of patients demanding medical consultation services. Doctors and pharmacists provides value to our ecosystem by providing healthcare consultation services that are more timely and more accessible compared to traditional medication consultation obtained during on-site visits to offline hospitals.

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- *Pharmacies:*
 - As of the Latest Practicable Date, we owned 348 smart pharmacies across 17 cities in China. The smart pharmacies we operate generate revenue from selling pharmaceutical and healthcare products procured from pharmaceutical companies and pharmaceutical distribution companies to users, and can be accessible to users either offline or online. See “— Our Pharmacy Network.”
 - Our ecosystem benefits pharmacies by providing pharmacies with additional demand, especially through online channels, for the pharmaceutical and healthcare products they sell. Pharmacies provide value to our ecosystem by providing our users with fast, easy and precise access of a wide variety of products to address their unmet medical needs.
- *Pharmaceutical Enterprises:*
 - As of December 31, 2021, we sold products sourced from more than 6,000 pharmaceutical companies and pharmaceutical distribution companies, such as GSK CH, Renhe Pharmaceuticals, Bayer Healthcare, CR Pharmaceutical and Jointown Pharmaceutical. We founded the FSC Alliance for Pharmaceutical Companies in 2015 to realize in-depth collaborate in advertising, promotion and research and development of pharmaceutical products. See “— Merchandise Sourcing.”
 - Our ecosystem benefits pharmaceutical enterprises by providing data on pharmaceutical product purchase, which may provide valuable guidance for the research, development and manufacturing activities of pharmaceutical enterprises. We also provide branding value for the pharmaceutical companies in our ecosystem. In turn, pharmaceutical companies provide value to our ecosystem by enhancing our procurement efficiency, and broadening the variety of our product mix, to better serve users.
- *Insurance Companies:*
 - We collaborate with insurance companies through providing the medical products and services covered by the reimbursement package provided by them. We also work with re-insurance companies to provide such products and services to their insurance company clients. See “— Sales and Marketing.” As of December 31, 2019, 2020 and 2021 and the Latest Practicable Date, we collaborated with two, six, eleven and eleven insurance and reinsurance companies, respectively.
 - Our ecosystem benefits insurance companies by providing specialized and customized medical products and services to enrich their scope of services for customers. Insurance companies benefit our ecosystem by supplementing the ecosystem with the ability to provide healthcare product and service offerings with financial stability and sense of security to our users, enabling our ecosystem to provide users with more comprehensive product and service offerings.

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- *Other Third-Party Partners:*
 - In addition, we collaborate with renowned third-party online platforms by providing our product and service offerings through such platforms instead of directly competing with them. As of December 31, 2019, 2020 and 2021 and Latest Practicable Date, we had engaged with 12, 13, 16 and 15 third-party online platforms, respectively. See “— Online Direct Sales — Renowned Third-party Online Platforms.” Furthermore, we also collaborate with other medical institutions such as Internet hospitals to strengthen our capabilities in providing professional medical services. As of December 31, 2019, 2020 and 2021 and the Latest Practicable Date, we had collaborated with two, two, one and one third-party medical institutions, respectively. See “— Online Medical Consultation — Our Medical Team.”
 - Our ecosystem is able to help our third-party partners, in that our ecosystem is able to promote its collaboration with such third-party partners in aspects such as products, services and internet traffic. As our ecosystem collaborate with an increasing number of third-party partners, our ecosystem is able to become increasingly digitalized and intelligent, promoting the comprehensive capabilities of our platforms. Such third-party partners benefit from our ecosystem by adding to the portfolio of services that users can benefit from through our platform.

OUR PRODUCT AND SERVICE OFFERINGS

We are a pioneer and leader in providing express digital healthcare services in China. Our business comprises a series of product and service offerings, represented by our three major offerings, namely drug express, online medical consultation and chronic disease and healthcare management.

- **Drug express:** Our drug express service offering allows users to purchase and gain express access to OTC drugs, prescription drugs and healthcare products in a timely and convenient fashion, providing users with an integrated one-stop experience encompassing purchase of drugs and healthcare products. Our drug express business was our principal business and we generated most of our revenue from the sales revenue under such business during the Track Record Period.
- **Online medical consultation:** Based on our Hainan Internet Hospital and collaborations with third-party medical institutions, our online medical consultation service offerings are provided to address users’ needs for cost-effective and convenient online medical consultation. Such services are provided under both free model by our full-time doctor and the external doctors, and paid model by the part-time doctors. In addition, we provide psychological consultation services, as well as psychological evaluation services and psychological online courses, as our auxiliary services, and we charge service fees accordingly. We also provide our users with options to make online clinical appointments through third-party online clinical appointment platforms, which were free of charge during the Track Record Period.
- **Chronic disease and healthcare management:** Our chronic disease and healthcare management services provides users with high-quality services addressing various needs of users with chronic diseases, such as guidance on drug usage and dosage, prescription renewal, information feedback on users’ health status, and knowledge management for relevant medical information, which are very helpful to improve our drug compliance. During the Track Record Period, our chronic disease and healthcare management services were free of charge.

Our product and service offerings are accessible to users through our online direct sales, distribution and offline channels. See “— Access to Our Product and Service Offerings.”

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Our drug express service offering and other medical service offerings are synergistically integrated to create a closed-loop business model, which enables us to enhance our brand image and to provide better services to our users. Users of our other service offerings are potential buyers under our drug express service offering, as the high-quality user experience provided by our service offerings enhances our ability to cross-sell additional drugs and health and wellness products. Simultaneously, our drug express service users generate organic traffic for our other service offerings, as such users can be attracted by our well-recognized brand, trustworthy product quality and compelling user experience and consequently choose to experience the services provided under our medical service express business, such as chronic disease and healthcare management and services related to DTP pharmacies.

Drug Express

Our drug express service offering allow users to purchase and gain express access to OTC drugs, prescription drugs, and healthcare products in a timely and convenient fashion, providing users with an integrated one-stop experience encompassing purchase of drugs and healthcare products. Our drug express service offering is an integral part of our closed-loop business model.

According to Frost & Sullivan, we ranked the first in China’s on-demand digital pharmacy market, and the third in China’s digital retail pharmacy market, both in terms of revenue in 2020. As of the Latest Practicable Date, we had 348 smart pharmacies strategically located in 17 cities across China. See “— Our Smart Pharmacy Network.” We have established our drug express business by taking advantage of a combination online direct sales model, distribution model and offline channels. See “— Access to Our Product and Service Offerings”. Our delivery service for drug express business ensures timely delivery of our drugs and health and wellness products. See “— Our Fulfillment and Delivery Capability.” To support our drug express business, we have enhanced our supply chain through forming alliance with hundreds of pharmaceutical enterprises. See “— Merchandise Sourcing.”

The following table sets forth the total sales order from our online direct sales channel and offline channel for the periods indicated:

	For the year ended December 31,		
	2019	2020	2021
Total sales order ⁽¹⁾ (in millions)	26.4	40.5	60.3

Note:

(1) Total sales order refers to the total number of sales orders for our drug express business from our online direct sales channel and offline channel.

Our drug express business provides users with a wide variety of choices of products.

- *OTC drugs (非處方藥):* Products such as medication for gastrointestinal diseases, cold and fever, dermatosis, and oral and throat diseases.
- *Prescription drugs (處方藥):* Drugs targeting cold and fever, cough, dermatosis, gastrointestinal diseases, chronic disease, gynecological and andrological diseases, and children’s diseases.
- *Healthcare products (健康產品):* Products including home medical devices, health and wellness food and drinks, scented tea, functional wellness products, and nutritional products.

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The table below sets forth the breakdown of the revenue (in absolute amount and as a percentage of our revenue of pharmaceutical and healthcare business) by product types for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
OTC drugs	570,941	45.6	854,407	38.8	1,092,406	30.7
Prescription drugs	145,800	11.7	377,764	17.1	1,229,328	34.5
Healthcare products	534,154	42.7	972,518	44.1	1,239,602	34.8
Total	1,250,895	100.0	2,204,689	100.0	3,561,336	100.0

	For the year ended December 31,					
	2019		2020		2021	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%
OTC drugs	185,053	32.4	258,453	30.2	298,959	27.4
Prescription drugs	37,512	25.7	78,828	20.9	215,025	17.5
Healthcare products	224,958	42.1	407,987	42.0	537,147	43.3
Total	447,523	35.8	745,268	33.8	1,051,131	29.5

Our drug express service offering primarily operates under the express delivery model, in which we strive to delivery products to users within 28 minutes on a 24/7 basis after users place the order. In addition to the express delivery model, we also provide our drug express offerings under several different delivery models, including regular delivery, pre-ordered delivery and in-store pick-up at our smart pharmacies. See “— Our Fulfillment and Delivery Capability.”

In addition, we have also been expanding our business, and benefiting our users, with additional variety of product and service offerings provided by us under the direct-sales e-commerce model, which is primarily conducted through our self-operated flagship stores on renowned third-party online platforms. Products under such e-commerce model are generally delivered to our users directly from our warehouses under regular delivery model.

To better guide our users choosing proper drug products, we offer users with real-time consultation services provided by pharmacists. As of the Latest Practicable Date, we had a total of 427 pharmacists.

Online Medical Consultation

Since 2015, relevant government authorities in China have issued a series of rules and regulations to foster the online medical consultation industry, such as the Measures for the Administration of Internet Diagnosis and Treatment (Trial), the Guiding Opinions on Vigorously Advancing the “Internet Plus” Action, the Specifications for the Administration of Remote Medical Services (Trial), and the Opinions on Promoting the Development of “Internet Plus Health Care”, which encourage to cooperate with medical institutions in establishing online medical information platforms and to strengthen the informatization of the population health and fully implement “Internet Plus” medical and healthcare people-benefiting service. In addition, the approval of the online payment covered by the basic medical insurance fostered a favourable policy background for the reimbursement of online medical service, along with a series of policies promulgated by Chinese central and local governments, such as Guidance on Improving Policy for “Internet +” Medical Service Price and Medical Insurance Payment and Opinions of the National

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Medical Security Administration (NMSA) on Convenient Services in the Field of Optimising Medical Insurance (《國家醫療保障局關於優化醫保領域便民服務的意見》). Leveraging such favourable regulatory environment, our Consolidated Affiliated Entity, Hainan Internet Hospital and Hainan Telemedicine Center obtained the Practicing License for Medical Institution to conduct Internet hospital service with the support of its own subsidiary physical medical institute in Hainan Province. See “Regulatory Overview — Regulations Relating to Healthcare Services.” During the Track Record Period, we also collaborated with third-party medical institutions to enhance our online medical consultation services. See “— Our medical team.”

Our online medical consultation services encompasses consultation of a wide range of conditions and cases, with a primary focus on common and chronic diseases. We have developed our smart medical technological platform, which integrates our own Hainan Internet Hospital and third-party Internet hospital to provide online consultation and prescription treatment renewal services for users through our medical team to treat diseases such as chronic diseases. Our online medical consultation services are provided to users on a 24/7 basis. Users can be matched with appropriate medical professionals promptly and can communicate with them through messages or voice calls to receive medical advice.

Our online medical consultation services are provided under both free model and paid model. The free model online medical consultation services are provided by our full-time doctors from our Hainan Internet Hospital and the external doctors from third-party medical institutions. The paid model online medical consultation services are provided by the part-time doctors. The part-time doctors on our platform can choose to charge their own rates, which generally range from free to RMB60 per consultation. During the Track Record Period, for the consultation fees charged from users under such paid model, we accounted the full amount of which as other payables, and we did not generate revenue thereof. Though we did not generate revenue from either model during the Track Record Period, we believe that our online medical consultation services are able to offer quality services covering both the medical demands and the pharmaceutical demands of users, ensuring the accessibility, professionalism and sustainability of our platform. Particularly, under the paid model, we provide a platform to link part-time doctors, who are able to access to the large pool of patients in a fast and easy way, and users, who are able to access extensive expert resources in a user-friendly way, and eventually we are able to enhance users’ stickiness to our platform. In addition, in light of the favourable regulatory environment and our full licenced Internet hospital, we are able to secure our market leadership and build up the industry barriers by providing online medical consultation services in addition to our drug express business. Furthermore, we plan to explore monetization opportunities for such services in the near future, which would contribute to our overall revenue and enhance the competitiveness of our business. See “— Business Sustainability — Online Medical Consultations and Chronic Disease and Healthcare Management.”

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The following table set forth our total consultation for our online medical consultation business for periods indicated:

	For the year ended December 31,		
	2019	2020	2021
Total consultation (in millions)	2.2	4.4	6.8

We have developed a multi-step, seamless online consultation procedure to serve the specific needs of our users. In an online medical consultation session, the users start with selection of doctors based on their symptoms and their medical history. Users can browse our doctor bank by departments and select a doctor of their own choice. Each doctor has a profile page that displays the doctor's key experiences, expertise areas and user feedback. After the selection, an AI-based assistant to the doctor that the patient selected communicates with the patient to collect basic information needed for the doctor's formal consultation. Then the doctor starts the formal consultation process by providing recommendations or directing the patient to conduct examination at offline medical institutions for further consultation. Our doctors and medical assistant are responsive and generally respond to user within around 25 seconds. At the end of the consultation session, the doctor may provide the user with a holistic evaluation on the treatment as well as a prescription renewal of drugs needed, depending on the needs of the patient.

The screenshots below show user interfaces during a typical online consultation session:



We have adopted a user review system for users to provide ratings and feedback for the consultation experiences, in order to incentivize us to improve the quality of our medical consultation services. Our platform also allows patients to access past consultation history and communicate with doctors to initiate consultations for subsequent visits for a patient of some common diseases and chronic diseases and any follow-up consultations therefrom.

Our medical consultation services are integrated with our prescription verification and renewal service to form a closed-loop business model. Once a patient gets a prescription through our online medical consultation services, the patient can then purchase the prescription drug through our prescription verification and renewal service. Based on the online medical consultation we provide, users may have access to our offering of prescription drugs. We provide users with prescription drugs for diseases such as cold and fever, cough, skin diseases, gastrointestinal diseases, chronic diseases, gynecological and andrological diseases, and children's diseases.

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As auxiliary services to our own online medical consultation offering, we provide our users with psychological consultation services, provided by psychological consultants, and also provide relevant drug delivery services related to such psychological consultations. The psychological consultants are assigned by the psychological consulting institution cooperated with us. These psychological consultants shall firstly register on our platform, and then provide psychological listening sessions (28 minutes per visit) and psychological counseling services (50 minutes per visit). The psychological consultants can choose to charge users service fees for the psychological consultation services provided within the price range as we suggest, which generally range from RMB58 to RMB99 per consultation. We charged the psychological consulting institutions commissions based on the service fees their consultants charged and accounted as revenue (acting as agent in terms of revenue recognition) at insignificant amounts included in others during the Track Record Period. In addition, we provide psychological evaluation services and psychological online courses on our platform and we charge service fees based on the package that a user chooses. Our psychological consultation services, psychological evaluation services and psychological online courses are still in their early stages of development since February 2021, and we have not yet derived significant revenue from these services. We also collaborate with third-party online clinical appointment platforms to provide our users with options to make online clinical appointments. Our users have access to third party online clinical appointment platforms through our self-operated platforms and check the appointment information of the cooperative hospitals thereon, such as doctors and their schedules, and make clinical appointments accordingly. We pay annual technical service fees to the third-party online clinic appointment platforms, and the relevant clinical appointment fees are charged by these third-party online clinic appointment platforms directly. During the Track Record Period, we did not charge our users for providing options to make online clinical appointments through third-party online clinical appointment platforms. We believe that with the help of these auxiliary services, our online medical consultation services are able to offer a superior user experience, which in turn attract and retain users, enhance brand recognition and motivate more consultations, as well as enhance our ability to cross-sell more products through our drug express business.

The synergy between our online medical consultation service offering and our drug express service offering successfully enhanced our users' willingness to purchase our products. In 2019, 2020 and 2021, the conversion rate for our products from online medical consultation on our self-operated online platforms, defined as the proportion of users who purchased our product and service offerings among users who obtained prescriptions through our online medical consultant services, were 69.9%, 68.8% and 77.5%, respectively.

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Our medical team

We have assembled a team of doctors, pharmacists and other medical professionals across departments and specialties, including general medicine, surgery, gynecology, pediatrics, and Chinese medicine, to provide online consultation services on a 24/7 basis. As of the Latest Practicable Date, we had a total of 18 full-time doctors and 73 part-time doctors, and more than 800 external doctors⁽¹⁾ we were connected to through our collaboration with a third-party medical institution.

In terms of our full-time doctors, we enter into our standard employee contracts with them. We conduct performance evaluation for our full-time doctors annually to provide feedback on their performance. Compensation for our full-time doctors typically consists of base salary and a performance-based bonus.

In terms of the part-time doctors, they are third-party medical experts we engaged with to enhance our online medical consultation service capabilities. We enter into agreements with the part-time doctors, pursuant to which they provide our users with online medical consultation services subject to relevant rules and regulations.

Set forth below are the key contractual terms of our agreements with the part-time doctors:

- **Duration:** Usually around one year, which can be renewed or early terminated by mutual agreement.
- **Qualifications:** The part-time doctors shall provide evidence of their professional qualifications and they shall abide by the relevant laws and regulation and our policies and industry standards.
- **Multi-site Practice Filing:** The part-time doctors shall complete multi-site practice filing with the third-party agency designated by relevant administrative authorities.
- **Services:** The part-time doctors generally provide online consultation services, follow-up consultations and issue prescriptions accordingly.
- **Termination:** We have the right to terminate the service agreement with the part-time doctors if:
 - (i) they are prosecuted for any criminal offenses; or
 - (ii) they are unable to perform the services of the agreement due to illness or injury.

We have put in place a stringent selection process for the doctors who participate in our online consultation services, which generally involves interviews and background checks. We aim to select doctor candidates who are dedicated to the provision of high-quality healthcare services. We require the doctors to maintain relevant qualifications, including Physician Qualification Certificate and Title Certificate. We provide ongoing training programs and professional development programs to the doctors, covering general and specialized medical knowledge, corporate culture, management skills and IT skills, which are designed to enhance their professional services to our users. We conduct performance evaluation of the doctors periodically to provide feedback on their performance. We generally maintain good relationship with the doctors, and we have not experienced any material disputes with the doctors during the Track Record Period.

(1) This number is provided by the third-party medical institution.

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In terms of the external doctors, we enter into collaborations with third-party medical institutions to enhance our online medical consultation service capabilities and they assign their doctors to our platform. As of December 31, 2019, 2020 and 2021 and the Latest Practicable Date, we have collaborated with two, two, one and one third-party medical institutions, respectively. The decrease of the number of third-party medical institutions we collaborated with was mainly due to our agreement with one of third-party medical institutions expired in 2020 and we believe our cooperation with the other third-party medical institution is able to satisfy our business of online consultation services in light of the current online medical consultation volume. We may consider engaging additional third-party medical institutions if there is a commercial need. Given there are considerable number of service providers in the market, we do not see any obstacles in locating and engaging new third-party medical institutions. In 2019, 2020 and 2021, the service fees paid to third-party medical institutions were RMB0.1 million, RMB1.8 million and RMB5.9 million, respectively, which we accounted as selling and marketing expenses. The increase of the services fees paid to third-party medical institutions in 2021 was primarily due to an increase in the number of online consultations, from 4.4 million in 2020 to 6.8 million in 2021, which further led to an increase in the needs for external doctors assigned by third-party medical institutions. The agreements contain terms regarding the respective obligations of each party.

Set forth below are the key contractual terms of our agreements with third-party medical institutions:

- **Duration:** Usually around two years, which can be renewed or early terminated by mutual understanding.
- **Services:** Third-party medical institutions generally shall provide online consultation services, follow-up consultations and issuing prescriptions accordingly on our platform.
- **Payment and Credit Terms:** We typically settle payments with third-party medical institutions on a monthly basis. We shall pay service fees within seven working days upon receipt of invoices. If overdue, 0.3% of the overdue amount shall be charged as daily penalty. The service fees mainly are determined based on the number of consultations conducted and prescriptions issued on our platform by external doctors, as well as the sales volume related to such consultations and prescriptions. The unit price charged for each prescription issued follows the market rate with conditional laddering discount arrangements.
- **Qualifications:** Third-party medical institutions shall have registered with relevant authorities and obtained all necessary licenses and certificates to conduct Internet hospital services.
- **Privacy Protection:** Third-party medical institution shall strictly keep confidential the personal information of our users collected during the services and shall only use such information for providing services.
- **Termination:** Either party may terminate the agreement by giving one-month written notice.

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We believe that with the part-time doctors and the external doctors joining our medical team, we are able to ensure our online consultation services on a 24/7 basis. In addition, they enhance our online medical consultation capabilities across various departments and specialties. As advised by our PRC Legal Advisors, we may be liable for the obligations regarding the services provided by the external doctors and the part-time doctors through our platform. However, according to our agreements with the third-party medical institutions, they shall comply with the relevant laws and regulations governing hospitals and physicians, and shall assume responsibility for their actions. In addition, according to our agreements with the part-time doctors, we are liable for handling medical damages and disputes arising from the services provided by them on our platform. The part-time doctors shall comply with the relevant laws and regulations, otherwise we may claim the share of relevant responsibility from them afterwards. As such, our PRC Legal Advisors are of view that, if we take responsibilities regarding the services provided by the external doctors and the part-time doctors on our platform, we may claim the relevant responsibilities from the part-time doctors or the third-party medical institutions according to relevant agreements.

Our full-time doctors, the part-time doctors and the external doctors shall comply with the Measures for the Administration of Prescription (《處方管理辦法》), which regulates the administration of prescriptions in particular, regulates that doctors are subject to making prescription recommendations to patients based on treatment standards and drug instructions. In addition, for the standardization of prescription verification in medical institutions, NHC, State Administration of Traditional Chinese Medicine and Logistics Department of the Military Commission of the CPC Central Committee jointly issued the Rules for Prescriptions Verification in Medical Institution (《醫療機構處方審核規範》), which provides for detailed requirements for prescription verification from different perspectives, including but not limited to the validity, standardization and appropriateness of prescription. In addition, according to the Code of Conduct for Practitioners in Medical Institutions (《醫療機構從業人員行為規範》) issued by the Ministry of Health on June 26, 2012, physicians should regulate the practice of medicine, strictly follow clinical treatment and technical specifications, use appropriate treatment techniques and drugs, treat patients according to their illnesses, provide reasonable medical treatment, do not conceal, mislead or exaggerate their conditions, and do not overdo medical treatment.

We also have a set of policies, including code of conduct and ethics guidance, which are required to be complied by all the doctors on our platform. Our compliance and legal department provides doctors with regular training, as well as resources to explain the code of conduct and ethics guidelines. We have designed and adopted strict internal procedures to ensure the compliance of our operations with the relevant rules and regulations. In addition, we have implemented prescription review procedure on our platform complying with such rules and regulations among others. See “— Environment, Society and Governance.”

As advised by our PRC Legal Advisors, our full-time doctors, the part-time doctors and the external doctors are permitted to receive salary or service fees from us under current laws and regulations pursuant to the agreements entered into between them and us. However, pursuant to the Drug Administration Law (《藥品管理法》), pharmaceutical companies are prohibited from offering any improper compensation or benefit to doctors of medical institutions where the drugs of such pharmaceutical companies are used. In addition, according to the Law on Medical Practitioners (《執業醫師法》) and Code of Conduct for Medical Practitioners (《醫療機構從業人員行為規範》), doctors are prohibited from receiving any improper benefit compensation. Doctors that fail to comply with the abovementioned rule may be subject to license revocation, confiscation of the illegal gains therefrom, and criminal liabilities.

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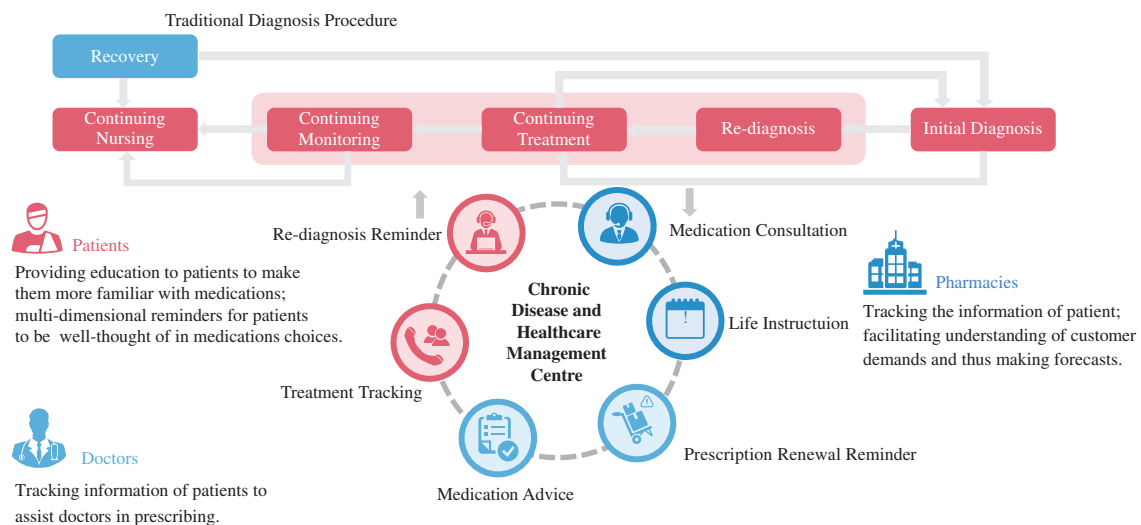
Chronic Disease and Healthcare Management

We provide a set of chronic disease and healthcare management services, as a complimentary offering to our users, which improves treatment efficiency, streamlines patients' user experience and enables doctors to reach a broader patient base. Our chronic disease and healthcare management services serve users with chronic diseases such as oncology, liver diseases, cardiovascular diseases, skin diseases and diabetes, and will gradually expand to other chronic diseases in the future. The main features provided by our chronic disease and healthcare management services include medication and dosage guidance, additional consultation reminders, prescription renewal, health information feedback and healthcare knowledge management, which help us improve drug compliance.

During the Track Record Period, our chronic disease and healthcare management services were free of charge. We believe that such complimentary services are critical to empowering doctors, attracting and retaining users and increasing orders through our drug express business. Through our chronic disease and healthcare management services, we empower doctors by allowing them to have efficient follow-ups with patients, effective management of patients and convenient communication with their patients. Our chronic disease and healthcare management services also allow doctors to build their personal brand. Leveraging our supply chain capabilities, our chronic disease and healthcare management services provide doctors and patients with easy access to our product offerings.

Our chronic disease and healthcare management service constructs a user profile system. A health profile is created for each user after such user starts first consultation on our platform. Such health profiles facilitate our effective engagement of users in several ways. We aim to provide full lifecycle healthcare to patients, make better predictions for their medication needs. We value the privacy of our users and adopt appropriate measures to protect the information collected from our users through the health profiles. See "— Data Privacy and Protection."

Chronic disease and healthcare management center



In addition to the traditional single-dimensional patient recovery process (initial diagnosis-continuous nursing-recovery), our platform helps chronic disease patients establish full profiles through a multi-dimensional approach (initial diagnosis – treatment – re-diagnosis – monitoring – continuous nursing – recovery – re-diagnosis, etc.), providing personalized services for chronic disease patients.

- For patients: our platform establishes a patient education centre to strengthen patients' awareness of disease prevention and medication safety with various videos and articles. Our platform also tracks patients' status through a multi-dimensional approach during the process of their recovery.

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- For doctors: all information related to patient’s online initial diagnosis and online re-diagnosis, online consultation and medication profile will be presented to the corresponding doctor, so that the doctor can have a clear understanding of the patient, facilitating the doctor’s diagnosis and patient management.
- Pharmacies: Our smart pharmacies are able to track and analyse patients’ records to better understand patients and generate forecast accordingly.

During the Track Record Period, we have gradually launched series of services, such as reminder service, providing periodic prescription renewal reminders to chronic disease patients so that they can refill medicines on time; life instruction service, providing chronic disease patients with various life instruction advices and guidelines; medication consultation service, providing online medication consultation services supported by doctors and pharmacists to help patients understand side effects of medications guarantee medication safety and promote rationale medicine use; re-diagnosis reminder service, reminding patients to have re-diagnosis with the corresponding doctor in the light of the patient’s present status; and treatment tracking service, scheduling regular follow-up sessions with patients to understand their status of recovery and review their prescriptions.

ACCESS TO OUR PRODUCT AND SERVICE OFFERINGS

Our business mainly comprises our pharmaceutical and healthcare business. Through online and offline channels, our pharmaceutical and healthcare product and service offerings are accessible to users through the following three models: (i) online direct sales model, in which we sell our products directly to users through online platforms, including our self-operated online platforms, such as our mobile App and WeChat mini program, as well as renowned third-party online platforms; (ii) business distribution model, under which we distribute products to major e-commerce retailers, or other online distributors, for further distribution to our users; and (iii) offline retail model, under which we serve our users through our network of smart pharmacies across China. In addition to our pharmaceutical and healthcare business, we also generate a small portion of revenue from other business such as advertising.

The table below sets forth the breakdown of the revenue (in absolute amount and as a percentage of our total revenue) by our channels for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB’000	%	RMB’000	%	RMB’000	%
Pharmaceutical and						
Healthcare Business	1,250,895	98.1	2,204,689	98.9	3,561,336	96.8
Online Direct Sales ⁽¹⁾	906,517	71.1	1,695,490	76.1	2,583,613	70.2
Business Distribution ⁽²⁾	229,572	18.0	339,163	15.1	408,918	11.1
Offline Retail ⁽³⁾	114,806	9.0	170,036	7.8	568,805	15.5
Others⁽⁴⁾	24,694	1.9	23,874	1.1	117,354	3.2
Total	<u>1,275,589</u>	<u>100.0</u>	<u>2,228,563</u>	<u>100.0</u>	<u>3,678,690</u>	<u>100.0</u>

Notes:

- (1) Our online direct sales channel refers to the sales model in which we sell our products directly to users through online platforms, including our self-operated online platforms and third-party online platforms.
- (2) Our business distribution channel refers to the sales model under which we distribute products to major e-commerce retailers, or other online distributors, for further distribution to our users.
- (3) Our offline retail channel mainly includes direct sales of our product to walk-in users at our smart pharmacies. Our revenue from offline channels increased significantly in 2021, as a result of the increase in the number of our DTP pharmacies due to our acquisition of Yaofangwang. See “History — Major Acquisitions.” The DTP business under Yaofangwang was mainly conducted through offline retail channel, which is in line with general practice in the industry.
- (4) Others consists mainly of marketing services, marketplace services and other services. The revenue generated from others increased significantly in 2021, which was mainly due to the increase of advertising placement in the marketing services that we provided.

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	For the year ended December 31,					
	2019		2020		2021	
	Gross Profit		Gross Profit		Gross Profit	
	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	Margin %
Pharmaceutical and Healthcare						
Business						
Online Direct Sales ⁽¹⁾	321,060	35.4	574,394	33.9	773,097	29.9
Business Distribution ⁽²⁾	78,317	34.1	105,492	31.1	150,700	36.9
Offline Retail ⁽³⁾	48,146	41.9	65,382	38.5	127,334	22.4
Others	22,431	90.8	20,925	87.6	111,180	94.7
Total	469,954	36.8	766,193	34.4	1,162,311	31.6

Notes:

- (1) Users are our counterparties in our online direct sales channel.
- (2) Businesses are our counterparties in our business distribution channel.
- (3) Users are our counterparties in our offline retail channel. Our gross profit margin from offline channels decreased significantly in the year ended December 31, 2021, as a result of the increase of the DTP sales volume through offline channels due to our acquisition of Yaofangwang. See “History – Major Acquisitions.” The gross profit margin of DTP business was lower than our pharmaceutical and health business prior to such acquisition.

In 2019, 2020 and 2021, the average user acquisition costs for the online direct sales through our self-operated online platforms were RMB10.3, RMB6.9 and RMB18.2, respectively, which were the result of dividing our user acquisition costs, composed of promotion and advertising expenses for our self-operated platforms, by the number of new users we acquired for the same period. The decrease of average user acquisition cost in 2020 was mainly due to that we could acquire users with lower costs during the COVID-19 outbreak when the needs of disinfection-related products and personal daily protective materials increased substantially during the same period through online retail. The increase of average user acquisition cost in 2021 was mainly due to our additional cooperations with various online platforms to promote our brand awareness. In addition, we entered into three new operating cities in the same period, with additional local advertising related fees occurred. We spent considerable local advertising related fees when entering into new operating cities to build up our brand awareness, which was higher than our mature operating cities, such as Beijing and Shanghai, where we have enjoyed an enhanced market popularity.

Online Direct Sales

Our direct sales model refers to our sales of products directly to users through online platforms, including our self-operated online platforms, such as our mobile APP and WeChat mini program, as well as renowned third-party online platforms. In 2019, 2020 and 2021, we received a total of 23.9 million, 37.7 million and 44.4 million sales orders, respectively, and generated revenue of RMB906.5 million, RMB1,695.5 million and RMB2,583.6 million, respectively, from our online direct sales model.

The table below sets forth the breakdown of the revenue (in absolute amount and as a percentage of our revenue generated from online direct sales) by online platforms for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000		RMB'000		RMB'000	
	RMB'000	%	RMB'000	%	RMB'000	%
Self-operated platforms	399,622	44.1	619,597	36.5	788,206	30.5
Third-party platforms	506,895	55.9	1,075,893	63.5	1,795,407	69.5
Online direct sales	906,517	100.0	1,695,490	100.0	2,583,613	100.0

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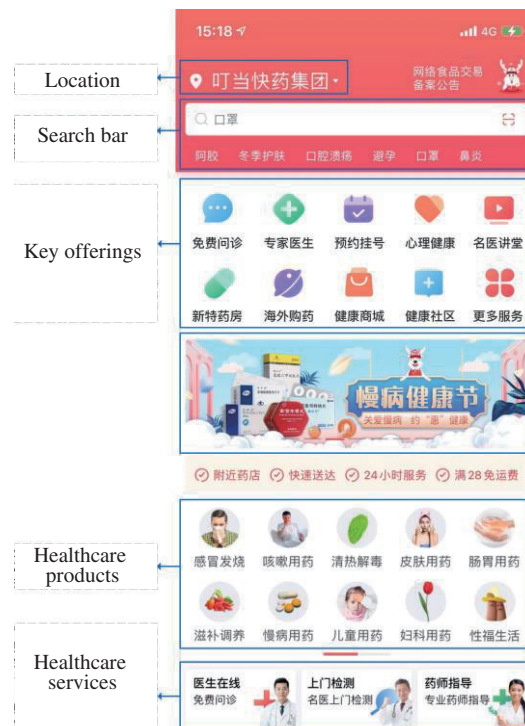
Our self-operated online platforms

Users can reach our products and services through our mobile APP, which is available on both Android and IOS operating systems. Our mobile APP is built to enable access to our products and services with clear and functional interface. In addition to our mobile APP, our WeChat mini-program direct users to an interface similar to our mobile APP in terms of functionality and appearance.

In 2019, 2020 and 2021, the ARPU of our pharmaceutical and healthcare business from our self-operated online platforms was RMB98.3, RMB129.0 and RMB132.2 respectively, and the percentage of our self-operated online platforms out of our revenue generated from online direct sales was 44.1%, 36.5% and 30.5%, respectively. The following table sets forth the selected key operating metrics of our self-operated online platforms for the period presented:

	For the year ended December 31,		
	2019	2020	2021
	(in million)		
Total registered users	21.2	27.3	33.0
Average MAU	1.4	2.2	2.1
Average monthly paying users	0.6	0.8	1.0

The following are illustrative screenshots of our portal interface on our mobile APP:



BUSINESS

A transaction on our mobile App typically involves the following steps:

- **Browse and search:** Users start using our App by browsing and searching relevant products and services they need. Our browse and search function provides to users with timely searches for the pharmacies in nearby locations that can deliver the drugs they order. In the search service, the user's medication urgency and medication management requirements are considered, and the search results are processed hierarchically to improve effectiveness and efficiency
- **Place an order:** Once the user decides on the medical products or services to choose, he or she places an order in our system. The order can be placed based on the search conducted by the users or patient, through our promotion activities, or through recommendations by doctors and pharmacies. For prescription drugs, the order should be placed with a valid prescription provided from a doctor consultation. To ensure the accuracy and reliability of the source of e-prescriptions, as part of our internal control measures, we re-direct the users purchasing prescription drugs with e-prescriptions to our online medical consultation services. Our doctors are responsible to check the e-prescriptions provided by the users to ensure the information on e-prescriptions is sufficient and valid, following which, our doctors issue new e-prescriptions after consultations. Users are only able to place orders for prescription drugs with prescriptions issued by our doctors. Our pharmacists are responsible to check if sufficient and accurate information are included on the prescriptions before arranging deliveries. All e-prescriptions are required to be printed, signed and filed at our prescription management centre.
- **Payment:** Once the order is placed, the user can proceed to payment. Users can either make the payment online, through third-party payment platforms such as WeChat or Alipay, or pay for the products once the products are successfully delivered.
- **Delivery tracking:** After the users place the orders and select the payment method, products are sent to users through our express delivery system. Users can track the delivery process of the products in real time through the maps and the tracking system incorporated in our App.
- **Review:** Users can provide reviews, ratings and feedback for the products and services they paid for, to reflect their purchase or consultation experience, so that we can effectively improve the quality of our products and services.

Renowned third-party online platforms

We provide our users access to our product and service offerings through third-party online platforms, which help us extend our reach to users and enhance our brand awareness. We usually pay service fee to such third-party platforms and we sell directly to our users on such platforms.

The third-party online platforms we engage include (i) third-party O2O platforms; (ii) e-commerce platforms on which we run self-operated stores; and (iii) e-commerce healthcare platforms.

BUSINESS

The following are illustrative screenshots of our portal interface on third-party mobile App platforms:



(i) Third-party O2O platform



(ii) E-commerce platform on which we run self-operated stores



(iii) E-commerce healthcare platform

Set forth below are the key contractual terms of our agreements with our online channels run by third-parties:

- **Term and termination:** Usually around one year, which can be renewed or early terminated by mutual agreement.
- **Rights and obligations of parties involved:** The third-party platforms allocate an agreed price to us while allocating the difference between such agreed price and the final sales price to the online stores.
- **Pricing and Service fee:** We usually set our own price on third-party platforms and pay third-party platforms service fee.
- **Return and exchange policy:** The return and exchange policy usually remains the same with other products on such third-party platforms, or otherwise follow our own return and exchange policy.
- **Dispute resolution:** In general, either party can request for a conciliation, usually at the court or arbitral tribunal appointed by the third-party platforms.

BUSINESS

Business Distribution

We distribute some of our products through distributors. Our distributors include individuals or small enterprises that purchase our products and further resell to users through e-commerce platforms, as well as some major e-commerce retailers that on-sell our products to users. In 2019, 2020 and 2021, we generated revenue of RMB229.6 million, RMB339.2 million and RMB409.0 million, respectively, from our distribution model.

We select our distributors based on their purchase volume from us and their abilities to expand the coverage of our network to reach our users. During the Track Record Period, we sometimes designate specific online channels that each individual distributor is allowed to operate on. We generally require our distributors to make payments before we deliver products to them, although we sometimes grant credit terms to certain distributors. We generally do not allow product return except for products with quality defects, which is in line with market practice.

We usually sign agreements with our distributors, which we believe enable us to sufficiently incentivize the distributors to actively market and sell our products and provide us with sufficient control over our distribution network. Below is a summary of salient terms of the agreements between us and our distributors:

- **Term and termination:** We usually enter into framework agreements with our distributors, with a term around one year, which can be renewed or terminated earlier by mutual agreement.
- **Rights and obligations of parties involved:** We from time to time receive purchase requests from our distributors, and supply our products to distributors based on the purchase order. We retain rights of setting the price of products and may ask our distributor to follow our sales policies.
- **Pricing policies:** We sell our products to our distributors at a fixed price provided in the agreement or otherwise agreed between the parties.
- **Product return and exchange policy:** We generally do not accept product returns except for products with quality defects.
- **Minimum sales target and purchase amounts:** We sometimes may ask our distributors to formulate a minimum sales target, while the distributors may pay us compensation if they fail to reach the target.
- **Credit term:** We require some distributors make payments before we delivery products to them.
- **Dispute resolution:** In general, either party can request for a conciliation.

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Below is a table showing the change in the number of our distributors during the Track Record Period:

	For the year ended December 31,		
	2019	2020	2021
Number of distributors at the beginning of the period	55	119	192
Number of new distributors for the period	79	117	80
Number of terminated distributors for the period	15	44	87
Net increase (or decrease) in number of distributors for the period	64	73	(7)
Number of distributors at the end of the period	119	192	185

We engaged new distributors primarily as a result of the expansion of our business, as we strived to expand our distribution network and to reach more users. The increase in the number of terminated distributors in 2021 was primarily due to i) we have been proactively assessing and optimizing our distributors mix to focus on the large scale distributors who tend to have sizable demand and procurement volume, and selectively reducing wholesalers without expected operational efficiency; ii) the distributors’ own operation decisions.

We did not rely on any single distributor or a small number of distributors during the Track Record Period. In 2019, 2020 and 2021, revenue generated from our largest distributor (who was also our largest customer) in terms of revenue accounted for 3.0%, 1.9% and 2.6%, respectively, of our revenue during those periods, and revenue generated from our five largest distributors (who were also our five largest customers) in total in terms of revenue accounted for 8.8%, 5.0% and 5.9%, respectively, of our revenue during those periods. To our best knowledge, during the Track Record Period, all of our distributors were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, we have no material unresolved disputes or lawsuits with these terminated distributors.

Offline Retail

In addition to purchasing our products through online direct sales and distribution channels, users can directly purchase our products from our extensive network of pharmacies across the PRC. See “— Our Smart Pharmacy Network.” In 2019, 2020 and 2021, we received a total of approximately 2.4 million, 2.9 million and 3.6 million sales orders, respectively. In 2019, 2020 and 2021, we generated revenue of RMB114.8 million, RMB170.0 million and RMB568.8 million, respectively, from our offline channels.

BUSINESS

OUR PHARMACY NETWORK

Functions of Our Smart Pharmacies

Our smart pharmacies play a critical role in our business with the following functions:

- **Business support:** smart pharmacies are essential components of our ecological layout of “medical + medicine + testing + insurance” to satisfy users’ one-stop health management demands. Our smart pharmacies serve as the front-end of our business model, which support functions of drug express service of online direct sales and offline retail for walk-in users, enabling us to timely respond to the online and offline ordering and demands from our users, especially providing them with late-night accessibility. We transform the traditional brick-and-mortar warehousing model with isolated storefront and backroom storage into integrated pharmacies simultaneously serving the functions of these two, which also supports riders with resources to provide our users with products delivered to users within 28 minutes on a 24/7 basis in regions covered by our express delivery service. Such transformation enables our smart pharmacies to play a vital role in our fulfilment and delivery capacity. As part of our future plan, our users will be able to also measure height, weight, blood sugar, blood lipids in our smart pharmacies so that they do not need to go to the physical examination centers to take these measurements.
- **Quality control:** our smart pharmacies actively participate in our quality and process control. Since we have built up our own smart pharmacy network, we are able to keep clear and traceable record for products sold on our platforms and realize vertical quality control. The smart pharmacies also play a vital part in realizing the express delivery and providing users with fast, professional, convenient and traceable medical and pharmaceutical services.
- **Technical support:** as an integral part of our closed-loop business model, our smart pharmacies also provide a physical support under our E-zoning technology, smart delivery system, storage and logistics system, cold chain system, supply chain system, chronic disease and healthcare management center, etc. See “— Technology.”
- **Compliance requirement:** according to the Interim Provisions on the Approval of Internet Drug Transaction Services promulgated by the State Food and Drug Administration (the predecessor of the NMPA) on September 29, 2005, we, as an enterprise providing Internet drug transaction services to individual consumers, are required to meet the conditions of “pharmaceutical retail chain enterprises established in accordance with the law”, and pursuant to the local regulations of the provinces we operate in, certain number (generally five to ten per province) of offline physical pharmacies equipped with qualified professionals are required to qualify as a pharmaceutical retail chain enterprise. As of the Latest Practicable Date, all of our smart pharmacies have been equipped with qualified professionals as required by relevant laws and regulations; in addition, around half of our smart pharmacies are qualified for the social medical insurance system.
- **Brand awareness:** each smart pharmacy is meticulously designed to reflect our core brand values. We believe that our smart pharmacies enable us to provide our users with unique online-to-offline experience and streamlined on-demand drug purchase experience, refine the customer experience and create a lasting impression of our brand. In addition, the wider coverage of our smart pharmacies leads to the network effect of stronger branding which increases the willingness of existing users as well as potential users to use our offerings.

BUSINESS

Layout and Management of Our Smart Pharmacies

As of the Latest Practicable Date, we have established 348 smart pharmacies covering 17 cities in China. The table below tracks the number of our smart pharmacies, and the number of cities covered, during the Track Record Period:

	As of December 31		
	2019	2020	2021
Number of cities covered by our smart pharmacies	11	12	17
Number of cities covered by our smart pharmacies	220	259	342

The table below sets forth the number of smart pharmacies by cities and the breakdown of the revenue contributions of smart pharmacies by cities during the Track Record Period:

	For the year ended December 31											
	2019				2020				2021			
	Number	%	RMB'000	%	Number	%	RMB'000	%	Number	%	RMB'000	%
Beijing	66	30.0	435,144	54.1	69	26.6	571,103	43.9	84	24.6	1,094,017	51.3
Shanghai	41	18.6	157,951	19.7	46	17.8	254,849	19.6	56	16.4	370,292	17.4
Shenzhen	24	10.9	96,999	12.1	34	13.1	199,529	15.3	36	10.5	199,004	9.3
Guangzhou	24	10.9	49,401	6.1	24	9.3	85,175	6.5	25	7.3	110,053	5.2
Others	65	29.6	64,207	8.0	86	33.2	191,660	14.7	141	41.2	360,243	16.8
Total⁽¹⁾	220	100.0	803,702	100.0	259	100.0	1,302,316	100.0	342	100.0	2,133,609	100.0

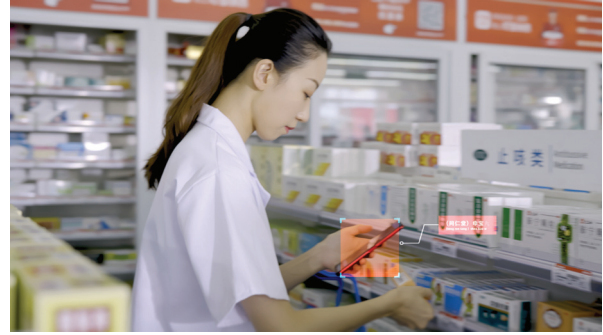
Note:

(1) The development of our smart pharmacy network was adversely affected during the COVID-19 outbreak in 2020, which was mainly because various travel restrictions imposed by local governments during the COVID-19 outbreak in 2020 in an effort to curb the spread of the pandemic, and our development plan was postponed until relevant onsite works in new operating cities become feasible. As of December 31, 2020, our business has been back to normal and the number of smart pharmacies increased rapidly in the year ended December 31, 2021.

Our smart pharmacies outperforms traditional pharmacies in multiple aspects, such as the broader geographic coverage, broader scope of products and services offered, the flexibility in choice of store location, the longer time of operations, and the higher revenue per unit area. See “Industry Overview.” Our smart pharmacies in general have a service radius of five to ten kilometres. Taking Beijing as an example, the 65 smart pharmacies as of December 31, 2021 covered almost all downtown and suburban areas in Beijing.

In general, a smart pharmacy is between 60 and 120 square meters in floor area, and operates on a 24/7 basis. A typical smart pharmacy is divided into two sections, one equipped with shelves laying out packaged orders for riders to pick up, and the other with shelves displaying various OTC drugs, prescription drugs and healthcare products for storage and offline retail. DTP pharmacies are also part of our smart pharmacy network, which are mainly located around Grade III Level A hospitals and mainly provide patients with new speciality drugs directly after they receive prescriptions in hospitals and get professional medication services. The DTP pharmacies are important components of our online chronic disease and healthcare management in light of the trend of prescription outflow in the industry. Our smart pharmacies are supported by our innovative technologies. Our smart pharmacies are backed by our technology capabilities such as smart site selection, smart drug selection, smart distribution and smart consultation. The products that we sell and the shelving of products in a smart pharmacy is based on the analysis of data and information retrieved from daily sales.

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The optimized layout of our smart pharmacy network is vital to our ongoing success. We use self-developed technologies, such as our E-zoning technology to optimize the location of our smart pharmacies. Our E-zoning technology is based on our capabilities in artificial intelligence and big data, both of which form the foundation of our technology capabilities. See “— Technology.”

Benefiting from our E-zoning technology, we are able to strategically locate most of our smart pharmacies in locations with high efficiency of user coverage and affordable level of rents. We determine the distance between our new pharmacies and existing ones based on our market analysis as well as commercial considerations to minimize overlap between our smart pharmacies. To cater for the high demand of our products in certain areas additional pharmacies may be set up in relatively close proximity to the existing pharmacies. As a result of our utilization of our E-zoning technology, we are able to realize broad and effective coverage of users with high operating efficiency and low cost.

Performance of our smart pharmacies

The table below sets forth the total revenue and gross profit contribution of smart pharmacies related business (including (A) our online direct sales but excluding the sales under direct-sales e-commerce model, and (B) and offline retail for walk-in users, both supported by our smart pharmacies) in absolute amount and as a percentage of our total revenue and total gross profit, respectively, during the Track Record Period:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Total smart pharmacy revenue contribution	803,702	63.0	1,302,316	58.4	2,133,609	58.0
Total smart pharmacy gross profit contribution	268,666	57.2	388,795	50.7	505,047	43.5

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The table below sets forth the certain key operations and financial performance indicators of our smart pharmacies with continuous operation history by year of opening during the Track Record Period:

	For the year ended December 31,		
	2019	2020	2021
		RMB'000	
Average revenue per smart pharmacy			
Smart pharmacies opened before 2018	8,144	10,279	12,574
Smart pharmacies opened in 2018	4,015	6,142	8,593
Smart pharmacies opened in 2019	2,080	4,805	5,516
Smart pharmacies opened in 2020	–	1,000	4,035
Smart pharmacies opened in 2021	–	–	5,581
		RMB'000	
Average gross profit per smart pharmacy			
Smart pharmacies opened before 2018	3,030	3,450	4,059
Smart pharmacies opened in 2018	1,497	2,065	2,737
Smart pharmacies opened in 2019	679	1,385	1,437
Smart pharmacies opened in 2020	–	283	1,079
Smart pharmacies opened in 2021	–	–	709
		%	
Average smart pharmacy level fulfillment expenses ratio⁽¹⁾			
Smart pharmacies opened before 2018	19.7	15.9	15.9
Smart pharmacies opened in 2018	22.2	17.2	17.5
Smart pharmacies opened in 2019	22.2	17.7	18.0
Smart pharmacies opened in 2020	–	19.3	18.3
Smart pharmacies opened in 2021	–	–	5.9
		%	
Average smart pharmacy level operating profit ratio⁽²⁾			
Smart pharmacies opened before 2018	3.6	5.8	4.9
Smart pharmacies opened in 2018	(0.4)	4.0	3.0
Smart pharmacies opened in 2019	(10.3)	(3.6)	(6.5)
Smart pharmacies opened in 2020	–	(7.8)	(6.9)
Smart pharmacies opened in 2021	–	–	(4.1)

Notes:

- (1) The average smart pharmacy level fulfillment expenses ratio is defined as delivery partners related fulfillment expenses as a percentage of the smart pharmacy's total revenue per smart pharmacy
- (2) The average smart pharmacy level operating profit ratio is defined as gross profit at smart pharmacy level, deducting operational costs incurred at smart pharmacy level, comprising fulfillment expenses and sales and marketing expenses, and then divided by smart pharmacy level revenue

During the Track Record Period, the operations and financial performance of our smart pharmacies as demonstrated above have been improved along with the operating years and showing a relatively positive trend. Within any operating period, smart pharmacies with longer operating history generally had a better financial performance than those with shorter operating history. As such, with the gradual maturity of each single smart pharmacy, we believe that our overall operations and financial performance will be improved in the future, and newly operated smart pharmacies are expected to expand their business scales and catch up with the smart pharmacies with longer periods of operations.

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Expansion Management of Our Smart Pharmacies

As we continue to rapidly ramp up business scale and expand our smart pharmacy network, we have devised a comprehensive set of unified, stringent policies and procedures to manage the growth of our smart pharmacy network, with a view to ensuring consistency in our brand and service quality, operating smart pharmacies across our operating cities efficiently and effectively, and achieving economies of scale. Such policies and procedures set forth detailed procedures on opening processes, such as obtaining requisite licenses, in-store staff onboarding training, uniformed design and decoration standards and initial operation checklist. It typically takes two to three months to put a smart pharmacy into operation, from site selection to the initial operation of a new smart pharmacy. We typically commence the recruiting process for a new smart pharmacy one month before its initial operation to ensure every staff is fully trained to deliver high-quality services to our users. We intend to open approximately 100 new smart pharmacies by the end of 2022, approximately 150 new smart pharmacies by the end of 2023, and approximately 100 new smart pharmacies by the end of 2024. See "Future Plans and Use of Proceeds."

The factors we usually consider when opening a new smart pharmacy during the Track Record Period and going forward generally include:

- the overall economic conditions and disposable income of its surrounding area;
- the population and population density of its surrounding area;
- online consumption habits of the local residents;
- geographical conditions of its surrounding areas, applying our E-zoning technology indicators covering the service radius of five to ten kilometers of the smart pharmacy;
- competitors and traditional pharmacies in its surrounding area; and
- local regulatory policies.

Our Partner Pharmacies

The network of our smart pharmacies is supplemented by our partner pharmacies. We piloted our collaborations with such partner pharmacies by allowing them to sell their products on our platforms and pay us a service fee. Users can reach their products through our own online platforms, namely our mobile APP and our WeChat mini-program, and the third-party online platforms we engaged, and once an order is placed on the platforms, we send the order information to the partner pharmacy and it will prepare and dispatch the order to the user by its designated rider. Our partner pharmacies are generally responsible for engaging their own riders to deliver orders, and we may provide relevant training to these riders according to our agreements with our partner pharmacies. Such collaboration enables us to extend the reach of our pharmacy network and to serve users in cities, or regions within cities, that are not yet covered by the network of our smart pharmacies. As of December 31, 2019, 2020 and 2021, the numbers of our partner pharmacies were 137, 1,075 and 1,105, respectively. The number of our partner pharmacies increased significantly in 2020 primarily because, as part of our efforts to expand into cities we have no operations, we sought cooperation with partner pharmacies that had established operation in such cities to promote our brand awareness and many of our partner pharmacies were franchises or chains, largely increasing the number of our partner pharmacies.

In 2019, 2020 and 2021, the service fees we charged from our partner pharmacies were RMB2.7 million, RMB4.9 million and RMB2.8 million, respectively, which we accounted as marketplace service revenue included in others (acting as agent in terms of revenue recognition), respectively. The service fees charged on our partner pharmacies were generally determined by commercial negotiations with our partner pharmacies and our market research. The increase of the service fees we charged in 2020 was mainly due to the increasing number of partner pharmacies in 2020. The decrease of the service fees we charged in

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2021 was mainly due to (i) we have statically expanded our self-operated smart pharmacies to affluent regions with high population densities and show high sales volume, and we strategically do not focus on collaboration with partner pharmacies in these regions, and (ii) a considerable number of our partner pharmacies were located in the lower-tier market with relatively lower penetration rate in the on-demand healthcare market. We did not recognize the sales volume by partner pharmacies as our revenue during the Track Record Period. The material terms of our collaborations with partner pharmacies include the following:

- **Term and termination:** The contract generally has a term of one year, and can be terminated by written notice.
- **Collaborations:** We operate proprietary technology platform where our partner pharmacies publish information of their pharmacies and merchandise, and receive and send order information. Our partner pharmacies shall timely prepare merchandise as per the orders received from our platforms for the riders designated by the partner pharmacies for delivery.
- **Operation arrangements:** We are responsible for the training of the riders designated by the partner pharmacies. The partner pharmacies shall assign persons in charge of their daily operations on our platform, including customer service, order handling and merchandise display. The partner pharmacies shall comply with our requirements on products, pricing and documentation, and shall ensure relevant information published on the platform is true and legal.
- **Qualifications:** The partner pharmacies shall present certificate of operating qualifications for our record. We have the right to demand the partner pharmacies to rectify should their qualifications and conditions fail to comply with relevant rules and regulations and our requirements.
- **Fees and settlement:** We charge service fee based on the sales volume generating from the orders through our platform and the promotion services we provide, which are settled monthly or weekly.

OUR FULFILLMENT AND DELIVERY CAPABILITY

As the first company to provide self-operated, Internet-based on-demand healthcare service in China, according to Frost & Sullivan, we are able to stand out among our peers, and ensuring our express on-demand service to users, thanks to our core competency in fulfillment and delivery. As of December 31, 2021, our delivery infrastructure consisted of a fleet of more than 2,800 riders.

We enter into service outsourcing agreements with our delivery partners, who engage the riders as their employees or contractors to exclusively provide delivery service for our smart pharmacies assigned to the riders. In 2019, 2020 and 2021, we have collaborated with two, four and five delivery partners, respectively. We license our trade name to our delivery partners, who agree to abide by the operating requirements specified by us. We require our delivery partners to manage the riders according to our requirements. We also provide our delivery partners with support and resources to ensure the quality of the delivery services. We meticulously manage our delivery services through our delivery partners to ensure the timeliness of our delivery and the satisfaction of our users. We impose strict requirements on the temperature and moisture of delivery, using achieved packaging techniques to ensure that our drug products are delivered under optimal environment for transmission. We require our delivery partners to use opaque packaging for the delivery of our products, to protect the privacy of the users to the greatest extent. To enhance the quality of our delivery services, we require the riders to dress in uniforms for delivery work, and we also require our standard drug boxes to be used for delivery.

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The material terms of our collaborations with delivery partners include the following:

- **Term and termination:** We usually enter into outsourcing service contracts with our delivery partners with a term of one year, which can be renewed upon mutual agreement and can be terminated by mutual agreement.
- **Collaborations:** We outsource delivery service to the delivery partners, who are responsible to manage riders to perform delivery services. We have the right to determine the number of riders engaged by our delivery partners.
- **Metrics and training:** We set service standards and performance review metrics, and provide technical support and instructions for the outsourced service. Our delivery partners are responsible to provide training according to our standards and requirements to riders engaged by them and we have the right to monitor and assess the riders' service performance.
- **Qualifications:** Our delivery partners shall provide relevant documents, including health certificates, employment contracts and certificates of contribution to social securities, upon our request.
- **Subcontracting:** Unless otherwise agreed by us, our delivery partners shall not subcontract any or all of the delivery service to a third party.
- **Dispute settlement:** Our delivery partners shall timely and directly settle any disputes with the riders and any disputes that arise out of the outsourced service and take full risks and responsibilities in a way that does not disturb the operation of the outsourced service. Should we suffer any loss as a result of any disputes, our delivery partners shall cover the damages and we can terminate the contract.
- **Pricing and settlement policies:** We settle the fees with delivery partners on a monthly basis, typically within ten days of receipt of an invoice. The fees that we pay to the delivery partners include outsourcing fees and service fees. The outsourcing fees consist of management fees and recruitment fees, of which 80% are fixed and 20% are contingent upon their performance. The service fees are calculated based on the amount and quality of deliveries provided by the riders.

Our drug express delivery is also supported by our innovative technologies such as accurate rider modeling, leveraging our big data and AI capabilities, which provides us with improved efficacy in delivery, and reduces fluctuation of delivery time resulting from human factors. Technologies adopted to enhance our fulfillment and delivery capacity include the following:

- **Smart order dispatchment system:** Our smart order dispatchment system takes note of our order level and manpower, to make order dispatchment based on a balance of cost and time, and takes into consideration complex factors such as weather conditions, which ensures the on-time delivery of our products with reduced costs.
- **Path optimization system:** Our path optimization system collects information on path of delivery and traffic condition, to minimize the time need for delivery and strives to ensure that we fulfil our dedication to express delivery to our customers.
- **Quality monitoring system:** Our quality monitoring system conducts real-time monitoring on our delivery team to avoid problems such as missed delivery or delivery without appropriate drug box, therefore ensuring appropriate quality control for our delivery process.
- **Cost optimization system:** Our cost optimization system collects information on delivery cost and provide analysis to optimize our delivery system from the financial perspective, by minimizing costs while ensuring a high quality of delivery services.

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Depending on users’ specific requirements for time, costs and variety of healthcare products, we structure our delivery to users under different delivery models.

- **Express delivery:** Users can choose our express delivery model, under which we strive to deliver the products purchased to users within 28 minutes, in core areas within the cities where we operate that are covered by such express delivery service. The typical size of an individual area covered by this model is up to 25 square kilometers. In 2019, 2020 and 2021, the proportion of sales orders under the express delivery model being delivered to our users within 28 minutes was 76.8%, 85.0% and 88.2%, respectively. Though we strive to deliver the products purchased to users within 28 minutes under the express delivery model, our delivery services may be subject to many factors which are out of its control, such as weather and traffic conditions. See “Risk Factors – Our failure to properly manage participants in our ecosystem may materially and adversely affect any business.” We usually issue coupons to comfort our users in response to their complaints thereof. In 2019, 2020 and 2021, the amount of the coupons we issued and redeemed by users was RMB9.6 million, RMB5.2 million and RMB5.5 million, respectively. We recognized such coupons as contract liability based on their estimated fair value when they were issued. Subsequently, such contract liability is recognized as revenue at the point in time when a user redeems the coupons in a later order, or when the coupons expired.
- **Regular delivery:** Users who have less time-sensitive demands for products on our platforms can choose the regular delivery model, which delivers the products to users within a period ranging from several hours to several days.
- **Pre-order delivery:** Users can place orders on our platform in advance, and request the products to be delivered later within a specific time frame specified by the user.

In most cases, deliveries are generally fulfilled by riders engaged by our delivery partners, and these riders provide exclusive delivery service to us. In case that sales order spikes and additional delivery manpower is needed, we collaborate with third-party carriers to make delivery for our products, who provide delivery service to us on a non-exclusive basis. We enter into logistics service agreements or delivery outsourcing agreements with our third party carriers, including logistic companies and delivery outsourcing companies. In 2019, 2020 and 2021, we have collaborated with 13, 19 and 27 third-party carriers, respectively. We regularly monitor and review the third-party carriers’ performance and their compliance with our contractual terms. We also engage third-party carriers to deliver products under our direct-sales e-commerce model through the regular delivery option. Under the regular delivery model, we require our third-party carriers to abide by the operating standards specified by us, and we provide such third-party carriers with high-quality support and resources in order to ensure our users choosing regular delivery can also enjoy high quality level of delivery service. The material terms of our collaborations with third-party carriers include the following:

- **Term and termination:** The contract generally has a term of one year, and can be automatically renewed for one year. The contract usually can be terminated upon mutual consent.
- **Collaborations:** The third-party carriers are responsible for picking up and delivering the packages prepared by us to the designated place and returning the undeliverable packages to us. We are responsible for the packaging and disclosure of the package content and payment of service fee.
- **Fees and settlement:** Service fees are settled monthly.

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We impose operating requirements on delivery partners and third-party carriers and they are required to send through email weekly reports specifying the delivery punctuality rate and order taking rate, along with measures to improve the performance. We have monthly meeting with our delivery partners and third-party carriers to address vital issues and discuss on measures to improve delivery performance. We also monitor our delivery partners and third-party carriers’ performance by applying key performance indicator with monthly assessments on their performance to encourage improvement on punctuality and service quality. Our system tracks the location of their riders and analyses the data collected from each delivery to determine their performance. We also keep track of user complaints, which also impacts the performance evaluation of our delivery partners and third-party carriers.

The table below sets forth the breakdown of the sales orders (in absolute amount and as a percentage of our total sales orders from our online direct sales channel and offline channel) by delivery models for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	Numbers of Sales Orders (in million)	%	Numbers of Sales Orders (in million)	%	Numbers of Sales Orders (in million)	%
By Express Delivery						
Deliver by the riders through our delivery partners	14.7	55.7	20.5	50.6	33.1	54.7
Deliver by third-party carriers	1.2	4.6	1.8	4.4	2.8	4.7
By Regular Delivery						
Deliver by the riders through our delivery partners	1.8	6.8	2.0	4.9	1.5	2.5
Deliver by third-party carriers	4.6	17.4	10.6	26.2	14.8	24.5
By Pre-order Delivery						
Delivery by the riders through our delivery partners	0.8	3.1	1.5	3.7	2.0	3.4
Delivery by third-party carriers	0.9	3.4	1.2	3.0	1.7	2.8
In-store Pick-up and Offline Retails	2.4	9.0	2.9	7.2	4.4	7.4
Total	26.4	100.0	40.5	100.0	60.3	100.0

During the Track Record Period, we have been prioritizing our express delivery model through our delivery capacity by our delivery partners, as we strategically address the common concerns among users who chose this model regarding timeliness, late-night accessibility and privacy, while such concerns are less required under regular delivery model and pre-order delivery model. As such, the proportion of sales orders delivered by our delivery partners under the express delivery model increased during the Track Record Period, and conversely, the proportion of sales orders delivered by third-party carriers under the regular delivery model and the pre-order delivery model increased during the same period.

The table below sets forth the fulfilment expenses recognized in accordance with the agreements with delivery partners (two, four and five delivery partners in 2019, 2020 and 2021, respectively) and third-party carriers (13, 19 and 27 third-party carriers in 2019, 2020 and 2021, respectively) in absolute amounts and as percentages of our total fulfilment expenses for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Delivery partners	169,464	84.9	224,117	79.1	313,346	76.0
Third-party carriers	30,212	15.1	59,061	20.9	98,933	24.0
Fulfillment expenses	199,676	100.0	283,178	100.0	412,279	100.0

BUSINESS

PRICING AND PAYMENT

We seek to price our products and services appropriately to attract new users and retain existing users. We are making continuous efforts to set our prices to be competitive. In addition, to encourage repeated purchases, we provide purchasers with a variety of purchasing subsidies options such as coupon packages.

In 2019, 2020 and 2021, we provided subsidies of RMB208.4 million, RMB412.2 million and RMB722.5 million, respectively, to the users. Our average subsidies ratio provided per smart pharmacy increased in the years ended December 31, 2020 and 2021, primarily as a result of our strategy to (i) remain competitive in the market where the subsidy ratio by key market players generally increased during the same period, according to the Frost & Sullivan Report; and (ii) retain the users acquired during the COVID-19 outbreak in 2020.

The key forms of subsidies we provided to users are listed as below, which are all offered under our online direct sales channel, rather than business distribution channel or offline retail channel:

- Welcome coupon Package: our subsidies to new users include a coupon package of RMB666's worth.
- Referring coupon: we also encourage users to share our platforms with their friends and families, and accordingly provide referral subsidies.
- Spend & Save: we offer subsidies users when they are placing orders on our platform when the total amount of an order reaches certain threshold, such as spend RMB98 and save RMB25.
- Shopping voucher: in response to our marketing needs, we offer cash vouchers to selected users, which can be redeemed when they place order with us and the order amount reaches the conditions of the vouchers.
- Special offer: with the collaboration with pharmaceutical manufacturers and our suppliers, we offer discount on certain SKUs in light of the marketing strategies we mutually develop.

Our subsidy policy is usually formulated by the marketing operation department jointly with the general office considering the products' costs and the pricing of comparable products in the market, and approved by the head of marketing operation department. In the case of any loss lead by any subsidy policy, such policy shall be approved by the management and implemented by the marketing operation department.

When providing subsidies to users under our online direct sales channel, we would generally considering following factors:

- Shopping frequency: we review and adjust the value and terms of the subsidies according to a user's frequency of order placing and order amount to strengthen user stickiness. We adopt various subsidy strategies in accordance to their purchase frequencies. For example, for users who have not purchased from us for more than 180 days, we offer subsidies to encourage their shopping with us.
- User profile: based on users' medication history, we provide subsidies for specific medications. For example, for users with suffering diabetes, we offer subsidies for specific drugs, such as Troglitazone.

BUSINESS

- Seasonality: we provide subsidies considering the features of different 24 solar terms. For example, during Dahan, we provide subsidies for cold resistant products.
- Market competition: we would consider providing subsidies to remain competitive in the market. If the price of certain SKU is significantly higher than other competitors, we may offer subsidies to adjust our pricing strategy.
- Key dates: we provide subsidies on key marketing dates, such as the Protect Liver Day, the Protect Eyes Day and Mother’s Day.
- Locations: we differentiate our subsidies across our operating cites, depending on our marketing strategy and household income in each city. For example, we offer special coupons for products preventing heatstroke in Guangdong in summer.

During the Track Record Period, subsidies have contributed to our rapid growth in terms of financial and operational performance. Going forward, we will adjust our subsidy strategy dynamically considering the factors above. In addition, with our technical capabilities, such as artificial intelligence and big data, we are able to develop various marketing strategies and precise subsidies to different users to further improve our operational performance. Furthermore, we continue to enrich our product and service offerings while maintaining attractive prices, and we believe that we are able to compete on quality, and not solely on price, to meet the needs of our growing and loyal user base.

We accept flexible payment options, including cash, credit card and third-party payment platforms, such as Alipay and WeChat Pay. We may be subject to fraud and other illegal activities in connection with the various third-party payment options we offer. See “Risk Factors — The wide variety of payment methods that we adopt may subject us to risks related to third-party payment processing.” We have internal control measures to mitigate the third-party payment processing risks. Our compliance and legal department is responsible for the reviewing of our agreements with these third-party payment platforms to ensure they are acceptable to our risk management and internal control systems. Our compliance and legal department is also responsible for monitoring the updates and implementation of the rules and regulation that are related to the third-party payment, reviewing the performance of the third-party payment platforms and conducting testing on the system regularly to ensure the transaction is accurately recorded in the settlement summaries. A committee, including the Directors and key members from over legal and compliance department, finance department and IT department, has been set up to monitor the third-party payment processing risks and provide trainings to relevant staff to ensure they have sufficient awareness in relation to third-party payment processing risks. We typically require third-party payment platforms to provide settlement summaries on a monthly basis and our finance department shall review and escalate to the committee for further investigations if there is an issue. The investigation result should be communicated with the third-party payment platforms and the committee is informed on the progress of such investigation.

BUSINESS

SALES AND MARKETING

We employ a variety of online and offline activities to build our brand and to enhance our market recognition. We believe that the market awareness of our brands and the user base of our products and services has grown primarily through a combination of natural traffic, marketing activities, promotional programs, cross-selling between our products and services and collaborations with insurance and reinsurance companies:

- **Natural traffic:** The high quality products and services we provide on our platform establish our brand recognition and reputation among our users, therefore attracting natural Internet traffic for our platforms through word of mouth.
- **Marketing activities:** We actively conduct marketing campaigns in a variety of forms, through both online and offline activities. Our online marketing activities include advertisements and banners on renowned websites, mobile apps and search engines, and other emerging, popular online channels such as short-video platforms. Our offline marketing activities include seasonal and holiday campaigns and advertisements on streets, in buildings and in subway stations.
- **Promotional programs:** We provide promotional activities to our users to further enhance user loyalty and to gain brand recognition among our existing and new users. We create reward programs which encourage users to share with their friends and family members, and to facilitate the conversion of our active users to paying users.
- **Cross-selling:** The synergy created by our drug express business and our other product and service offerings serves as an important source of user acquisition for each other. Our drug express business directs its user base to our service offerings such as online consultation and prescription renewal, as well as chronic disease and healthcare management. Our high-quality offerings such as online consultation and prescription renewal, as well as chronic disease and healthcare management, also redirect its user traffic back to our drug express business for purchase of healthcare products such as drugs, supplements and medical devices.
- **Collaboration with insurance and reinsurance companies:** We enter into collaborations with insurance and reinsurance companies to enrich their scope of services for their customers, and, in turn, they introduce their customers to our platform. For instance, we participate into the design of the reimbursement packages provided by insurance companies and provide customized medical products and services covered by such packages. We also work with re-insurance companies to provide customized medical products and services to their insurance company clients.

In 2019, 2020 and 2021, we recorded revenue from the sales covered by the reimbursement packages provided by insurance companies of RMB21.5 million, RMB23.2 million and RMB24.9 million, respectively, accounting for 1.7%, 1.1% and 0.7% of our revenue from pharmaceutical and healthcare business. The material terms of our collaborations with insurance and reinsurance companies include the following:

- **Term and termination:** The contract generally has a term of one year. The contract can be modified by signed supplemental agreements and terminated upon mutual agreement.

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- **Collaborations:** We provide service to the insurance and reinsurance companies so that their customers can (i) enjoy a discount when placing orders at our self-operated online platforms, and (ii) have the insurance payout directly advanced by us if the drugs are covered by their insurance packages.
- **Scope of service:** We shall establish and maintain the drug delivery network and organize the accounts of the insurance and reinsurance companies’ customers under their authorization and comply with the insurance terms and service guidelines provided by the insurance and reinsurance companies.
- **Payment and settlement:** The insurance and reinsurance companies shall settle the insurance payouts we advanced to their customers periodically based on the system statistics generated from our self-operated online platforms.

In 2019, 2020 and 2021, our sales and marketing expenses amounted to RMB278.5 million, RMB441.3 million and RMB834.8 million, respectively.

CUSTOMER SERVICE

We believe our emphasis on customer service enhances our brand image and user loyalty. We continuously strive to improve our users’ level of satisfaction by offering high-quality customer services.

We have established 24/7 customer service centers to resolve customer queries and complaints regarding our products and services. Users can make queries and file complaints via various channels, such as phone calls, online written instant messages, our official accounts on WeChat, and through email. As of December 31, 2021, we had more than 45 customer service representatives in our customer service center. Our customer service representatives are responsible for addressing enquiries and complaints from our users. Each representative is required to complete mandatory training, covering topics such as product knowledge, complaint handling and communication skills. In addition, we also engage AI-based customer service solutions to address queries from users.

Given the special nature of drugs, we generally do not allow users to return or exchange the drug products we sell, unless the products are defective. See “— Product Quality Control.”

We have adopted our internal drug quality complaint management procedures to handle complaints from users. We generally categorize complaints into the following categories:

- urgent complaints: if the drugs have adverse effects endangering users’ safety;
- important complaints: if the drugs have quality issues but less likely to cause serious harm to users;
- standard complaints: the drugs meet industry standards and without quality issues; and
- service complaints: if users are not happy with the services or professional skills of our employees.

The quality control department of our headquarter is responsible for urgent complaints and important complaints, and our customer service centers are responsible for standard complaints and service complaints. Our quality control department and customer service centers are required to keep proper records and handle complaints within the required timeline.

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MERCHANDISE SOURCING

As of December 31, 2021, we sell products sourced from more than 6,000 pharmaceutical enterprises and pharmaceutical distribution enterprises.

Before engagement, we adopt stringent selection and evaluation process for our suppliers. We select suppliers on the basis of qualification, brand, past experience, reliability, volume and price. Before signing agreements with our suppliers, we perform background checks on suppliers as well as the products they provide. We examine their business licenses and relevant licenses and certificates for their products, and check their compliance with applicable laws and regulations. We evaluate their brand recognition and make inquiries about the market acceptance of their products among players in the same industry.

After engagement, we continue to meticulously manage our suppliers to ensure the quality of our merchandise sourcing. We have established a team dedicated to the management of our suppliers with respect to product quality, logistics and after-sales customer services. We conduct specific examinations for samples of those products with records of complaints. We regularly monitor data relating to product quality and communicate with the relevant suppliers and third-party merchants when issues arise.

We normally enter into framework supply agreements with our suppliers and renew them periodically if we are satisfied with the relationship. Set forth below are the key contractual terms of our framework supply agreement with our suppliers:

- **Term:** Typically one year, subject to annual review and renewal.
- **Quality standards:** Detailed quality standards and specifications for the drugs or other materials usually correspond with governmental standard of industrial standard.
- **Pricing:** Price of drugs is typically set forth in a written quote as separately agreed between the suppliers and us.
- **Delivery:** The suppliers are required to deliver the products to our designated place pursuant to the supply agreement and shall bear any related logistics costs.
- **Credit term:** Our suppliers typically grant us a credit term depending on the business relationship between us.
- **Payment:** We generally settle payments with our suppliers every month or every two months.
- **Dispute resolution:** In general, either party can request for a conciliation, usually at the court or arbitral tribunal appointed by our supplier.

In 2015, we launched the FSC Alliance for Pharmaceutical Enterprises, which enabled us to collaborate with world-renowned pharmaceutical enterprises and pharmaceutical distribution enterprises, such as GSK CH, Renhe Pharmaceuticals, Bayer Healthcare, CR Pharmaceutical, Jointown Pharmaceuticals. In general, under the FSC Alliance, we purchase pharmaceutical products from pharmaceutical enterprises, and they may display product information of pharmaceutical products on our platforms; in addition, we provide training to pharmaceutical enterprises in relation to marketing and data analysis, so that pharmaceutical enterprises can improve their sales and ensure supply of pharmaceutical products. In 2019, 2020 and 2021, we have collaborated with 201, 205 and 140 pharmaceutical enterprises under the FSC Alliance. The decrease of the number of pharmaceutical enterprises we collaborated with in 2021 was mainly due to the optimization of our sourcing strategies to focus on pharmaceutical enterprises who are able to provide us with favorable prices and terms, and the selected reduction of pharmaceutical enterprises who are less competitive.

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Through such direct procurement collaboration, our business is able to reduce intermediate links, receive more resource support, reduce sourcing costs and promote our brand awareness. In addition, we are able to cater to the customized needs of our operations, which in turns better serve the individualized needs of consumers. Pharmaceutical enterprises may also collaborate with us in research and development to better serve our customized needs. For instance, we entered into collaborations with pharmaceutical enterprises and launched products with customized packaging specifications designed for our platform. Leveraging our big data capabilities and our accumulated business know-how, we also collaborate with pharmaceutical enterprises and launch customized products to meet the needs and preferences of consumers.

Our ability to collaborate with such pharmaceutical enterprises partners is rooted in our deep understanding of users in the healthcare industry, and provides us with competitive advantages in the online retail pharmacy market. Pharmaceutical enterprises further provide value to us by improving our procurement efficiency, and broadening the variety of our product mix, so that we can better serve our users. Our direct procurement collaboration with pharmaceutical enterprises also benefit our pharmaceutical enterprises partners, since pharmaceutical enterprises can benefit from our vast user base and be provided with data on pharmaceutical product purchase, which may provide valuable guidance and lower relevant risks and costs for their research, development and manufacturing activities. See “— Our Ecosystem and its Participants.”

PRODUCT QUALITY CONTROL

We highly value the quality of the product offerings we provide to users. We conduct regular and random inspections of products sourced from our suppliers to ensure compliance with our quality standards. We have established an in-house quality control team to inspect the product quality and vendors' qualifications. Our quality control measures include adopting strict screening processes for business partners, keeping clear and traceable record for products sold on our platforms, and suspending sales of products with quality issues once detected. During the Track Record Period, we had not been subject to any penalties from any relevant regulatory authorities in connection with any counterfeit products sold on our platforms that materially and adversely affected our business, results of operations and financial conditions.

We generally allow users to modify or cancel an order through our online system or customer service center before the order is picked and packed for delivery. Given the special nature of drugs, we generally do not allow users to return or exchange the drug products we sell for reasons other than quality issues. For some non-drug products, we accept unconditional returns or exchanges within seven days of purchase. In general, defective non-drug products, including dietary supplement, can be returned within seven days of purchase. Users should submit an application for return or exchange of the non-drug products. If the application has been accepted, we will either return, exchange or repair the products as long as the application is in compliance with the Laws of the People's Republic of China on Protection of Consumer Rights and Interests, the “Three Guarantees” Policies and the manufacturers' authorized standard for product return or repair. If part of the products has gone missing, is broken or suffers performance failure due to logistic reasons, we have implemented a policy of allowing return of products within seven days of purchase when the user has filed a request within 24 hours after the receipt of the products and such request has been verified.

During the Track Record Period, we did not receive any material complaints or product returns from customers. During the Track Record Period, our services were not involved in any material medical malpractice, complaints or blunders.

During the Track Record Period and up to the Latest Practicable Date, (i) we were not subject to any material administrative or other penalties from the PRC government authorities in connection with product quality or drug safety, (ii) we did not experience any incidents related to material product liability exposure, and (iii) we did not receive any material complaints from consumers, or any material product returns, in connection with product quality.

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TECHNOLOGY

Infrastructure

Our network infrastructure is designed to satisfy the requirements of our operations, to support the growth of our business and to ensure the reliability of our service to customers.

We built our IT infrastructure based on microservice technology, which is scalable and expandable. We are devoted to using those microservices to carry out our flexible business requirement and support the development of our business model. Our technology infrastructure uses the mode of mix-cloud and virtualized deployment, in order to protect the flexibility and stabilization of our system.

Big Data

Our big data analytics ability is the cornerstone of our technology system. Through continuous data labeling and collection, we made strategic decisions on the selection of locations for our network of pharmacies across different cities in China. Our big data capabilities enable us to conduct smart site selection, smart pharmacy business, smart scheduling and arrangements, and smart operation of our business. With our big data analytic ability, we are able to optimize our user services. For example, we use our CRM marketing system to handle the condition of our users, in order to optimize our marketing service. In addition, we also build a knowledge map between users' health big data and relevant medicine and medical care data, to combine medicine and medical care with big data and conduct in-depth analysis. Based on the historical purchase of the users, the standard treatment of the drugs and the follow-up consultation by the users, we are able to make timely and reasonable promotion to different users, to accurately target their unmet needs in medical products and services.

Artificial Intelligence

We leverage artificial intelligence and deep-learning to provide our users with the optimal experience in the offering of our products and services. We use deep-learning-powered natural language processing to perform text analysis, semantic matching and search engine ranking to return the most relevant merchant and services when a user conducts a search. For example, we use deep-learning technology to deep learn the medical corpus by extracting the entity, relationship and property from natural language, so as to construct a knowledge graph, which empowers our online platform with ability of reasoning and inference to our users. AI and deep-learning technologies also improve the accuracy of search and recommendation, which empower us with an ability of semantic recall and feature engineering.

Smart Delivery

Based on our technology of artificial intelligence technology and other technologies developed by ourselves such as dynamic estimation of time, route planning, drug and user profile, E-zoning, and smart order dispatchment system, we successfully built our smart delivering system, which plays a role as the supervisor of our delivery staff. The smart delivery system can auto update itself periodically based on the distribution results and feedbacks of our delivery riders, in order to provide high quality delivery services to our users.

BUSINESS

CUSTOMERS

Our customers primarily include users who purchase our offerings through our online and offline channels, and our distributors. Revenue generated from our largest customer in 2019, 2020 and 2021 accounted for 3.0%, 1.9% and 2.6%, respectively, of our total revenue during those periods, and revenue generated from our five largest customers in 2019, 2020 and 2021 in total accounted for 8.8%, 5.0% and 5.9%, respectively, of our total revenue during those periods.

All of our five largest customers during the Track Record Period were Independent Third Parties. As of the Latest Practicable Date, none of our Directors, their close associates or any Shareholders who, to the best knowledge of our Directors, owned more than 5% of our issued share capital or had any interest in any of our five largest customers.

SUPPLIERS

Our major suppliers primarily include pharmaceutical enterprises and pharmaceutical distribution enterprises that provide us with products we sell. Purchases from our largest supplier in 2019, 2020 and 2021 in terms of inventories purchased accounted for 21.3%, 18.0% and 18.1%, respectively, of our total purchase during those periods, and purchases from our five largest suppliers in 2019, 2020 and 2021 in total in terms of inventories purchased accounted for 54.4%, 43.2% and 54.0%, respectively, of our total purchase during those periods.

The following table sets forth details of our top five suppliers for the year ended December 31, 2019:

Suppliers	Principal Business	Length of Business Relationship	Operating History	Purchase amount (RMB'000)	% of Total Purchase
Supplier A	Pharmaceutical and medical devices wholesaler, including TCM and biochemical	Since 2018	Since March 9, 1999	189,419	21.3
Supplier C	Pharmaceutical and medical devices wholesaler, including Chinese patent medicine	Since 2018	Since December 27, 2000	111,608	12.6
Supplier F	Medical devices and healthcare wholesaler and retailer, including disinfectant products	Since 2019	Since January 14, 2019	82,607	9.3
Supplier D	Pharmaceutical and healthcare products manufacturer and seller, including TCM and western medicine	Since 2015	Since July 6, 2001	58,468	6.6
Supplier G	Pharmaceutical enterprise trustee	Since 2018	Since May 6, 2008	41,154	4.6
Total				483,256	54.4

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The following table sets forth details of our top five suppliers for the year ended December 31, 2020:

Suppliers	Principal Business	Length of Business Relationship	Operating History	Purchase amount (RMB'000)	% of Total Purchase
Supplier A	Pharmaceutical and medical devices wholesaler, including TCM and biochemical	Since 2018	Since March 9, 1999	286,539	18.0
Supplier C	Pharmaceutical and medical devices wholesaler, including Chinese patent medicine	Since 2018	Since December 27, 2000	144,231	9.1
Supplier G	Pharmaceutical enterprise trustee	Since 2018	Since May 6, 2008	95,679	6.0
Supplier D	Pharmaceutical and healthcare products manufacturer and seller, including TCM and western medicine	Since 2015	Since July 6, 2001	82,254	5.2
Supplier H	Pharmaceutical wholesaler, including TCM and antibiotics	Since 2018	Since August 19, 2002	76,839	4.8
Total				<u>685,542</u>	<u>43.1</u>

The following table sets forth details of our top five suppliers for the year ended December 31, 2021:

Suppliers	Principal Business	Length of Business Relationship	Operating History	Purchase amount (RMB'000)	% of Total Purchase
Supplier A	Pharmaceutical and medical devices wholesaler, including TCM and biochemical	Since 2018	Since March 9, 1999	485,887	18.1
Supplier C	Pharmaceutical and medical devices wholesaler, including Chinese patent medicine	Since 2018	Since December 27, 2000	357,879	13.3
Supplier G	Pharmaceutical enterprise trustee	Since 2018	Since May 6, 2008	321,980	12.0
Supplier I	Pharmaceutical and healthcare products manufacturer and seller, including TCM and western medicine	Since 2019	Since December 4, 1996	218,135	8.1
Supplier K	Pharmaceutical and healthcare products manufacturer and seller, including TCM, chemical pharmaceuticals and biopharmaceuticals	Since 2018	Since January 18, 1994	70,392	2.6
Total				<u>1,454,273</u>	<u>54.1</u>

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Renhe was among our five largest suppliers in 2019, 2020 and 2021 and Renhe Pharmacy was among our five largest suppliers for the year ended December 31, 2021. Supplier G was among our five largest suppliers in 2019, 2020 and for the year ended December 31, 2021, whose shareholder is Guoyao Group Co. Ltd. Guoyao Group Co. Ltd. is the ultimate beneficial owner of Ningbo Qirui and Ningbo Qiling, who are our Pre-[REDACTED] Investors. See “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investment — Information about The Pre-[REDACTED] Investors.”

Save as Renhe and Renhe Pharmacy, as disclosed in the Definition section of this document, as of the Latest Practicable Date, none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital or had any interest in any of our five largest suppliers.

Save as Renhe and Renhe Pharmacy, as disclosed in the Definition section of this document, and the Supplier G above, as of the Latest Practicable Date, to the best knowledge of our Directors, during the Track Record Period, there was no past or present relationship, including employment, financing, trust, family or otherwise, between the rest five largest suppliers and ourselves or our subsidiaries, their controlling shareholders, directors or senior management, or any of their respective associates.

BUSINESS SUSTAINABILITY

We experienced strong business growth during the Track Record Period. Benefiting from the solid foundation we have built and the momentums we have achieved, our Directors believe we are able to maintain sustainability and growth of our business. Going forward, we plan to achieve profitability primarily by further (i) growing our user base and their average spending; (ii) achieving revenue growth in our principal business; (iii) improving our result of operations and increasing operating leverage; and (iv) improving our asset position and cash flow position. These will allow us to increase our revenue and manage our cost and expenses to reach profitability and realize positive operating cashflows.

Robust Growth of User Base and Increase of User Average Spending

During the Track Record Period, our user base continued to grow as we expanded our business and our product and service offerings, and the ARPU of our self-operated online platforms continued to increase. The number of average MAU from our self-operated online platforms increased by 57.1% from 1.4 million as of December 31, 2019 to 2.2 million as of December 31, 2020, and further decreased to 2.1 million as of December 31, 2021. There was a surge of our MAU during the COVID-19 outbreak in 2020 as the needs of disinfection-related products and personal daily protective materials increased substantially during the same period, especially through online shopping. By approximately the fourth quarter of 2020, almost all cities in China had eased or lifted domestic travel restrictions and resumed normal social activities, business, work and production, since which, our growth of MAU has been back to a normal trend. The number of average monthly paying users from our self-operated online platforms increased by 33.3% from 0.6 million as of December 31, 2019 to 0.8 million as of December 31, 2020, and further increased by 12.5% to 0.9 million as of December 31, 2021. The ARPU of our pharmaceutical and healthcare business from our self-operated online platforms increased by 31.2% from RMB98.3 in 2019 to RMB129.0 in 2020 and further increased to RMB132.2 in 2021. In 2019, 2020 and 2021, the percentage of our self-operated online platforms out of our revenue generated from online direct sales was 44.1%, 36.5% and 30.5%, respectively.

Our growing user base and ARPU of our self-operated online platforms during the Track Record Period reflects the strength and popularity of our products and services as well as our continuous broadening product offerings and value-added services to users. In 2019, 2020 and 2021, our drug express service offering recorded a total of 26.4 million, 40.5 million and 60.3 million sales orders, respectively, through our online direct sales channel and offline channel, representing a CAGR of 51.1% from 2019 to

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2021. As our users realise the benefits of our platform due to our quality of service, like on-demand delivery, they would become more inclined to use and purchase our products or services, thereby increasing our ARPU of our pharmaceutical and healthcare business and, in turn, contributing towards our revenue growth and improved results of operations.

Additionally, we constantly seek to expand our product and service offerings with the aim of catering to users’ evolving needs and requirements. We strive to meet the on-demand health needs of our users by providing service offerings such as online medical consultation and chronic disease and healthcare management. As of the Latest Practicable Date, we have assembled a team of 18 full-time and 73 part-time doctors, as well as more than 800 external doctors whom we are connected to through our collaboration with a third-party medical institution to provide our users with online medical consultation. In 2019, 2020 and 2021, we recorded a total of approximately 2.2 million, 4.4 million and 6.8 million online consultations, respectively. We believe our online medical consultation and chronic disease and healthcare management services complement our drug express service as the former is able to increase user demand, improve user experience and redirect user traffic to our drug express service to purchase our products.

Sustainable Revenue Growth of Our Principal Business

Revenues generated from pharmaceutical and healthcare business, our principal business and services, witnessed significant growth during the Track Record Period. See “Financial Information — Description of Selected Components of Statements of Profit or Loss — Revenue”, “Financial Information — Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020”, and “Financial Information — Period-to-Period Comparison of Results of Operations — Year Ended December 31, 2020 Compared to Year Ended December 31, 2019” for a detailed explanation of our revenue growth during the Track Record Period. According to the Frost & Sullivan Report, the digital retail pharmacy market has grown rapidly at a CAGR of 25.2% from 2015 to 2019 and 25.3% from 2019 to 2030 respectively, and is expected to exceed RMB1.3 trillion in 2030. Furthermore, the market of on-demand digital pharmacy grew significantly from RMB0.8 billion in 2015 and expanded at a CAGR of 72.4% from 2015 to 2019, and is expected to reach RMB138 billion in 2030, representing a CAGR of 31.0%. We believe we are well positioned to capitalize these industry trends and significant growth opportunities leveraging our market leadership.

Drug express services

Our drug express services witnessed rapid growth during the Track Record Period. Revenue from our drug express services accounted for the substantial all revenue of our pharmaceutical and healthcare business. Our revenue from pharmaceutical and healthcare business increased by 76.2% from RMB1,250.9 million in 2019 to RMB2,204.7 million in 2020, and further increased by 61.5% to RMB3,561.3 million in 2021. Such increases were primarily due to the enhancement of our popularity among consumers online, the increase in our investment in branding, and in particular, the expansion of our smart pharmacy network. As of the Latest Practicable Date, we had established 348 smart pharmacies covering 17 cities in China.

We believe our pharmaceutical and healthcare business will maintain sustainable growth. We will continue to concentrate our efforts on constantly attracting users and expanding our smart pharmacy network. We believe the headroom for growth is significant given that (i) expected strong growth of the digital retail pharmacy and on-demand digital pharmacy market in China; (ii) we are still expanding our smart pharmacy network to meet the increasing demand from users; and (iii) awareness of the value of our offerings among our existing and potential users continues to grow as an increasing number of consumers choose to order pharmaceutical products online driven by the convenience and cost-effectiveness, according to the Frost & Sullivan Report. Taking into account the above, we believe that we are well-positioned to continuously grow our pharmaceutical and healthcare business and increase our revenue.

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Online medical consultations and chronic disease and healthcare management

Our online medical consultations service also witnessed robust growth during the Track Record Period. In 2019, 2020 and 2021, we also provided our users with a total of 2.2 million, 4.4 million and 6.8 million online medical consultations, respectively. The synergy between our online medical consultation service offering and our drug express service offering successfully enhanced our users’ willingness to make purchase for our products. In 2019, 2020 and 2021, the conversion rate for our products from online medical consultation on our self-operated online platforms, defined as the proportion of users who purchased our product and service offerings among users who received a prescription from our online medical consultation service, was 69.9%, 68.8% and 77.5%, respectively. According to the Frost & Sullivan Report, compared with other players in digital retail pharmacy market, the conversion rate for the year ended December 31, 2021 was in line with the industry. For individual users, since September 2019, we have also launched additional services to send timely reminders to accurately address their demand for refill prescriptions while improving our repurchase rate. In the period since the reminder services launched until December 31, 2019, and in 2020 and 2021, the repurchase rate based on such services, defined as the number of users who repurchased chronic disease related drugs through our self-operated platforms among users who received our timely reminders during the same period, was 27.5%, 30.6% and 33.4%, respectively.

We believe our online medical consultations and chronic disease and healthcare management services will maintain sustainable growth. Our online medical consultation has five specialties namely, general medicine, surgery, gynecology, pediatrics and Chinese medicine. We intend to establish specialized departments, especially in andrology, liver diseases and skin diseases, to attract more high-calibre medical experts and thus provide broader and more specialized online medical services to our users, as well as penetrate our existing user base to create more cross-selling opportunities among drug express services, online medical consultations and chronic disease and healthcare management services. We believe that with the additional specialized departments, our platform is able to provide comprehensive services to meet both the medical demands and the pharmaceutical demands of users, enhancing user sickness, our full-service capability and our reputation in the industry.

We plan to attract medical experts to our platform with tailored plans:

- for well-known medical experts, we plan to help them build their own online IP, provide a platform for academic thoughts and scientific research sharings, and further enhance our influence in the industry;
- for young doctors, we plan to help them enhance their professional expertise and build up reputation in their practicing areas for sustainable long-term career development; and
- for newly qualified doctors, we plan to provide training on relevant laws and regulations, and to provide a platform for accurate doctor-patient matching.

We believe we will further grow online medical consultations and chronic disease and healthcare management services given that (i) the expected strong growth of the online medical consultations market in China. See “Industry Overview — The Online Medical Consultation Market In China”; (ii) users using our drug express services have additional needs for online medical consultations and chronic disease and healthcare management services; and (iii) potential monetization opportunities for online medical consultations and chronic disease and healthcare management services leveraging our expanding user base. The monetization plan for our online consultation and chronic disease and health management services includes three stages:

- Stage I (2019 to 2023): focusing on free online consultation to meet users’ basic consultation demands and promote our drug express business;
- Stage II (2024 to 2026): initiating on pay-per-use and annual membership plans to satisfy the personalized demands of users and provide expert doctor consultation and testing services. We plan to launch pay-per-use plan (RMB20 to RMB200), annual personal plan (RMB400 to RMB600) and annual family plan (RMB1,800 to RMB2,200); and
- Stage III (after 2026): focusing on the ecological layout of “medical + medicine + testing + insurance” to satisfy users’ one-stop health management demands.

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According to the Frost & Sullivan Report, with the development of digital health and wellness market, online consultation service has become an important component of digital healthcare service. Some players in this market have already promoted paying services, such as family doctor services and online chronic disease management services, which are with high gross profit margin. Taking into account the above, with more doctors joining our platform, the scale of our business will gradually increase we believe that our online medical consultations and chronic disease and healthcare management services would contribute to our overall business.

Our Ability to Further Improve Our Results of Operations

Our gross profit experienced significant growth during the Track Record Period. In 2019, 2020 and 2021, our gross profit amounted to RMB470.0 million, RMB766.2 million and RMB1,162.3 million, corresponding to the gross profit margin of 36.8%, 34.4% and 31.6%, respectively. The decrease of our gross profit margin was due to the higher growth rate of cost than that of our revenue, as a result of (i) our dedication to enhancing market recognition, retaining existing users and acquiring new users, and maintaining competitiveness in the industry by taking methods such as offering subsidy policy to consumers, (ii) the increase in our sales of prescription drugs, which are of lower gross profit margin, to capture opportunities related to the industry trend of prescriptions outflow, and (iii) the acquisition of Yaofangwang, which contributed substantially to the increase in our sales of prescription drugs.

The expansion of the network of our smart pharmacies and the expansion of our operating cities contributed to the decreasing gross profit margin during the Track Record Period primarily because we provided new purchasers with more purchasing subsidies and delivery subsidies options to attract new users to place orders and to experience our "express delivery" on a 24/7 basis compared to the existing operating cities where we have mature operations. Our revenue is recognized deducting such subsidies and thus resulted in less gross profit. The acquisition of Yaofangwang contributed to our decreasing gross profit margin primarily because Yaofangwang has a substantial amount of prescription drugs sales, which entailed lower gross profit margin than OTC drugs and healthcare products. For the year ended December 31, 2021, Yaofangwang had a gross profit margin of 15.3%. During the Track Record Period, we increased the sales of prescription drugs in our product offerings to capture opportunities related to the industry trends of prescriptions outflow. Specifically, for the years ended December 31, 2019, 2020 and 2021, revenue from prescription drugs as a percentage of revenue from pharmaceutical and healthcare business increased from 11.7% to 17.1% and further to 34.5%. Meanwhile, the gross profit margin of prescription drugs was lower than the ones of OTC drugs and healthcare products, and had been decreasing during the Track Record Period. For the years ended December 31, 2019, 2020 and 2021, gross profit margin of prescription drugs decreased from 25.7% to 20.9% and further to 17.5%. As a result, our gross profit margin decreased during the Track Record Period. Such performance in relation to prescription drugs is in line with the performance of major market players during the relevant periods, according to the Frost & Sullivan Report.

We expect our overall gross profit margin to steadily increase going forward as we drive further economies of scale in our sales and delivery of products with optimized product portfolio structure, increase the contribution from higher margin revenue streams and fully leverage our technology capabilities. Revenue from prescription drugs as a percentage of revenue from pharmaceutical and healthcare business is expected to stay relatively stable in the future as our sales structure sets. For the six month ended June 30, 2021 and the year ended December 31, 2021, revenue from prescription drugs as a percentage of revenue from pharmaceutical and healthcare business remained relatively stable at 35.3% and 34.5%, respectively. According to the Frost & Sullivan Report, due to COVID-19 outbreak in 2020, the offline purchase of prescription drugs became inconvenient for chronic disease populations, leading to an increase of the proportion of prescription drug sales to total sales in the whole digital retail pharmacy industry. With China's good control of the pandemic, it is expected that the proportion of prescription drug sales through other channels being gradually stabilized. Furthermore, we plan to start generating revenue

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from medical consultation and healthcare management services in the next few years, which is expected to contribute to our gross profit margin. See “Financial Information — Description of Selected Components of Statements of Profit or Loss — Gross Profit and Gross Profit Margin.” Going forward, we will also adjust our subsidy strategy dynamically with a view to improve our gross profit margin. See “— Pricing and Payment” above in this section.

Furthermore, we intend to optimize our costs of revenue and operating expenses by achieving increasing economies of scale and cost-efficiency as our business continues to grow and we cooperate with more pharmaceutical factories to lower the costs. We have also been implementing centralized procurement, a procurement method that reduces the cost of revenue by taking the advantage of our economies of scale. We expect that the centralized procurement will increase substantially in the next few years. In addition, we will keep seeking suppliers with favorable prices and terms and broaden our supply channels to achieve lower cost of revenue. With respect to our fulfillment expenses, we expect to continue to benefit increasingly from the development of our technology, including the E-zoning technology, which increased our efficiency in fulfillment, as well as our expanded business scale. With respect to our selling and marketing expenses, we expect to continue to benefit increasingly from the network effect of our extensive user base, as well as the strong word-of-mouth referrals that it generates, though we expect a slight increase in light of our expansion plan of opening approximately 100 new smart pharmacies by the end of 2022 and approximately 150 new smart pharmacies by the end of 2023. Nevertheless, we believe that we are able to adjust our promotion and marketing strategies and control our budget based on actual operations. In terms of the promotion and advertising expenses, benefitted from the accumulated brand effect from the past years of business operation and the increase of brand awareness, we expect that there will be less commercial necessity to launch large numbers of new promotion and advertising projects, and as such, the increase in the promotion and advertising expenses is expected to slow down, which is also a reflection of our economies of scale. With our expansion into low-tier cities, the relatively low salary level and rental price therein would mitigate the increase of staff costs and depreciation and amortization along with our overall expansion, which will result in lower percentages of our total revenue. We also intend to optimise our general and administrative expenses and research and development expenses by enhancing our level of centralised management, streamlining our internal workflows, and leveraging technology to drive cost-efficiency of supply chain management. See “Financial Information — Significant Factors Affecting Our Results of Operations.”

Our net loss was RMB273.9 million, RMB919.7 million and RMB1,599.0 million for the years ended December 31, 2019, 2020 and 2021, respectively. The increasing net loss and the increasing operating loss margin were primarily due to the significant amount of cost of revenue, selling and marketing expenses and general and administrative expenses. Our operating loss margin (non-IFRS measure), which equals operating loss (gross profit minus fulfillment expenses, selling and marketing expenses, research and development expenses and general and administrative expenses, and adding back share-based payments) divided by revenue for the year and multiplied by 100%, increased from 6.7% for the year ended December 31, 2020 to 9.2% for the year ended December 31, 2021. We incurred significant operating expenses primarily because we intended to drive the rapid growth of our product and service offerings, enhance brand awareness and lay a solid foundation to support our future expansion. In addition to the foregoing factors, our net loss in the Track Record Period was also attributable to the fair value changes on financial liabilities at FVTPL, which will be reclassified to equity as a result of the automatic conversion upon the Listing. Our adjusted net loss (non-IFRS measure) was RMB123.2 million, RMB149.3 million and RMB329.5 million for the years ended December 31, 2019, 2020 and 2021, respectively, primarily due to the net loss incurred during the same periods.

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During the Track Record Period, we were able to achieve the following operating leverage:

- Our fulfillment expenses as a percentage of our revenue declined from 15.7% in 2019 to 12.7% in 2020, and further to 11.2% in 2021. We expect fulfillment expenses to grow alongside our business growth, while as a percentage of our revenue continue to decline, primarily because:
 - (i) the logistics expenses under our fulfilment expense during the Track Record Period was mainly composed of services fees paid to riders engaged by our delivery partners and third-party carriers. Driven by our expanded business operations and enhanced economies of scale, we are able to obtain favourable prices from these service providers with strengthened bargaining power based on the increase in the number of our sales orders and the collaborative relationship with them. For example, one of our third-party carriers offered laddering discount (up to 19% off) for their services provided if we are able to meet certain delivery volume; and
 - (ii) with the improvement of our smart order dispatchment system and path optimization system, we are able to increase our delivery efficiency and control our fulfilment expense by fully mining the big data collect during our operations. Based on the big data collected, our smart order dispatchment system and path optimization system can calculate the best match of the rider with the order by analysing information including ordered products, delivery requirements, locations and the characteristics of riders, in order to provide the best delivery service for each user, rider and smart pharmacy while minimizing our delivery costs. Furthermore, our technology system is able to calculate based on variables (such as weather, road conditions, rider characteristics) under non-variables (such as rider's location, riding speed and the requested delivery time) to reach an optimal solution which satisfies (a) the user, as the order is delivered on time; (b) the rider, as the delivery route designed for him or her is the most efficient so that the rider's delivery capacity can be fully utilized; and (c) the smart pharmacy, as its supply is matched with demand, and the sale is completed most efficiently.
- Our selling and marketing expenses as a percentage of our revenue declined from 21.8% in 2019 to 19.8% in 2020, and then slightly increased to 22.7% in 2021. We expect selling expenses to grow alongside our business growth, driven by the increase of staff costs due to the expected increase in the number of our sales and marketing personnel, and promotion and advertising expenses.
- Our research and development expenses as a percentage of our revenue declined from 4.1% in 2019 to 3.7% in 2020, and then further to 2.6% in 2021. We expect research and development expenses to grow primarily due to expected increase in the number of professional technicians to expand our research and development team, while as a percentage of our revenue to continue to decline, primarily because the growth of research and development expenses is not in proportion to the growth of revenue due to its nature of endogenous growth.
- Our general and administrative expenses as a percentage of our revenue was 4.5%, 5.4% and 13.1% in 2019, 2020 and 2021, respectively. The increase in our general and administrative expenses in 2021 was primarily due to the increase in the share-based payment. Please refer to Note 29 of the Accountants' Report in Appendix I to this document. We expect general and administrative expenses to grow alongside our business growth, primarily driven by the increase in staff costs of our administrative personnel due to the expected increase in the number of our administrative personnel, while as a percentage of our revenue to maintain relatively stable as a result of our improved operating efficiency and generally in line with the expansion of our smart pharmacy network.

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The aggregate amount of our fulfillment expenses, selling and marketing expenses, research and development expenses and general and administrative expenses as a percentage of our revenue decreased from 46.1% for the year ended December 31, 2019 to 41.6% for the year ended December 31, 2020. For the year ended December 31, 2021, it was 49.6%. We had a significant amount of share-based payment in the year ended December 31, 2021, which affected our operating expenses for the year ended December 31, 2021. Please refer to Note 29 of the Accountants’ Report in Appendix I to this document. Despite the increase in the operating expenses during the Track Record Period, we believe the sustainable revenue growth from our product and service offerings would dilute and eventually offset increases in the operating expenses, leading to profitability. In particular, we believe our operating expenses are measurable and controllable and are spent in accordance to our strategies for long term success. Going forward, we expect to continuously evaluate and monitor the efficacy and efficiency of our operating expenses in a sustainable manner.

Solid Track Record in Displaying Improved Asset Position and the Ability to Improve Cash Flow Position

As of December 31, 2019, 2020 and 2021, our net current assets were RMB113.0 million, RMB491.9 million and RMB1,528.8 million, respectively, primarily due to the growth of inventories, trade and other receivables and prepayments and cash and cash equivalents. Our shares with preferred rights would be reclassified from liabilities to equity as a result of automatic conversion into our Shares upon the Listing. Afterwards, we do not expect to recognize any further loss or gain on fair value changes from the shares with preferred rights. See “Financial Information — Discussion of Certain Selected Items Form the Consolidated Statements of Financial Position.”

In 2019 and 2020, we had net operating cash outflow of RMB265.9 million and RMB193.0 million, respectively. The decrease of operating cash outflows from 2019 to 2020 was primarily the result of the increased revenue generated from our principal business through expanding our user base, further enhancing our user engagement and broadening our product and service offerings, and our enhanced working capital management; our operating cash outflows in working capital decreased from RMB201.7 million for the year ended December 31, 2019 to RMB115.9 million for the year ended December 31, 2020.

Our net operating cash outflow increased from RMB193.0 million in 2020 to RMB295.5 million in 2021, which was primarily attributable to the increase in our net loss. However, our operating cash outflows in working capital decreased to RMB50.2 million for the year ended December 31, 2021, primarily due to (i) an increase in trade and other payables, which was primarily a result of our centralized procurement, and (ii) a relatively gentle and stable increase in inventories, as our inventory turnover days decreased from 60.6 days for the year ended December 31, 2020 to 54.2 days for the year ended December 31, 2021, which was primarily a result of our application of data analysis and product demand forecast method, which helped improve our inventory turnover management.

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We expect to optimize our net operating cash outflows position by taking advantage of (i) the increasing revenues generated from our principal business; and (ii) improving operating efficiency leveraging our economies of scale as we expect our operating expenses would not increase proportionately to the growth of our total revenue, which will further improve our net operating cash outflows position.

Our working capital management policies include driving our operating cash flow through our expanding business offerings. In light of our operating cash outflow during the Track Record Period, we plan to ensure our working capital sufficiency by: (i) generating more revenue through expanding our user base, further enhancing our user engagement and broadening our product and service offerings; (ii) adopting comprehensive measures to effectively control cost and operating expenses; and (iii) enhancing working capital management efficiency. In particular, we seek to improve our liquidity and net current liabilities going forward by driving our operating cash flow through our expanding smart pharmacy network to achieve the improvement of overall business scale and profitability. We expect our operating cash flow to further improve as a result of (i) improved management of trade receivables, trade payables and inventory turnover as we continue to optimize our IT system, (ii) stable cooperation with our suppliers who would grant us favorable credit terms, and (iii) our continued efforts to improve overall profitability, which we believe would help improve our liquidity and asset position. In particular, with our measures mentioned under “– Our Ability to Further Improve Our Results of Operations” above, we expect we will be able to achieve operating profits going forward and that thus will improve our operating cash flows.

On the basis of the factors set out above and the Group’s historical financial performance during the Track Record Period, nothing has come to the attention of the Joint Sponsors that would cause them to doubt the reasonableness of the Director’s views mentioned above in any material respects.

IMPACTS OF THE COVID-19 OUTBREAK

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. In response, China, together with other countries and regions across the world, has imposed widespread lockdowns, closure of workplaces and restrictions on mobility and travel to contain the spread of the virus. By approximately the fourth quarter of 2020, cities in China had generally eased or lifted strict domestic travel restrictions and generally resumed normal social activities, business, work and production. During the COVID-19 outbreak, particularly in the first quarter of 2020, our business was mainly affected by the following aspects:

- During the COVID-19 outbreak, the PRC government restricted the sales of four types of drugs, including cold, fever, cough relieving and anti-inflammatory, and the sales volume of such four types of drugs significantly reduced. In contrast, demands for products other than the four types of drugs restricted by the government and the online medical consultation increased, especially through online channels.
- Due to the sudden surge in sales orders, although we never suspended operations during the pandemic, at the beginning of the COVID-19 outbreak, our delivery capacity was overwhelmed by the surge in orders, resulting in some delays in delivery. By the end of March 2020, our performance in delivery in most cities where we operated across China had been back to normal.

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- We prioritize the health conditions of our employees in all our business operations. We have employed various measures to mitigate the impact of the COVID-19 outbreak on our business operations, such as (i) providing personal protection products such as masks, sanitizers and gloves to front-line employees; (ii) fully sanitizing the pharmacies every day and ensuring ventilation; (iii) equipping each pharmacy and office with forehead thermometers to take each employee’s temperature three times a day; (iv) enforcing contact free delivering mechanism and requiring all employees to wear masks and gloves in accordance with relevant regulation; (v) sanitizing all office areas daily and encouraging staff to communicate by telephone or live-chat applications to minimize in-person contact; and (vi) organizing nucleic acid testing for all employees and organizing vaccination as per government requirements.
- Despite the impacts of the COVID-19 outbreak on the general economy, we still managed to achieve improved financial performance in the year ended December 31, 2020, which was primarily due to (i) increasing sales of disinfection-related products and personal protective materials, including masks, wipes, hand sanitizers, medical gloves, safety glasses, thermometers, and disinfection products, during the COVID-19 outbreak, which may not recur in the future; the revenue contribution from sales of disinfection-related products and personal protective materials in 2019, 2020 and 2021 was RMB17.0 million, RMB175.3 million and RMB44.1 million, respectively, revenue contribution of sales of disinfection-related products and personal protective materials accounted for 1.3%, 7.9% and 1.2% of our total revenue, respectively; and (ii) lower level of fulfillment expenses as a result of a series of policies regarding reduction and exemption of enterprise’s social insurance contributions promulgated by the Ministry of Human Resources and Social Security, the Ministry of Finance and the State Taxation Administration, which did not recur in the future; In 2020, our fulfillment expenses was reduced by RMB 7.0 million with the benefit of such policies, accounting for 2.5% of the actual fulfillment expenses in the same period.

Although conditions have substantially improved since the second half of 2020 in China, there has been an increasing number of COVID-19 cases around the world due to the Delta and Omicron variants. With the sustained implementation of the disease prevention and containment policies and the development of vaccines, it is still uncertain whether the COVID-19 outbreak can continue to be largely contained in China and what further impact COVID-19 will have on our business or our industry. In the case of further spread of COVID-19, our business may be disturbed by actions adopted by the government authorities to contain it. See “Risk Factors – Risks relating to Our Business and Industry – We face risks related to health epidemics, which could significantly disrupt our business, financial condition and results of operations.”

COMPETITION

According to the Frost & Sullivan, the markets in which we operate are highly competitive. We compete with other major players in China’s digital health and wellness market, We also compete with companies operating traditional pharmacies across China. We believe the full range of product and service offerings and the ultimate user experience we provide to our users, our end-to-end supply chain and resource advantages, our services provided by pharmacists and doctors, our strength in research and development and our experienced management team enable us to compete effectively against our competitors.

We believe that we are well positioned to excel in the competitions within our industries. However, some of our current and potential competitors may have greater financial, technical and marketing resources than we do, and may be able to develop products and services that are more popular than ours. See “Risk Factors — Risks Relating to Our Business and Industry — We face intense competition in our business. If we are unable to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.”

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SEASONALITY

We experience seasonality in our business as our results of operations are affected by holidays in China. During the Track Record Period, generally, our revenue experienced a steady increase on monthly basis except for the months of Chinese New Year. The reason of the seasonal fluctuation is our online and offline sales were focused in metropolitans populations, many of whom go on vacation out of city during Chinese New Year. In addition, the seasonality we experience is also reflected by the online retail seasonality patterns. For example, e-commerce companies in China hold special promotional campaigns from time to time, which can affect our results for those quarters. We generally experience more user traffic and sales orders on and around special promotional campaigns, which has significant impact on our results for those quarters. See “Risk Factors — Our results of operations are subject to seasonal fluctuations.”

INTELLECTUAL PROPERTY

Intellectual property is fundamental to our success and competitiveness. We currently hold a collection of intellectual property rights related to certain aspects of our business operation. As of the Latest Practicable Date, we had registered in China a total of 406 trademarks, 162 domain names, 89 copyrights and 21 patents, and we were in the process of applying to another 39 patents in China.

We protect our intellectual property rights, including trademarks, patents, copyrights and domain names, strictly in accordance with the relevant laws and regulations. We regularly improve and update our intellectual property management system in line with the development of our business. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. On the other hand, for proprietary know-hows that are not patentable and processes the patents for which are difficult to enforce, we expect to rely on business confidentiality agreements to safeguard our interests in this respect. We have entered into confidentiality agreements, or employment agreements with confidentiality terms, with our employees, requiring them to strictly comply with our confidentiality requirements. See “Appendix IV — Statutory and General Information — Further Information about our Business — Intellectual Property Rights.”

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.”

DATA PRIVACY AND PROTECTION

We are committed to protecting information and privacy of our users, patients, medical professionals and other participants in our ecosystem.

We have developed a company-wide policy on data security to preserve individual personal information and privacy, such as Dingdang Medicine Express Personal Information Protection System (《叮當快藥個人信息保護制度》), Data Security Management Requirements (《數據安全管理要求》), and Data Security Management Procedures (《數據安全管理制度》). We strictly comply with laws and regulations and do not distribute or sell our users’ personal data for any illegal or unauthorized purpose.

The user data we collect and process during our operations includes information such as name, birthday, gender, email address, telephone number, delivery address, purchase information and relevant medical record. We collect such user data from our users when they register on our platform, place orders with us and initiate consultations with us. We enter into *Dingdang Medicine Express User Registration*

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Agreement(《叮當快藥註冊協議》) with our users when they register on our mobile App, according to which users grant us authorization to collect, process and use their personal information and the relevant data generated during the course of our services. We collect, process and use the user data within the scope of such authorization only for the purpose of providing services to them, such as registration, product promotion, payment and delivery arrangement.

We encrypt user data in network transmissions and in backend storage to ensure confidentiality. From an internal control policy perspective, we strictly limit the number of personnel who can access our servers that store our user data and only grant such access on a “need-to-know” basis. Our network configuration is secured to protect our databases from unauthorized access. We use sophisticated security protocols for communications among applications. To prevent unauthorized access to our system, we utilize a system of firewalls to separate our external-facing services from our internal systems. All user data is stored in our professional storage devices and encrypted to de-identify sensitive information. We are equipped with data encryption technology: (i) in terms of storage, user data is stored with specific encryption strategies and the keys are managed by designated personnel in charge; (ii) in terms of sharing, user data shall not be shared among applications without approval, which shall be granted on a “need-to-know” basis; and (iii) in terms of display, all user data will be replaced by “*” to obscure key information in display versions.

To minimize the risk of data loss, we conduct regular data backup and data recovery tests. Our database can only be accessed by certain designated and authorized personnel after assessment and approval procedures, whose actions are recorded and monitored. We have data disaster recovery procedures in place and are in the process of establishing our active data centers. During the Track Record Period, we did not experience any material information leakage or loss of user data in the PRC.

As advised by our PRC Legal Advisors, under the FSC Alliance, the statistical data of the purchase, sale and inventory of pharmaceuticals transferred by us to pharmaceutical enterprises does not contain information that can be used to independently identify or be combined with other information to identify specific natural persons, and therefore does not fall within the scope of personal information under the abovementioned laws, rules and regulations. Our PRC Legal Advisors are of view that, under applicable PRC laws, rules and regulations, the FSC Alliance does not involve any processing of personal information, and does not involve any legal risks related to the collection, use and disclosure of personal information.

EMPLOYEES

Our human resources department is responsible for recruiting, managing and training our employees. As of December 31, 2021, we had 2,998 full-time employees, most of whom were based in China, mostly in Beijing, with the rest based in major cities across China such as Shenzhen, Zhangshu, Shanghai, Guangzhou. As of December 31, 2021, we also had 2 full-time employee based in Hong Kong.

The following tables set forth the number of our employees by function as of December 31, 2021:

<u>Employee Function</u>	<u>Number of employees</u>
Sales, Marketing and Business Development	2,105
Technology, Research and Development	278
Management	369
Administration	246
Total	2,998

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We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

We enter into employment contracts and agreements regarding confidentiality, intellectual property ownership and non-competition with our executive officers, managers and core employees. The remuneration package for our employees generally includes salary and bonuses. We determine employee remuneration based on factors such as qualifications and years of experience. Employees also receive welfare benefits, including medical care, retirement benefits, occupational injury insurance and other miscellaneous items. We make contributions to mandatory social security funds for our employees to provide for retirement, medical, work-related injury, maternity and unemployment benefits. Our PRC Legal Advisors are of view that, during the Track Record Period and up to the Latest Practicable Date, except as otherwise disclosed in this document, we have complied with the applicable PRC labor law and regulations in all material respects. See “— Legal Proceedings and Compliance — Compliance.”

We endeavor to hire the best talented employees in the market by offering competitive wages and benefits, systematic training opportunities and internal upward mobility. We also conduct introductory training for new staff and have periodic training for our full-time employees.

INSURANCE

We consider our insurance coverage to be adequate and in line with general practice in the industry. We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. In line with general market practice, we do not maintain any business interruption insurance, which are not mandatory under PRC laws. We do not maintain keyman insurance, insurance policies covering damages to our network infrastructures or information technology systems, except for some property insurance. In relation to our services provided our full-time doctors through our Hainan Internet Hospital, we carry professional liability insurance covering a maximum of RMB3,000,000 in the aggregate over the course of a year, under which no claim had been made during the Track Record Period and as of the Latest Practicable Date. Although we do not maintain insurance policies covering the services provided by the part-time doctors or the external doctors on our platform, we have control on such risks arisen from them by way of contractual arrangements, see “— Online Medical Consultation — Our Medical Team.” In relation to the services provided by the external doctors through our platform, relevant third-party medical institutions generally carry and pay for professional liability insurance covering medical malpractice claims for approximately 70% of the external doctors assigned to our platform. During the Track Record Period, we did not make any material insurance claims in relation to our business. Since October 2021, we have also maintained product liability insurance for products offered on our self-operated platforms, including OTC drugs, prescription drugs and healthcare products. See “Risk Factors — Risks Relating to Our Business and Industry — We may not have sufficient insurance coverage to counter business risks” for further details.”

PROPERTIES

Owned Properties

As of the Latest Practicable Date, we did not have any owned properties.

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Leased Properties

As of the Latest Practicable Date, we leased 411 buildings in China with an aggregate gross floor area of approximately 73,439.0 sq.m., which were primarily used for offices, warehouses and offline pharmacies. Among them, we had obtained valid title certificates or documents to prove their legal rights from relevant landlords of 292 leased buildings with an aggregate gross floor area of approximately 57,935.9 sq.m (accounting for 78.9% of the aggregate gross floor area of our leased buildings). Among the other 119 leased buildings with an aggregate gross floor area of 15,503.1 sq.m, the landlords of such buildings had not provided us with the relevant title certificates. Such leased buildings are used for offices, warehouses and offline pharmacies.

We believe that the reasons that the landlords failed to provide us with the relevant title certificates are beyond our control. To the best of our knowledge, as of the Latest Practicable Date, some of the landlords were applying for the relevant title certificates. In order to minimize the potential negative impacts of the above title defects on our operations, we have maintained regular and active communications with such landlords regarding the progress of their rectification of the title defects. We will also consult our external legal advisor with regard to reviewing the title certificates and other documents of our new leased buildings in order to ensure compliance with applicable PRC laws and regulations.

For any of our leased buildings with any of the aforementioned defects, we believe we are able to find comparable properties as alternatives at commercially acceptable terms to us if we must stop occupying any of these leased buildings, without significant costs, delay or interruption that would materially and adversely affect our business, results of operations and financial conditions.

In addition, as of the Latest Practicable Date, we had not registered the lease agreements for 352 of our leased buildings with the relevant competent authorities in accordance with applicable PRC regulations. As advised by our PRC Legal Advisors, failure to register the lease agreements would not affect the validity and enforceability of such lease agreements. However, if we and the landlords fail to register such lease agreements as required by the relevant competent authorities, we may be subject to a fine of RMB1,000 to RMB10,000 for each of the unregistered lease agreements. As of the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant competent authorities, and the amount of potential penalties accounts for a minimal portion of our total revenue during the Track Record Period.

As a result of the reasons above, we believe that the defects of our leased buildings would not materially and adversely affect our business operations.

ENVIRONMENT, SOCIETY AND GOVERNANCE

We are committed to social responsibility and believe that Environmental, Social and Governance ("ESG") is essential to our sustainable development. Our focus areas include economic remissibility, employee responsibility, customer responsibility, partner responsibility, environmental responsibility and public responsibility.

Governance on ESG Matters

Our ESG strategy and policy include, among others: (i) the direct involvement of our directors in the design of our ESG strategy and objectives and in evaluating, determining and addressing the risks associated with ESG; (ii) our ESG governance structure, which is comprised of energy saving and environmental protection team, learning and training institute, supervision and assessment team, etc. set up and supervised by our management; (iii) integration of the environmental protection concept into all

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aspects of our work, including daily operations and appraisals, to encourage low-carbon services; (iv) promotion of environmental protection and drug waste reduction, including encouraging users to reduce drug hoarding by ensuring on-time delivery of drugs so that there would be no need to hoard drugs, thus reducing the health risks and environmental pollution associated with expired medications, while also reducing unnecessary costs for our users; (v) occupational and health and work safety policies, including organizing staff training and staff activities and issuing holiday benefits to employees in order to improve team health and team cohesion; (vi) employment of people with disabilities and creating working conditions that allow them to mix in with other employees; and (vii) donation of materials to community workers, schools, etc., based on community needs.

Impact of Environmental, Social and Climate-Related Risks

Supervised by our management, we actively identify and monitor the actual and potential impact of environmental, social and climate-related risks on our businesses, strategy and financial performance over the short, medium and long term, and we seek to incorporate such issues into our businesses, strategy and financial planning. Our management and the energy saving and environmental protection team will evaluate the likelihood of occurrence of such risks and the estimated magnitude of the resulting impacts over short, medium and long term horizons. As we do not operate any production facilities, we are not subject to significant health, safety, environmental or social risks. It is also expected that the extreme weather conditions for potential physical risks and change in climate-related regulations and policy for potential transition risks would not have a material impact on our operation in the short, medium and long terms. Nonetheless, our management have been assessing and managing business risks and opportunities, and set forth below are opportunities identified over the short, medium and long term.

Long-term opportunities

As China's aging population continues to grow, people's demand for a better life and medical and health services continues to grow. In expectation of growing demands for health products, we will strengthen our expertise in healthcare consultation and medicine supply and consolidate our position in the industry to provide residents with more convenient, professional and efficient service through integrated online and offline one-stop medical and healthcare services.

Medium-term opportunities

With the tide of technological innovations, new online remote consultation and new treatment methods will continue to emerge. We aim to utilize and develop cutting edge technology to further improve our online and offline product and service offerings.

Short-term opportunities

We have set up response mechanism to counter unexpected natural disasters and social events. With our operations and product and service offerings, we aim to be among the first to support the society by providing 24-hour free access to medical services, emergency deployment of pharmaceutical supplies, etc.

ESG Policy and Strategy

We are committed to social responsibilities. We have formulated visions and goals to meet higher standards in ESG aspects. We focus on areas where we can use our existing capabilities to empower our industry and the whole society. For example, we have adopted stringent internal policies to monitor the presentation of drugs and medical devices on our platforms to prevent false information and exaggerated advertisements. We have established a quality control system in accordance with the good supply practice (GSP) for pharmaceutical products and set up our own quality management standards. Our dedicated

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quality control team has established business control mechanism to ensure the quality of our products through quality testing measures to provide solid protection for our users.

In addition, we have adopted policies to prevent “over-prescriptions”. For example, we have put in place internal prescription review procedures to avoid “over-prescriptions” by doctors.

- In terms of prescription drugs offered on our self-operated online platforms, all prescription drug sales must be accompanied with prescriptions issued by our doctors. The prescriptions issued by our doctors expire three days after issuance and patients are strictly prohibited to purchase the prescription drugs with expired prescriptions. Our doctors are required to fill in all information and expiry date on the prescription in our system. In addition, we have set upper limits for prescription drug dosage pursuant to the relevant rules and regulations. Maximum five types of prescription drugs are allowed to dose for each prescription, and Chinese herbal medicine, traditional Chinese medicine and Western medicine are not allowed to be dosed in the same prescription. Furthermore, special approval is required from licensed pharmacists if more than one prescription drugs are dosed, who will reassess the symptoms of the patients.
- In terms of prescription drugs sold from our offline retail, licensed pharmacists or other pharmaceutical professionals shall be on duty, who are responsible to check the details on the prescriptions. In addition, they are also responsible to reassess patients’ the present symptoms in light of the dosage on the prescription to avoid “over-prescriptions”.

In case there is any abnormal prescriptions noted, licensed pharmacists or other pharmaceutical professionals will consult with our qualified doctors and update the prescriptions where necessary. Periodical trainings are provided to our doctors, licensed pharmacists and other pharmaceutical professionals to address the importance of suitable prescription.

Metric and Targets for Evaluating and Managing the Risks

We do not operate any production facilities. Therefore, we are not subject to significant health, safety or environmental risks. We do not expect to incur any material liabilities or expenditures in health, safety and environmental issues. Nonetheless, we have adopted mechanisms to be socially responsible. For example, we encourage low-carbon and environmentally friendly travel. In the distribution process, we use electric vehicles as the delivery tools for drugs and commodities. Our staff patrol all areas of our offices around the clock to turn off unnecessary air conditioning and power equipment in a timely manner to reduce waste of resources. We actively promote paperless office. For documents that must be printed, we encourage double-sided printing. We also actively classify garbage for recycling and reduce domestic and work waste. To ensure compliance with applicable laws and regulations, our human resource department will, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other penalties due to non-compliance with health, safety or environmental regulations.

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RISK MANAGEMENT AND INTERNAL CONTROL

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations. We are dedicated to continuously improving these systems, developing a risk management culture and raising the risk management awareness of all employees. We have adopted and implemented comprehensive risk management policies in various aspects of our business operations.

Operational and Information System Risk Management

Operational risk refers to the risk of direct or indirect financial loss resulting from incomplete or problematic internal processes, personnel mistakes, IT system failures, third-party payment processing risks, or external events. We have established a series of internal policies and procedures to manage such risks. In particular, we pay close attention to risk management relating to our information technology and data privacy and protection, as sufficient maintenance, transmission, storage and protection of user data and other related information are critical to our success. We have been committed to promoting compliance culture, and will adopt policies and procedures on various compliance matters. In order to effectively manage our compliance and legal risk exposures, we have adopted strict internal policies and procedures to ensure compliance of our business operations with relevant laws and regulations. In particular, our compliance and legal department is responsible for ensuring ongoing compliance with the relevant data privacy and protection laws and regulations and relevant rules and requirements governing electronic fund transfers in the PRC. In addition, we continually review our internal policies and procedures and the implementation of our measures to ensure that our policies and their implementation are effective and sufficient. Our Directors will be involved in the formulation of the internal policies and procedures.

Internal Audit Risk Management

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. For the professional qualifications and experiences of the members of our audit committee, see the section headed "Directors and Senior Management". We also maintain an internal audit department which is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee and senior management on any issues identified.

We accept payment through the E-Commerce Witness System established by a commercial bank (the "**Witness Bank**"). When a user purchases goods or services on our platforms, the funds are transferred into a special bank account established and held in escrow by the Witness Bank. We are not able to manage or operate the special account, and the funds in the special account are completely segregated from our own funds. After an order has delivered the goods or services to the user and the user has confirmed acceptance, the Witness Bank will split the funds and made the payment to the relevant parties and us respectively. Based on the confirmation letter issued by the Witness Bank and the verbal consultation conducted by the respective representatives of our PRC Legal Advisors and of the Joint Sponsors with the Witness Bank, the E-Commerce Witness System of the Witness Bank has been filed with the People's Bank of China. Therefore, the PRC Legal Advisors are of the view that our cooperation with the Witness Bank complies with the relevant rules and requirements governing electronic fund transfers in the PRC in all material aspects. However, since the relevant regulations governing electronic fund transfers in the PRC are relatively new and evolving, risks and uncertainties still exist on how they will be interpreted or enforced.

Human Resources Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We schedule regular online and offline trainings to ensure that our staff's skill sets and knowledge level of our policies remain up-to-date, enabling them to better discover and meet consumers' and merchants' needs. We have in place an employee handbook and a code of conduct approved by our management and have distributed them to all our employees. The handbook contains internal rules and guidelines regarding work ethics, fraud prevention mechanisms, negligence and corruption. We provide employees with regular training, as well as resources to explain the guidelines contained in the employee handbook.

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Anti-corruption

We have in place an anti-bribery and corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conduct and our anti-bribery and corruption measures. We make our internal reporting channel open and available for our staff to report any bribery and corruption acts, and our staff can also make anonymous reports to our anti-fraud team. Our anti-fraud team is responsible for investigating the reported incidents and taking appropriate measures.

LICENSES AND PERMITS

We are required to obtain various licenses, permits and certifications for our operations.

As advised by our PRC Legal Advisors, during the Track Record Period and as of the Latest Practicable Date, expect as disclosed hereunder, we had duly obtained and maintained all material licenses, permits and certificates required by PRC laws and regulations for our operations, and such licenses, permits and certificates have remained in full effect, in addition, we had not been subject to any fines or other penalties in relation to such licenses, permits and certifications for our operations. Our PRC Legal Advisors have advised us that there is no material legal impediment to renewing our licenses, permits and certificates required for our operations, provided that we have complied with all the requirements under the applicable laws and regulations.

The following table sets out a list of material licenses, permits and certifications currently held by us, as of the Latest Practicable Date:

Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Dingdang Medicine Express Technology Group Ltd. (叮噹快藥科技集團有限公司), . . .	Value-Added Telecommunications Business Operating License (增值電信業務經營許可證) ⁽¹⁾	京ICP證150310號	2020.02.26	2025.02.26
	Value-Added Telecommunications Business License (增值電信業務許可證)	京B2-20150510	2020.05.06	2025.05.06
	Value-Added Telecommunications Business License (增值電信業務許可證)	京B2-20212409	2021.07.15	2026.07.15
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	京-(經營性)-2015-0019	2020.06.22-	2025.06.21
	Medical Devices Internet Transactions Services Third-Party Platform Filing Certificate (醫療器械網絡交易服務第三方平台備案憑證)	(京)網械平台備字(2018)第00006號	2018.06.01	N/A

Note:

(1) Dingdang Medicine Express Technology had not obtained the Value-Added Telecommunications Business Operating License for the business category of “online data processing and transaction processing business” (“**EDI Licence**”) until 3 March, 2021. Based on the verbal consultation conducted by the respective representatives of our PRC Legal Advisors and of the Joint Sponsors with the MIIT, which is the competent authority of the value-added telecommunications business, on February 5, 2021, Dingdang Medicine Express Technology and its subsidiaries had not been found to have violated any laws or regulations in their daily operations since their establishment and had not been imposed any administrative penalties by the MIIT or included in the list of undesirable telecommunications business operations. Therefore, the PRC Legal Advisors are of the view that the possibility of us being subject to administrative penalties as a result of Dingdang Medicine Express Technology’s failure to obtain the EDI Licence in a timely manner during the Track Record Period is low.

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Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Dingdang Smart Pharmacy (Beijing) Co., Ltd. (叮噹智慧藥房(北京)有限公司) . . .	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(京)-非經營性-2015-0052	2021.03.02	2025.03.17
	Pharmaceutical Operation License (藥品經營許可證)	京BA0619007	2021.01.08	2024.12.09
	Medical Devices Operation License (醫療器械經營許可證)	京豐食藥監械經營許 20150266號	2021.11.24	2024.11.18
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	京豐食藥監械經營備 20150421號	N/A	N/A
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(粵)-經營性-2021-0347	2021.08.06	2026.08.05
Dingdang Smart Pharmacy (Guangdong) Co., Ltd. (叮噹智慧藥房(廣東)有限公司) . . .	Pharmaceutical Operation License (藥品經營許可證)	粵BA7550414	2021.06.04	2026.06.03
	Medical Devices Operation License (醫療器械經營許可證)	粵327333	2017.12.15	2022.12.14
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	粵深食藥監械經營備 20162492	N/A	N/A

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Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Dingdang Smart Pharmacy (Guangzhou) Co., Ltd. (叮噹智慧藥房(廣州)有限公司) . . .	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(粵)-經營性-2019-0079	2019.03.29	2024.03.38
	Pharmaceutical Operation License (藥品經營許可證)	粵BA0200513	2018.12.18	2023.12.17
	Certificate of Quality Management Standard for Drug Operation (藥品經營質量管理規範認證證書)	B-GD-19-029	2019.04.26	2024.02.29
	Medical Devices Operation License (醫療器械經營許可證)	粵穗食藥監械經營許 20200934號	2021.01.14	2025.11.23
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	粵穗食藥監械經營備 20182734號	N/A	N/A
	Pharmaceutical Operation License (藥品經營許可證)	川BA02814621(18)	2020.04.03	2025.04.02
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(川)-非經營性-2021-0195	2021.07.07	2026.07.06
Chengdu Dingdang Smart Pharmacy Chain Co., Ltd. (成都叮噹智慧藥房連鎖有限公司)	Medical Devices Operation License (醫療器械經營許可證)	川蓉食藥監械經營許 20201100號	2020.10.29	2025.10.28
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	川蓉食藥監械經營備 20162232號	N/A	N/A

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Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Jiangxi Dingdang Health Pharmacy Chain Co., Ltd. (江西叮噹健康藥房連鎖有限公司)	Pharmaceutical Operation License (藥品經營許可證)	贛BA7950284	2020.11.24	2025.11.23
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	贛B202007950044	2020.10.15	2025.10.14
	Medical Devices Internet Operation Filing Certificate (醫療器械網絡經營備案憑證)	贛宜樟市監械網經營備20200002號	N/A	N/A
	Value-Added Telecommunications Business Operating License (增值電信業務經營許可證)	贛B2-20210030	2021.01.11	2026.01.11
	Medical Devices Operation License (醫療器械經營許可證)	贛宜樟市監械經營許20210524號	2021.02.19	2026.02.18
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	贛宜樟市監械經營備20200001號	N/A	N/A
	Dingdang Smart Pharmacy (Shanghai) Co., Ltd. (叮噹智慧藥房(上海)有限公司).	Pharmaceutical Operation License (藥品經營許可證)	滬BA0210053	2020.08.07
Certificate of Quality Management Standard for Drug Operation (藥品經營質量管理規範認證證書)		B-SH18-001	2018.05.10	2022.07.06
Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)		(滬)-非經營性-2021-0002	2021.09.16	2026.09.15
Medical Devices Operation License (醫療器械經營許可證)		滬寶食藥監械經營許20190002號	2020.06.03	2024.01.03
Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)		滬寶食藥監械經營備20170116號	N/A	N/A

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Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Dingdang Smart Pharmacy (Wuhan) Co., Ltd. (叮噹智慧藥房(武漢)有限公司)	Pharmaceutical Operation License (藥品經營許可證)	鄂BA0271032	2019.08.01	2024.06.27
	Certificate of Quality Management Standard for Drug Operation (藥品經營質量管理規範認證證書)	B-HUB19-01-0221	2019.07.04	2024.07.03
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(鄂)-非經營性-2019-0048	2019.07.11	2024.07.10
	Medical Devices Operation License (醫療器械經營許可證)	鄂漢食藥監械經營許 2020B018號	2020.07.31	2025.07.30
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	鄂漢食藥監械經營備 20201205號	N/A	N/A
Dingdang Smart Pharmacy (Hangzhou) Co., Ltd. (叮噹智慧藥房(杭州)有限公司)	Pharmaceutical Operation License (藥品經營許可證)	浙BA5710071	2019.10.12	2024.06.20
	Certificate of Quality Management Standard for Drug Operation (藥品經營質量管理規範認證證書)	浙BA5710071	2019.06.21	2024.06.20
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(浙)-經營性-2021-0012	2021.05.11	2026.02.21
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	浙杭食藥監械經營備 20190687號	N/A	N/A
Dingdang Smart Pharmacy (Nanjing) Co., Ltd. (叮噹智慧藥房(南京)有限公司)	Pharmaceutical Operation License (藥品經營許可證)	蘇BA0250034	2019.10.15	2024.10.14
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(蘇)-非經營性-2020-0013	2020.01.16	2025.01.15
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	蘇寧食藥監械經營備 20190709號	N/A	N/A

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Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Dingdang Smart Pharmacy (Tianjin) Co., Ltd. (叮噹智慧藥房(天津)有限公司), . . .	Pharmaceutical Operation License (藥品經營許可證)	津CB1100062-002	2019.01.02	2024.01.01
	Certificate of Quality Management Standard for Drug Operation (藥品經營質量管理規範認證證書)	B-TJ19-053	2020.03.16	2024.01.01
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	(津)-非經營性-2019-0001	2019.01.17	2024.01.16
	Medical Devices Operation License (醫療器械經營許可證)	津麗食藥監械經營許 20190022號	2020.03.25	2024.08.25
	Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)	津麗食藥監械經營備 20190001號	N/A	N/A
	Henan Dingdang Smart Pharmacy Co., Ltd. (河南叮噹智慧藥房有限公司),	Pharmaceutical Operation License (藥品經營許可證)	豫BA37100096	2020.07.24
Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)		豫-非經營性-2021-0015號	2021.02.05	2026.02.04
Class 2 Medical Device Operation Filing Certificate (第二類醫療器械經營備案憑證)		豫鄭航市場監械經營備 20200033號	N/A	N/A
Jiangxi Renhetang Pharmaceutical Chain Co., Ltd. (江西仁和堂醫藥連鎖有限公司), . . .	Pharmaceutical Operation License (藥品經營許可證)	贛BA7950184	2020.01.03	2025.01.02
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	贛A202007950015	2020.06.15	2025.06.14
	Medical Devices Operation License (醫療器械經營許可證)	贛樟食藥監械經營許 20150021號	2020.06.28	2025.06.27

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Entity	Name of the License, Permit and Certification	Registered Number	Grant Date	Expiration Date
Renhe Yaofangwang (Beijing) Medicine Technology Co., Ltd. (仁和藥房網(北京)醫藥 技術有限公司),	Pharmaceutical Operation License (藥品經營許可證)	京BA0619006	2020.08.26	2024.06.12
	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務 資格證書)	(京)-經營性-2018-0221	2020.02.03	2023.11.13
	Certificate of Quality Management Standard for Drug Operation (藥品經營質量管理規 範認證證書)	B-BJ19-N0017	2019.12.27	2024.01.31
	Value-Added Telecommunications Business Operating License (增值電信業 務經營許可證)	京B2-20180434	2020.03.18	2023.03.07
	Medical Devices Operation License (醫療器械經營許可證)	京豐食藥監械經營許 20150100號	2020.03.23	2024.10.07
	Class 2 Medical Device Operation Filing Certificate (第二類醫 療器械經營備案憑證)	京豐食藥監械經營備 20150159號	N/A	N/A
	Dingdang Kuaiyi (Hainan) Internet Hospital Co., Ltd. (叮 嚙快醫(海南)互聯網醫 院有限公司)	Value-Added Telecommunications Business License (增值電信業務許可證)	瓊B2-20200387	2020.07.03
Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務 資格證書)		(瓊)-經營性-2020-0021	2020.07.28	2025.07.27
Practice License of Medical Institution (醫療機構執業許可證)		MA5T9EDF546000017D102	2019.08.02	2024.08.01
Dingdang Kuaiyi (Hainan) Telemedicine Center Co., Ltd. (叮嚙 快醫(海南)遠程醫療中 心有限公司)	Practice License of Medical Institution (醫療機構執業許可證)	MA5T9EDF546000017D102	2019.08.02	2024.08.01

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LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

From time to time, we may become involved in legal and administrative proceedings and other disputes in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Compliance

Recent regulatory development in the PRC

On July 16, 2021, the National Health Insurance Administration (NHA) issued the Opinions of NHA on Optimizing Convenient Services in the Health Insurance Field (《國家醫療保障局關於優化醫保領域便民服務的意見》), which actively promotes “Internet Plus Health Insurance Services” and explores information sharing to realize the integration of prescription flow, online payment and settlement, and home delivery of medicines according to the principle of online and offline equity and health insurance payment policies.

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the the Opinions on Strictly Combatting Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》) (the “**6 July Opinion**”), which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. Furthermore, along with the promulgation of the 6 July Opinion, overseas-listed China-based companies (中概股公司) are experiencing a heightened scrutiny over their compliance with laws and regulations regarding data security, cross-border data flow and management of confidential information from PRC regulatory authorities. Such laws and regulations are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process. As of the Latest Practicable Date, we have not received any inquiry, notice, warning, or sanctions regarding this offering from the CSRC or any other PRC government authorities in such respect.

On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which has taken effect in September 2021. The Data Security Law introduces a data classification and hierarchical protection system based on the materiality of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of persons or entities when such data is tampered with, destroyed, divulged, or illegally acquired or used. It also provides for a security review procedure for the data activities which may affect national security.

On December 28, 2021, the Cyberspace Administration of China (the “CAC”), jointly with the relevant authorities, published the Measures for Cybersecurity Review (《網絡安全審查辦法》), which stipulates that operators of critical information infrastructure purchasing network products and services, and network platform operators carrying out data processing activities that affect or may affect national security, shall conduct cyber security review. Pursuant to Article 7 of the Measures for Cybersecurity Review, any network platform operator with data on more than 1 million users must go through a cybersecurity review by the cybersecurity review office before listing in a foreign country (original text read as follows: “掌握超過100萬

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用戶個人信息的網絡平台運營者赴國外上市，必須向網絡安全審查辦公室申報網絡安全審查”。 However, the Measures for Cybersecurity Review provides no further explanation or interpretation for “listed abroad” (國外上市). On November 14, 2021, the CAC promulgated the Network Data Security Management Regulations (“**Draft for Comments**”) (《網絡數據安全管理條例(徵求意見稿)》), which provides that data processors listing in Hong Kong which affects or may affect national security shall apply for cybersecurity review. However, the Draft for Comments provides no further explanation or interpretation for “affects or may affect national security”, and there is substantial uncertainty as to its eventual introduction and entry. As advised by our PRC Legal Advisors, the exact scope of “affects or may affect national security” under the Draft for Comments and the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. As of the Latest Practicable Date, we had not been involved in any investigations on cybersecurity review made by the CAC on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect. Based on the foregoing, we and our PRC Legal Advisors are of the view that, as of the date of this document, the current applicable PRC laws on cybersecurity would not have any material adverse impact on us.

The Joint Sponsors have conducted, among other things, the following independent due diligence work in respect of the implications of the Measures for Cybersecurity Review on the Group’s business operations and financial performance:

- (i) reviewed the Measures for Cybersecurity Review published by the CAC with the assistance of the PRC legal advisors of the Company and of the Joint Sponsors;
- (ii) discussed with the management of the Company to understand, among others, the cybersecurity and data privacy control of the Company and impact on the business of the Company caused by the current applicable PRC laws and the recent regulatory developments on cybersecurity;
- (iii) discussed with the management of Company and PRC Legal Advisors on the implication from PRC laws perspective of the Measures for Cybersecurity Review on the Group’s business operations and financial performance, the basis of the PRC Legal Advisors’ interpretation of such implication, the potential impact and latest status of the aforementioned recent regulatory developments;
- (iv) obtained and reviewed representations made by the Company in the responses to the due diligence questionnaire about the Measures for Cybersecurity Review and the relevant supporting documents; and
- (v) obtained and reviewed advanced draft of a standalone PRC legal opinion prepared by the PRC Legal Advisors in relation to compliance of the Company with the applicable laws and regulations of cybersecurity and data security, and such advanced draft of PRC legal opinion did not reveal any material non-compliance of the Group in this regard.

Based on the information currently-available to the Joint Sponsors and the independent due diligence work conducted as described above, nothing has come to the Joint Sponsors’ attention as of the date of this document that would cause them to disagree with the Company’s and the PRC Legal Advisors’ views mentioned above in any material respects.

As advised by the PRC Legal Advisors, we believe that, as of the Latest Practicable Date, there was no potential impact of the above mentioned regulatory development in the PRC on our business operations in all material respects.

During the Track Record Period and up to the Latest Practicable Date, except as disclosed hereunder and elsewhere in this document, we had not been involved in any non-compliance incidents that led to

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finances, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations, and we are of the view that, we had complied, in all material respects, with all relevant laws and regulations in the PRC during the Track Record Period and up to the Latest Practicable Date.

Inspections by governmental authorities

During the Track Record Period and as of the Latest Practicable Date, governmental authorities had conducted inspections on our business, which had been all completed and resolved, and there was no administrative penalty issued following such inspections. We have taken remedial measures and submitted relevant rectification reports as required by the relevant governmental authorities. The details and status of such inspections and remedial measures taken by us are listed as below:

<u>Inspections Details</u>	<u>Remedial Measures</u>
One of our operating entities changed the manager of the quality management department in August 2020 and did not conduct any internal audit accordingly.	We have completed internal audit on its quality management system in October 2020.
One of our operating entities did not review the drugs damaged in the process of delivery.	We have adopted internal measures to review unqualified drugs and generate reports quarterly.
One of our operating entities did not keep a proper storage of drugs in its warehouse.	We have adopted internal measures to make sure drugs are properly stored at different decker/pile in its warehouses.
One of our operating entities did not maintain relevant quality guarantee agreements with its suppliers valid and updated.	We have adopted internal measures to systemically file agreements, records and other documents with different suppliers.
One of our operating entities did not conduct periodical drug maintenance summary and review.	We have adopted internal measure to conduct summary and review regarding drug maintenance and generate reports quarterly.

The Directors believe that the relevant internal policies and remedial measures as mentioned above are effective in accordance with the Company's internal control systems, which has been reviewed and advised by our independent internal control consultant.

Social insurance and housing provident funds

Background and reasons for non-compliance

During the Track Record Period and as of the Latest Practicable Date, we had not made social insurance and housing provident fund contributions for some of our employees timely or in full in accordance with the relevant PRC laws and regulations. The provision we have made related to social insurance and housing provident fund contributions amounted to approximately RMB22.2 million, RMB28.4 million and RMB95.7 million in 2019, 2020 and 2021, respectively. We were unable to make full social insurance and housing provident fund contributions for such employees primarily because (i) certain of our employees were not willing to bear the costs associated with social insurance and housing provident funds strictly in proportion to their salary, and (ii) a certain number of our employees were migrant workers who were typically not willing to participate in the social welfare schemes of the city where they temporarily resided and instead they chose to participate in local welfare schemes offered in their place of residency. In those cases, we provide these employees with compensation and benefits in lieu of such contribution.

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Potential legal consequences

According to Article 86 of the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) if an employer fails to pay social insurance contributions in full and on time, the social insurance contribution collection agency shall order the payment within a certain period of time and impose a late payment fee of 0.05% of the amount of the late payment per day; if the payment is still overdue, the relevant administrative department shall impose a penalty of not less than twice and not more than three times the amount of the defaulted payment. According to the Regulations on Management of Housing Fund (《住房公積金管理條例》) which was promulgated by the State Council on April 3, 1999 and became effective on April 3, 1999 and as amended on March 24, 2019, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated time limit; otherwise, an application may be made to a local court for compulsory enforcement.

We have made provision for the outstanding amount of social insurance contributions and housing provident fund. We have undertaken that if we are ordered by the relevant authorities to pay social insurance contributions or housing provident fund, we will pay the outstanding amount and any applicable late payment fee in full and on time. As such, the PRC Legal Advisors have advised us that the likelihood that we are subject to such penalty is low.

Latest status and remedial measures

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order or been informed to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any complaint filed by any of our employees regarding our social insurance and housing provident fund policy.

We have taken the following internal control rectification measures to prevent future occurrences of such non-compliance:

- we have made provisions for paying the outstanding amount, surcharge and additional fine of social insurance contributions and the housing provident fund contributions, upon request by the competent social insurance and/or housing provident fund authorities;
- we have enhanced our human resources management policies, including revising our current version of employee handbook and employment agreement template to explicitly require participation in the social insurance and housing provident fund schemes, and contribution to the social insurance and housing provident fund in full in accordance with the relevant laws and regulations in the PRC and applicable local requirements and all of our new employees are required to agree to such material terms related to social insurance and housing provident funds;
- in respect of employees who started employment prior to our new employment agreement, we will assign responsibility to the human resource department to maintain record of them and their corresponding compliance details, and make relevant provisions for the unpaid amount of social insurance and housing provident fund;
- we are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees, and as at the Latest Practicable Date, we had not received any material complaint from our employees;

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- we have assigned responsibility to the human resource department to ensure compliance with the PRC laws and regulations on social insurance and housing provident funds after [REDACTED];
- we will keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and
- we will consult our PRC legal advisors on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

Having considered the foregoing, we believe that such non-compliance would not have a material adverse effect on our business, results of operations or financial condition, considering that: (i) we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date due to such non-compliance with respect to social insurance and housing provident funds, (ii) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds, and (iii) we have obtained an indemnity from Mr. Yang Wenlong to indemnify us against any claims, fines, economic losses and other losses which may arise from such non-compliance.

Having considered the nature of and reasons for the non-compliance incidents above, the rectification actions taken and the enhanced internal control measures adopted by the Group, the Joint Sponsors are of the view that the enhanced internal control measures are effective and sufficient on the following basis:

- the independent internal control consultant of the Company has performed a review of the Group's internal control system, and confirmed that all material deficiencies identified during its review, including those relating to the internal control systems for the payment of social insurance and housing provident fund contributions, had been rectified;
- the Group has implemented substantially all of the recommendations made by the independent internal control consultant, in particular, the Group has improved and enhanced the Company's internal control system to comply with the Listing Rules and applicable PRC laws and regulations; the independent internal control consultant further confirmed that no material deficiency was identified in the internal control system of the Group following implementation of its recommendations;
- the Directors of the Company have confirmed that, (i) with the implementation of the internal control rectification measures as above, the Group will make a firm commitment to comply with the relevant PRC laws and regulations relating to the payment of social insurance and housing provident fund contributions in all material respects upon [REDACTED]; and (ii) the Company had not been subject to any administrative penalties as of the Latest Practicable Date relating to the payment of social insurance and housing provident fund contributions; and
- the Company's PRC Legal Advisors have confirmed that the likelihood that the Company will be subject to the abovementioned penalties due to the above non-compliance is low.

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AWARDS AND RECOGNITIONS

During the Track Record Period, we have received recognition for the quality and popularity of our products and services. Some of the significant awards and recognition we have received are set forth below.

<u>Award/Recognition</u>	<u>Award year</u>	<u>Awarding Institution/Authority</u>
China Industrial Supply-side Digital Service Platforms . . .	2021	iiMedia Ranking
China New Economy Enterprise with Greatest Growth Potential	2021	The Capital
2020 High Growth Chinese Enterprise	2020	Forbes
2020 China Gazelle Enterprise	2020	Hurun
2020 Annual Chinese Enterprise with Greatest Growth Potential	2020	China Entrepreneur Magazine
2019 King of the New Economy — Internet Healthcare . .	2019	36 Kr