You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this document.

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

OVERVIEW

We are a pioneer and leader in providing express digital healthcare service in China. We are transforming and reshaping 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 the provision of healthcare product and service offerings.

Leveraging our integrated online and offline operations, we provide our users with a full suite of on-demand healthcare product and service offerings, such as drug express, online medical consultation and chronic disease and healthcare management.

In 2019, 2020 and 2021, our revenue was approximately 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.

RECENT DEVELOPMENTS

Since the end of the Track Record Period and up to the Latest Practicable Date, our business continued to expand. As of the Latest Practicable Date, we had 348 smart pharmacies and 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. As of the Latest Practicable Date, the number of our distributors was 185.

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. See "Business – Business Sustainability."

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

BASIS OF PRESENTATION

We were incorporated in the Cayman Islands as an exempted company with limited liability on August 20, 2014. We are principally engaged in the provision of a series of healthcare product and service offerings, such as drug express, online medical consultation, and chronic disease and healthcare management.

Our consolidated result of operations has been prepared in accordance with accounting policies which conform with IFRSs issued by International Accounting Standard Board. Our consolidated result of operations has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Please refer to Note 3 of the Accountants' Report in Appendix I to this document.

In the application of our accounting policies, our directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions that have a significant risk of causing a material adjustment to our financial position and results of operation are addressed in Note 4 of the Accountants' Report in Appendix I.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of general factors affecting the digital health and wellness industry in general, many of which may be beyond our control.

We operate in the digital health and wellness industry, and our financial condition and results of operations are influenced by the general development of this industry. However, comparing to the general industry, our operating results are more directly affected by our Company's specific factors, including:

- Our ability to increase the scale of our business by expanding our smart pharmacy network across China;
- Our ability to promote our brand effectively and efficiently;
- Our ability to enrich our product and service offerings;
- Our ability to enhance the supply chain advantages and empower pharmacies, pharmaceutical enterprises and other partners; and
- Our ability to effectively invest in technology to enhance efficiency.

Our Ability to Increase the Scale of Our Business by Expanding Our Smart Pharmacy Network Across China

Our results of operations are highly affected by our ability to leverage our scale of business, which we strive to achieve through expanding our smart pharmacy network across China and growing our user base.

We have been actively expanding our smart pharmacy network and establishing our presence in more cities across China, so as to keep increasing our user base and user engagement. During the Track Record Period, we expanded our business from first-tier cities to second-and-lower-tier cities, as the number of cities where we operate increased from 11 as of December 31, 2019 to 14 as of December 31, 2021, and the number of our smart pharmacies across China increased from 220 as of December 31, 2019 to 321 as of December 31, 2021.

In addition to the expansion of our smart pharmacy network, we have also been actively expanding our business, and thereby growing our user base, by increasing our sales order through other channels, such as online direct sales and online distribution. Furthermore, on top of our drug express business, we have been providing a broad portfolio of value-added service offerings, such as online medical consultation and chronic disease and healthcare management, to complement and synergize with our provision of healthcare products, in order to create value for our users, which helps us expand our users base and drive the expansion of our business.

In addition, we have been leveraging our achievements in economy of scale to improve our operating performance and thus further expand our business. Based on our procurement, we receive rebates for products sold and subsidies for the sale of vendors' products, which are recorded as reduction of cost and which optimise our cost of revenue, as our cost of revenue consists largely of purchase price of products. According to the Frost & Sullivan Report, receiving rebates and subsidies from vendors is in line with general practice in the industry. For the years ended December 31, 2019, 2020 and 2021, we received rebates for products sold and subsidies for the sales of the vendors' products of RMB19.3 million, RMB34.9 million and RMB59.0 million, respectively, counting for 2.4%, 2.4% and 2.3% of our cost of revenue, respectively. As a result, we recorded a gross profit margin of 31.6% in 2021. As our business further grows in scale, we expect to obtain more favorable policies from our partners, including but not limit to pricing terms, credit period and volume-based rebates.

Our Ability to Promote Our Brand Effectively and Efficiently

Our business depends on our reputation and brand awareness among users. Our brand awareness will be crucial for our user base and user engagement, which in turn impact their consumptions of the product and service offerings we provide. In order to promote our brand effectively, we have been conducting a series of marketing and promotion activities. During the Track Record Period, our selling and marketing expenses increased constantly. In addition, we promote our brand through the high-quality delivery service provided by our delivery team, as well as the portfolio of product and service offerings we provide through various online and offline channels.

Our Ability to Enrich Our Product and Service Offerings

Our results of operations also hinge on our ability to provide a broad and well-diversified portfolio of product and service offerings to meet the demands of different users, so as to give users more choices and increase their loyalty to our brand, our online platforms and our network of smart pharmacies. In order to fulfill the demand of customers, we expanded the coverage of the products provided under our drug express offering and chronic disease and healthcare management, by adding certain proscribed drugs and new specialty drugs.

Our enriched portfolio of product and service offerings include a wide range of OTC and prescription drugs, healthcare products and online medical services such as medical consultation, chronic disease and healthcare management, psychological consultation and clinical appointment, which highly increased our ability to attracting users. For more information about the products and services we provided, see "Business — Our Product and Service Offerings."

We intend to further enrich our product and service offerings by expanding the portfolio of our product and service offerings and enhancing the synergy among our product and service offerings, and providing more fulfillment and other value-added offerings to our users.

Our Ability to Enhance the Supply Chain Advantages and Empower Pharmacies, Pharmaceutical Enterprises and Other Partners

We capitalize on our extensive supply chain network to empower our user engagement and enhance our portfolio of product and service offerings. In the mean time, we also leverage our business model to create value for third-party merchants in our supply chain, in particular, pharmaceutical enterprises and pharmaceutical distribution enterprises. In order to create values for our partner, we strived to enhance our supply chain capabilities, including but not limit to, improving our inventory management system, building the delivery team for our drug express business to enhance delivery efficiency, and connecting to upstream pharmaceutical enterprises and healthcare suppliers through joining the FSC alliance of pharmaceutical enterprises.

In order to further enhance our supply chain advantages, we aim to have a closer cooperative relationship with our partners, including but not limited to suppliers, distributors and third party platforms. We believe that the value propositions provided by such partners will also help us deepen our relationships with, and obtain favorable terms from our partners, which may reduce our costs of goods and increase our profit margin. In addition, in order to enhance our supply chain advantage, we strive to attract more third-party pharmacies to join our own online platforms, enhance our cooperation with pharmaceutical enterprises, and establish collaboration with insurance companies, Internet hospitals, community hospitals, third-party platforms and pharmaceutical products distribution companies, among others.

Our Ability to Effectively Invest in Technologies to Enhance Efficiency

Our results of operations partly depend on our ability to use technologies to empower our business model and improve operational efficiency. Investment in technologies enables us to better serve our users, thus driving the growth of our business and increasing our operating leverage. Such investments also indirectly increase and leverage our scale of business. Our investments in technology has brought about key technological advantages such as smart site selection, smart operation, smart delivery and smart user management, all of which lead to our superior performance, especially on the level of individual pharmacies, enabling us to better enjoy our economies of scale. See "Business — Competitive Strengths — Proprietary technology platform and strong research and development technical competencies."

The digital health and wellness industry is characterized by rapidly changing technologies, introductions of new services and products as well as changing customer demands. Our ability to engage users depends on the breadth and depth of our user insights, our technology capabilities and our infrastructure to develop our online platforms which lay the foundation for the provision of our product and service offerings, and our ability to timely adapt to the rapidly evolving industry trends and user preferences. We have invested, and will continue to invest, in resources to enhance the technology capabilities of our platforms. As our business grows, we will continue to further improve our operating efficiency by developing technologies and infrastructures across different business functions, in order to improve our efficiency precisely.

From 2019 to 2021, our research and development expenses increased at a CAGR of 35.5%. We may not successfully develop our information infrastructure and technologies or recoup the investments we have made for such development, and failure to continue to innovate or adapt to technological changes may materially and adversely affect our financial condition, results of operations and prospects. See "Risks Factor — Risks Relating to Our Business and Industry — If we fail to adopt new technologies or adapt to changing user requirements or emerging industry standards, our business may be materially and adversely affected."

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 3 and 4 to the Accountants' Report in Appendix I to this document.

Significant Accounting Policies

Revenue from contracts with customers

We recognize revenue when (or as) a performance obligation is satisfied, that is, when control of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;
- our performance creates or enhances an asset that the customer controls as we perform; or
- our performance does not create an asset with an alternative use to us and we have an enforceable right to pay for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

When another party is involved in providing goods or services to a customer, we determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. we are a principal) or to arrange for those goods or services to be provided by the other party (i.e. we are an agent).

We are a principal if it controls the specified good or service before that good or service is transferred to a customer.

We are an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, we do not control the specified goods or services provided by another party before the goods or services are transferred to the customer. When we act as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

For contracts that contain variable considerations, we estimate the amount of considerations to which it will be entitled using the most likely amount, which better predicts the amount of consideration to which we will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each Track Record Period, we update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

We recognize a refund liability if we expect to refund some or all of the consideration received from customers.

Product revenue

We primarily sell pharmaceutical and healthcare products through online channels, such as mobile APP or third-party online platforms, and offline pharmacies across PRC. We also distribute some of the products to merchant customers. We recognize the product revenue on a gross basis as we are acting as a principal in these transactions and are responsible for fulfilling the promise to provide the specified goods. Product revenue is recognized at the point in time when the customer obtains control of the products, net of discounts.

Others

We provide marketing services to third-parties on the online and offline channels. We recognize revenue overtime from advertising placements based on our advertising schedules confirmed by customers during the advertising period with output method, as the customers simultaneously receive and consume the benefits throughout the period.

Marketplace services revenue primarily consists of commission fees charged to third-party merchants via our online marketplace such as mobile APP or WeChat mini program. We are generally acting as a principal and obtain control of the agent. The performance obligation is to present specified services before they are transferred to the customers, goods or services by those third-party merchants throughout a certain period. Commission fee revenue is recognized on a net basis over the presenting period with output method.

Contract liability

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration from the customer.

Unearned revenue consists of payments received or awards to customers related to unsatisfied performance obligations at the end of the period, included in contract liabilities in our consolidated statements of financial position.

Share-based payments

Shared-based awards to our employees are granted under a share incentive plan (the "**Share Incentive Plan**"). We grant our restricted share units (the "**RSUs**") and share options to our eligible employees, which are recorded in share-based payments reserves in our consolidated statements of financial position.

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed using graded vesting method over the vesting period, based on our estimate of equity instruments that will eventually be vested, with a corresponding increase in equity (share-based payments reserves). At the end of each reporting period, we revise our estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserves. For RSUs/share options that vest immediately at the date of grant, the fair value of the RSUs/share options granted is expensed immediately to profit or loss.

When share options are exercised, or RSUs granted are vested the amount previously recognized in share-based payments reserves will continue to be held in share-based payments reserves. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based payments reserves will continue to be held in share-based payments reserves.

The effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employees are required to recognize. If the modification increases the fair value of the equity instruments granted, then we are required to measure immediately before and after the modification and include the incremental fair value granted (i.e. the difference between the fair value of the modified equity instrument and that of the date of the modification) in the measurement of the amount recognized for services received as consideration for the equity instruments granted. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments are vested, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The current tax payable is based on taxable profit for the Track Record Period. Taxable profit differs from loss before tax because of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. Our current tax is calculated by using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. See Note 3.16 to the Accountants' Report in Appendix I to this document.

Inventories

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which we must incur to make the sale. Cost of inventory is determined using the weighted average method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. We take ownership, risks and rewards of the products purchased, but has arrangements to return unsold goods with certain vendors. Write downs are recorded in cost of revenue in the consolidated statements of profit or loss and other comprehensive income.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 Business Combination applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with our documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits/accumulated losses upon derecognition of the financial liability.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, we assess whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contracts will not be reassessed unless the terms and conditions of the contracts are subsequently changed.

We as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, we allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

We apply the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by us; and

- an estimate of costs to be incurred by us in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

We present right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

For a lease modification that is not accounted for as a separate lease, we remeasure the lease liabilities, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

We account for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, we have elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before June 30, 2022; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognized in profit or loss in the period in which the event occurs.

We as a lessor

Classification and measurement of leases

Leases for which we are a lessor are classified as financing or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When we are an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Fulfillment expenses

Fulfillment expenses consist primarily of logistics and warehousing services expenses.

Critical Accounting Judgement and Key Sources of Estimation Uncertainty

In the application of our accounting policies, our directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to our financial position and results of operation are addressed below:

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Combination of affiliated entities

We obtained control of the Restricted Subsidiaries by entering into the Contractual Arrangements. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing us with direct control over the Restricted Subsidiaries and uncertainties presented by the PRC legal system could impede the our beneficiary rights of the results, assets and liabilities of the Restricted Subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC Laws and are legally enforceable.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of shares with preferred rights

We have issued a series of shares with preferred rights prior to and during the Track Record Period as set out in Note 25 to the Accountants' Report in Appendix I to this document. We recorded these financial instruments as financial liabilities at FVTPL for which no quoted prices in an active market exist. The fair value of the financial instruments is established by using valuation techniques, which include discounted cash flow and back-solve method involving various parameters and inputs. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. However, it should be noted that some inputs, such as fair value of the ordinary shares of Dingdang Medicine Express Technology, possibilities under different scenarios, such as qualified listing, redemption, liquidation, and other inputs, such as time to liquidation, risk-free interest rate, expected volatility value and dividend yield, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the financial liabilities at FVTPL. The fair value of the shares with preferred rights of us during the Track Record Period are set out in Note 25 to the Accountants' Report in Appendix I to this document.

Leases — Estimating the incremental borrowing rate

We cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that we would have to pay to borrow over a similar term, and with a similar security to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what we "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. We estimate the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of right-of-use assets

We assess whether there are any indicators of impairment for right-of-use assets at the end of each of the Track Record Period. Right-of-use assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit using key assumptions such as the growth rate, the gross profit margin and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of right-of-use assets are set out in Note 20 to the Accountants' Report in Appendix I to this document.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the group of cash-generating units to which goodwill has been allocated, which is the higher of the value-in-use or fair value less costs of disposal. The value-in-use calculation requires us to estimate the future cash flows expected to arise from the group of cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

Useful lives and amortization of other intangible assets

We determine the estimated useful lives and related amortization for our other intangible assets with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets. Specifically, the useful life of customer relationship is estimated based on the retention rate of the current customers of the acquisition target as of the acquisition date, the historical retention rate and projected future revenues associated with such customers. Management will revise the amortization charges where useful lives are different from that of previously estimated. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

Provision of ECL for trade receivables and amounts due from related parties of trade nature

Provision of ECL for trade receivables and amounts due from related parties of trade nature was estimated based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables and amounts due from related parties of trade nature. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. In addition, trade receivables and amounts due from related parties of trade nature that are credit-impaired are assessed for ECL individually. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and our trade receivables and amounts due from related parties of trade nature and disclosed in Note 34 to the Accountants' Report Appendix I to this document.

Level 3 of Fair Value Measurement

In respect of the valuation of level 3 financial assets at FVTPL and financial liabilities at FVTPL, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the financial assets and liabilities without readily determinable fair value; (ii) carefully considered available information in assessing the financial data and assumptions including but not limited to discount rate, political and industry conditions; (iii) engaged independent valuer to appraise the fair value of certain financial assets and liabilities that are significant, provided necessary financial to the valuer for the valuer to assess our performed valuation procedures and discussed with the valuer on relevant assumptions; and (iv) reviewed the valuation reports prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable and our financial statements are properly prepared.

The details on the fair value measurement of the financial assets at FVTPL and financial liabilities at FVTPL, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in Note 34 in Appendix I. The reporting accountants, Deloitte Touche Tohmatsu, have carried out their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole. The Reporting Accountant's opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I.

In relation to the valuation of the Group's level 3 financial assets and financial liabilities at FVTPL, the Joint Sponsors have conducted, among others, the following due diligence work:

(i) discussed with the management of the Company to understand the Group's internal policies and procedures regarding valuation assessment of level 3 financial assets and financial liabilities and the key basis, methodologies and assumptions adopted by the Group for such valuation assessment;

(ii) reviewed relevant notes in the Accountants' Report and the unqualified opinion of the Reporting Accountants on the historical financial information of the Group as contained in Appendix I to the document;

(iii) discussed with the Reporting Accountants to understand the work they have performed in relation to the valuation of level 3 financial assets and financial liabilities for the purpose of reporting on the Historical Financial Information of the Group as a whole;

(iv) reviewed the relevant underlying agreements concerning the corresponding level 3 financial assets and financial liabilities during the Track Record Period;

(v) obtained and reviewed the relevant valuation report prepared by external independent valuation expert, sampled valuation analysis prepared by external independent valuation expert and the management of the Company respectively, and public information on valuation of level 3 financial assets and financial liabilities disclosed by comparable companies;

(vi) obtained and reviewed the engagement letter entered into between the external independent valuation expert and the Company, the work scope and credentials of such external independent valuation expert; and

(vii) interviewed the relevant external independent valuation expert about the key basis, methodologies and assumptions adopted for their valuation of level 3 financial liabilities.

Based on the due diligence work conducted as described above, and having taken into account (i) the work performed by the Company's management regarding valuation of level 3 financial assets and financial liabilities and the above Directors' view, (ii) the work performed by the Reporting Accountants regarding valuation of level 3 financial assets and financial liabilities, and (iii) the unqualified opinion provided by the Reporting Accountants on the Historical Financial Information of the Group as a whole as set out in Appendix I to the document, nothing has come to the attention of the Joint Sponsors that would cause them to disagree in any material respects with the valuation of level 3 financial assets and financial liabilities as reflected in the Historical Financial Information of the Group as a whole as set out in Appendix I to the document.

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF PROFIT OR LOSS

The table below sets forth our consolidated statements of profit or loss with line items in absolute amounts and as percentages of our revenue for the periods indicated derived from our consolidated statements of profit or loss and other comprehensive income set out in the Accountants' Report included in Appendix I to this document:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Revenue	1,275,589	100.0	2,228,563	100.0	3,678,690	100.0
Cost of revenue	(805,635)	(63.2)	(1,462,370)	(65.6)	(2,516,379)	(68.4)
Gross profit	469,954	36.8	766,193	34.4	1,162,311	31.6
Fulfillment expenses	(199,676)	(15.7)	(283,178)	(12.7)	(412,279)	(11.2)
Selling and marketing expenses	(278,464)	(21.8)	(441,310)	(19.8)	(834,783)	(22.7)
Research and development expenses	(52,363)	(4.1)	(82,071)	(3.7)	(96,161)	(2.6)
General and administrative expenses	(57,900)	(4.5)	(120,968)	(5.4)	(481,256)	(13.1)
Fair value changes on financial liabilities at fair value through profit or loss ("**FVTPL**")	(150,685)	(11.8)	(754,591)	(33.9)	(912,201)	(24.8)
Other gains and losses, net	4,176	0.3	11,049	0.5	27,983	0.8
Other income	5,145	0.4	16,230	0.7	15,905	0.4
Finance costs	(5,571)	(0.4)	(6,061)	(0.3)	(17,776)	(0.5)
Share of result of an associate	(91)	0.0	(256)	0.0	—	—
Impairment losses under expected credit loss model, net of reversal	(221)	0.0	(3,153)	(0.1)	(265)	(0.0)
[**REDACTED**]	—	0.0	(2,771)	(0.1)	(33,337)	(0.9)
Loss before income tax	**(265,696)**	**(20.8)**	**(900,887)**	**(40.4)**	**(1,581,859)**	**(43.0)**
Income tax expense	(8,236)	(0.6)	(18,793)	(0.8)	(17,115)	(0.5)
Loss and total comprehensive expense for the year	**(273,932)**	**(21.5)**	**(919,680)**	**(41.3)**	**(1,598,974)**	**(43.5)**
Loss and total comprehensive expense for the year attributable to:						
Owners of the Company	(276,635)	(21.7)	(924,250)	(41.5)	(1,578,026)	(42.9)
Non-controlling interests	2,703	0.2	4,570	0.2	(20,948)	(0.6)
	(273,932)	(21.5)	(919,680)	(41.3)	(1,598,974)	(43.5)

Non-IFRS Measures: Adjusted Net Loss and Adjusted Net Margin

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use adjusted net loss (non-IFRS measure) and adjusted net margin (non-IFRS measure) as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that adjusted net loss (non-IFRS measure) and adjusted net margin (non-IFRS measure) facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management do not consider to be indicative of our operating performance.

We believe that adjusted net loss (non-IFRS measure) and adjusted net margin (non-IFRS measure) provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted net loss (non-IFRS measure) and adjusted net margin (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of adjusted net loss (non-IFRS measure) and adjusted net margin (non-IFRS measure) has limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net loss (non-IFRS measure) as net loss for the periods adjusted by adding back fair value losses/(gain) on financial liabilities at FVTPL, share-based payments and one-off [**REDACTED**]. We exclude these items because they are not expected to result in future cash payments that are recurring in nature and they are not indicative of our core operating results and business outlook. We account for the shares with preferred rights as financial liabilities at fair value through profit or loss. The fair value of shares with preferred rights has been determined by using the income approach and is affected primarily by the changes in our equity value. The shares with preferred rights will automatically convert into ordinary shares upon the completion of the [**REDACTED**] and no further loss or gain on fair value changes is expected to be recognized afterwards. We expect that continuous fluctuation of the fair value of our Preferred Shares will affect our financial performance until the [**REDACTED**]. Thereafter, we do not expect to recognize any further loss or gain on fair value changes from Preferred Shares in the future and expect to revert to a net asset position. The reconciling item is non-cash, non-recurring and does not result in cash outflow, which complies with guidance letter HKEX-GL103-19 issued by the Stock Exchange ("**GL103-19**"). In addition, we account for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued under Share Incentive Plan. The grant-date fair value of the award is recognized as compensation expense over the period during the vesting period, which is generally the period an employee is required to provide service in exchange for the award. The reconciling item is non-cash and does not result in cash outflow, which complies with GL103-19. Further, we exclude [**REDACTED**] as this item, which arises from activities relating to the Listing, is one-off and non-recurring. We define adjusted net margin (non-IFRS measure) as adjusted net loss (non-IFRS measure) divided by revenue for the period and multiplied by 100%. The following table reconciles our adjusted net loss (non-IFRS measure) for the periods indicated:

	For the year ended December 31,		
	2019	**2020**	**2021**
	(RMB on thousands, except for percentages)		
Reconciliation of net loss to adjusted net loss:			
Net loss for the year	(273,932)	(919,680)	(1,598,974)
Add			
Fair value losses on financial liabilities at FVTPL	150,685	754,591	912,201
Share-based payments	—	13,064	323,911
[**REDACTED**]	—	2,771	33,337
Adjusted net loss (non-IFRS measure)	**(123,247)**	**(149,254)**	**(329,525)**
Adjusted net loss margin (non-IFRS measure)	**(9.7)%**	**(6.7)%**	**(9.0)%**

In 2019, 2020 and 2021, our adjusted net loss (non-IFRS measure) amounted to RMB123.2 million, RMB149.3 million and RMB329.5 million, respectively, representing an adjusted net loss margin (non-IFRS measure) of 9.7%, 6.7% and 9.0%, respectively. The decrease of our adjusted net loss margin (non-IFRS measure) in 2020 reflects the general trend of the improvement we enjoy from our economies of scale and the enhancement in our operational efficiency, while the increase in our net loss margin in 2021 was due to (i) the expansion of the network of our smart pharmacies and the acquisition of Yaofangwang to achieve growth in our user base, (ii) the increase in our sales of prescription drugs, which are of lower gross profit margin, to capture opportunities related to the industry trends of prescription, and (iii) the expansion of the scale of our business through the expansion of our operating cities, products and services and the consequent increase in selling and marketing expenses, along with our favorable subsidy policy to consumers.

Revenue

During the Track Record Period, we generate revenue primarily from (i) pharmaceutical and healthcare business, and (ii) others, including marketing services, marketplace services and other services. The following table sets forth a breakdown of our revenue by segments 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
Others	24,694	1.9	23,874	1.1	117,354	3.2
Total	1,275,589	100.0	2,228,563	100.0	3,678,690	100.0

Revenue from pharmaceutical and healthcare business

Revenue from pharmaceutical and healthcare business consists of revenue from online direct sales, business distribution and offline retail, which, in aggregate, accounted for more than 95% of our revenue during the Track Record Period. See "Business — Our Product and Service Offerings."

The table below sets forth the breakdown of our revenue by distribution channels in our pharmaceutical and healthcare business:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Online direct sales	906,517	72.5	1,695,490	76.9	2,583,613	72.5
Business distribution	229,572	18.3	339,163	15.4	408,918	11.5
Offline retail	114,806	9.2	170,036	7.7	568,805	16.0
Total	1,250,895	100.0	2,204,689	100.0	3,561,336	100.0

Revenue from other business

Our revenue from other business consists of revenue from marketing services, marketplace services, and other services.

In 2019, 2020 and 2021, revenue from other business amounted to RMB24.7 million, RMB23.9 million and RMB117.4 million, respectively, accounting for 1.9%, 1.1% and 3.2% of our revenue of the corresponding periods, respectively.

Cost of Revenue

The table below sets forth a comparison between revenue, cost of revenue and gross profit, and for the years indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	1,275,589	100.0	2,228,563	100.0	3,678,690	100.0
Cost of revenue	(805,635)	(63.2)	(1,462,370)	(65.6)	(2,516,379)	(68.4)
Gross profit	469,954	36.8	766,193	34.4	1,162,311	31.6

Our cost of revenue consists primarily of purchase price of products and shipping charges. Shipping charges to receive products from the suppliers are included in inventories, and recognized as cost of revenue upon sale of the products to the customers.

During the Track Record Period, the increase of our cost of revenue was generally in line with the growth of our revenue.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of revenue. Our gross profit margin represents our gross profit as a percentage of our revenue. In 2019, 2020 and 2021, our gross profit amounted to RMB470.0 million, RMB766.2 million and RMB1,162.3 million, corresponding to gross profit margin of 36.8%, 34.4% and 31.6%, respectively.

Fulfillment Expenses

Our fulfillment expenses consist of logistics and warehousing services expenses. Due to the nature of our business, our fulfillment expenses accounted for one of the largest components of our operating expenses, and our fulfillment expenses generally increase when our number of sales order increase.

Selling and Marketing Expenses

Our selling and marketing expenses consist of staff costs, promotion and advertising expenses, depreciation and amortization, technical service fee, among others. The table below sets forth a breakdown of our selling and marketing expenses in absolute amounts and as percentages of our total selling and marketing expenses for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	104,327	37.5	150,092	34.0	270,069	32.4
Promotion and advertising expenses	68,959	24.8	121,908	27.6	266,637	31.9
Depreciation and amortization	49,115	17.6	62,460	14.2	119,731	14.3
Technical service fee	26,523	9.5	62,575	14.2	105,824	12.7
Office expenses	7,705	2.8	10,109	2.3	13,340	1.6
Tax charges	5,103	1.8	8,719	2.0	10,624	1.3
Travelling expenses	2,920	1.0	4,477	1.0	5,666	0.7
Others	13,812	5.0	20,970	4.8	42,892	5.1
Total	**278,464**	**100.0**	**441,310**	**100.0**	**834,783**	**100.0**

Our staff costs primarily consist of salaries, welfare and pensions for employees involved in business development, sales and marketing. Our promotion and advertising expenses include expenses relating to the marketing activities, exhibitions and advertisement, which consists of branding activities as well as pay-per-click or traffic-based advertising activities on search engines and other online platforms. Our depreciation and amortization mainly represent the depreciation and amortization of our tangible and intangible assets relating to our selling and marketing activities. Our technical service fee consists of the commission we paid to third-party platforms for promotional activities.

Research and Development Expenses

Our research and development expenses primarily consist of staff costs, technical service fee, depreciation and amortization and others. The table below sets forth a breakdown of our research and development expenses in absolute amounts and as percentages of our total research and development expenses for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	45,270	86.5	72,671	88.5	81,393	84.7
Technical service fee	4,341	8.3	6,375	7.8	9,078	9.4
Depreciation and amortization	327	0.6	1,999	2.4	3,114	3.2
Others	2,425	4.6	1,026	1.3	2,576	2.7
Total	**52,363**	**100.0**	**82,071**	**100.0**	**96,161**	**100.0**

Our staff costs include salaries, welfare and pensions for employees involved in research and development, product operation and technical support. Our technical service fee primarily includes costs for servers, bandwidth and other equipments, and payments for outsourced research and development projects. Our depreciation and amortization mainly represent the depreciation and amortization of our tangible and intangible assets relating to the research and development purpose.

General and Administrative Expenses

Our general and administrative expenses primarily consist of staff costs, travelling expenses, office expenses, technical service fee, depreciation and amortization, professional service fee, and other expenses. The table below sets forth a breakdown of our general and administrative expenses in absolute amounts and as percentages of our total general and administrative expenses for the periods indicated:

	For the year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	38,453	66.4	78,374	64.8	437,672	91.0
Professional services fee	1,498	2.6	17,242	14.3	12,148	2.5
Depreciation and amortization	8,041	13.9	10,419	8.6	12,441	2.6
Office expenses	3,227	5.6	5,305	4.4	7,204	1.5
Travelling expenses	2,560	4.4	2,192	1.8	3,270	0.7
Technical service fee	436	0.8	1,008	0.8	2,117	0.4
Bank Charges	537	0.9	744	0.6	1,941	0.4
Others	3,148	5.4	5,684	4.7	4,463	0.9
Total	**57,900**	**100.0**	**120,968**	**100.0**	**481,256**	**100.0**

Our staff costs include salaries, welfare and pensions for employees involved in administration and general corporate functions, such as accounting, finance and human resources. Our professional service fee primarily includes the payment for the engagement of professional service parties for our financing activities during the Track Record Period. Our depreciation and amortization mainly represent the depreciation and amortization of our tangible and intangible assets relating to the general and administrative purpose.

Other Gains and Losses, net

Our other gains and losses primarily consist of fair value gains (and losses) on financial assets at FVTPL, gains and losses on disposal of investments in subsidiaries and others.

Other Income

Our other income primarily consists of interest income from bank deposits and lease deposits, government grants, and rental income. Interest income from bank deposits primarily consists of interest income from current deposits and fixed deposits. Government grants primarily consist of subsidies received from the local governments for rewarding our contribution to local economy.

Finance Costs

Our financial costs mainly consist of interest expenses on lease liabilities.

Taxation

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains. Additionally, the British Virgin Islands does not impose a withholding tax on payments of dividends to shareholder.

Hong Kong

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

PRC

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the standard enterprise income tax rate for PRC Operating Entities is 25% during the Track Record Period.

Dingdang Medicine Express Technology was subject to a preferential income tax rate of 15%, as Dingdang Medicine Express Technology was qualified as a High-New Technology Enterprises (the "**HNTE**") and the HNTE qualification was approved and valid for 3 years from January 1, 2018 to December 31, 2020. The HNTE qualification was further renewed and extended to December 31, 2023 in year 2021.

Jiangxi Renhetang was subject to a preferential income tax rate of 15%, as Jiangxi Renhetang was qualified as a HNTE and the HNTE qualification was approved and valid for 3 years from January 1, 2018 to December 31, 2020.

Certain subsidiaries have been approved as small low-profit enterprises. The entitled subsidiaries are subject to a preferential income tax rate of 2.5%, 5% or 10% as of December 31, 2021.

Withholding tax on undistributed dividends

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a foreign investment enterprise ("**FIE**") to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE), if the Hong Kong holding company qualifies for the beneficial owner criteria. The Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during the Track Record Period. Therefore the Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities before completion of the Reorganization.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATION

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

Revenue

Our revenue increased by 65.1% from RMB2,228.6 million for the year ended December 31, 2020 to RMB3,678.7 million for the year ended December 31, 2021.

- **Pharmaceutical and healthcare business.** Revenue from our pharmaceutical and healthcare business increased by 61.5% from RMB2,204.7 million for the year ended December 31, 2020 to RMB3,561.3 million for the year ended December 31, 2021, primarily attributable to revenue from (i) online direct sales, as a result of the increase of our sales order volume, as our popularity and brand awareness among consumers continued to increase and we continued to invest in branding and the expansion of our smart pharmacy network. See "Business — Our Smart Pharmacy Network," and (ii) offline retail, as a result of the increase in the number of our DTP pharmacies due to our acquisition of Yaofangwang and our offline operations that benefited from the brand awareness achieved through our online business operations.

- **Others.** Revenue from our other business increased by 391.6% from RMB23.9 million for the year ended December 31, 2020 to RMB117.4 million for the year ended December 31, 2021. Such increase is primarily attributable to the increase of advertising business as a result of the expansion of the scale of our business, the enhanced cooperation with our advertising customers, and the increase in the influence of our platforms.

Cost of revenue

Our cost of revenue increased by 72.1% from RMB1,462.4 million for the year ended December 31, 2020 to RMB2,516.4 million for the year ended December 31, 2021, which is primarily attributable to the increase of cost of revenue of (i) online direct sales, as our sales of prescription drugs increased, and (ii) offline retail, as the DTP sales volume increased along with the acquisition of Yaofangwang. The increase in our cost of revenue was generally in line with the growth of our business scale.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB766.2 million in the year ended December 31, 2020, representing a gross profit margin of 34.4%, and a gross profit of RMB1,162.3 million in the year ended December 31, 2021, representing a gross profit margin of 31.6%. The decrease of our gross profit margin was due to the higher growth rate of cost than that of our revenue, primarily as a result of (i) the increase in our sales of prescription drugs, which are of lower gross profit margin, to capture opportunities related to the industry trends of prescriptions outflow, (ii) the acquisition of Yaofangwang, which contributed substantially to the increase in our sales of prescription drugs, and (iii) our dedication to enhancing market recognition, retaining existing users and acquiring new users, and maintaining competitiveness in the industry. Our gross profit from others increased from RMB20.9 million in 2020 to RMB111.2 million in 2021, which accounted for 9.6% of our total gross profit. The gross profit margin of others increased from 87.6% in 2020 to 94.7% in 2021, primarily as a result of the increase of our advertising business as part of the marketing service that we provided.

Fulfillment expenses

Our fulfillment expenses increased by 45.6% from RMB283.2 million for the year ended December 31, 2020 to RMB412.3 million for the year ended December 31, 2021. The increase was in line with the increase in our revenue, and was primarily due to increased demand from our users for our product and service offerings and the expansion of our business.

The fulfillment expenses as a percentage of our revenue, slightly decreased from 12.7% for the year ended December 31, 2020 to 11.2% for the year ended December 31, 2021, which was primarily attributable to the higher growth rate of our revenue from our offline channels, which incur relatively lower fulfilment expenses than other distribution channels. Apart from that, our E-zoning technology also contributed in our achieving more effective coverage of users with optimized cost.

Selling and marketing expenses

Our selling and marketing expenses increased by 89.2%, from RMB441.3 million in the year ended December 31, 2020 to RMB834.8 million in the year ended December 31, 2021. The increase was primarily attributable to (i) the increase in staff costs, which is related to the expansion of the network of our smart pharmacies and the acquisition of Yaofangwang, and to the increase in social benefit costs, which was deducted in 2020 as per governmental policies, but was back to the normal terms in 2021; and (ii) promotion and advertising expenses related to increased selling and marketing activities, promotion and advertising expenses, as a result of the expansion of our business.

The selling and marketing expenses as a percentage of revenue increased from 19.8% in the year ended December 31, 2020 to 22.7% in the year ended December 31, 2021, which was primarily attributable to our increased staff costs and branding promoting activities.

Research and development expenses

Our research and development expenses increased by 17.2% from RMB82.1 million in the year ended December 31, 2020 to RMB96.2 million in the year ended December 31, 2021, primarily as a result of an increase in staff costs, which was in line with the expansion of our research and development team, as the workload of development and maintenance increased along with our business expansion.

The research and development expenses as a percentage of revenue declined from 3.7% in the year ended December 31, 2020 to 2.6% in the year ended December 31, 2021, as a result of economies of scale.

General and administrative expenses

Our general and administrative expenses increased by 297.8% from RMB121.0 million in the year ended December 31, 2020 to RMB481.3 million in the year ended December 31, 2021, primarily as a result of (i) the increase in staff costs, which was generally in line with the expansion of our management team, resulting from the acquisition of Yaofangwang and the development of our business, the increase in social benefits costs compared to 2020, when social benefits costs were deducted as per governmental policies, and the increase in the volume of product and service offerings we provided to our users, and (ii) the increase of share-based payments.

The general and administrative expenses as a percentage of revenue increased from 5.4% in the year ended December 31, 2020 to 13.1% in the year ended December 31, 2021, which was primarily attributable to the business expansion for the year ended December 31, 2021.

Fair value changes on financial liabilities at FVTPL

Our fair value change on financial liabilities at FVTPL increased by 20.9% from RMB754.6 million in the year ended December 31, 2020 to RMB912.2 million in the year ended December 31, 2021. Such increase was primarily attributable to the increase in the fair value of preferred shares we issued in preceding rounds of financing due to the increase in the valuation of our Company.

Other gains and losses, net

Our other gains and losses increased by 153.3%, from RMB11.0 million for the year ended December 31, 2020 to RMB28.0 million for the year ended December 31, 2021. Such increase was primarily attributable to (i) net foreign exchange gains and (ii) the gain on fair value changes of financial assets at fair value through profit or loss.

Other income

Our other income remained relatively stable at RMB16.2 million for the year ended December 31, 2020 and RMB15.9 million for the year ended December 31, 2021.

Finance costs

Our finance costs increased by 193.3% from RMB6.1 million for the year ended December 31, 2020 to RMB17.8 for the year ended December 31, 2021, primarily attributable to a one-time interest on other borrowing and an increase in interest on lease liabilities. See Note 9 to the Accountants' Report in Appendix I to this document.

[**REDACTED**]

Our [**REDACTED**] increased from RMB[**REDACTED**] million for the year ended December 31, 2020 to RMB[**REDACTED**] million for the year ended December 31, 2021, as we continue to incur [**REDACTED**] related to the [**REDACTED**] in 2021.

Income tax expense

Our income tax expense slightly decreased by 8.9% from RMB18.8 million for the year ended December 31, 2020 to RMB17.1 million for the year ended December 31, 2021, which was in line with our taxable income and deferred income tax.

Net loss for the period

As a result of the above, we had net loss of RMB919.7 million for the year ended December 31, 2020 and net loss of RMB1,599.0 million for the year ended December 31, 2021.

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

Revenue

Our revenue increased by 74.7% from RMB1,275.6 million in 2019 to RMB2,228.6 million in 2020.

- **Pharmaceutical and healthcare business.** Revenue from pharmaceutical and healthcare business increased by 76.2% from RMB1,250.9 million in 2019 to RMB2,204.7 million in 2020. Our revenue from pharmaceutical and healthcare business increased in 2020 as a result of the increase of our sales order volume, which increased from 26.4 million in 2019 to 40.5 million in 2020, resulted from 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. See "Business — Our Smart Pharmacy Network."

- **Others.** Revenue from other business was RMB23.9 million in 2020, which remain relatively stable comparing to RMB24.7 million in 2019 our revenue in the corresponding periods, the percentage of fulfillment expenses remained relatively stable.

Cost of revenue

Our cost of revenue increased by 81.5% from RMB805.6 million in 2019 to RMB1,462.4 million in 2020, which reflects the growth of the scale of our business.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB470.0 million in 2019, representing a gross profit margin of 36.8%, and a gross profit of RMB766.2 million in 2020, representing a gross profit margin of 34.4%. The decrease in the gross profit margin was primarily 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.

Fulfillment expenses

Our fulfillment expenses increased by 41.8%, from RMB199.7 million in 2019 to RMB283.2 million in 2020. The increase was primarily due to the increased demand from our users for our product and service offerings and the expansion of our business.

Fulfillment expenses as a percentage of revenue decreased from 15.7% in 2019 to 12.7% in 2020, primarily attributable to (1) the development of our technology, including the E-zoning technology, which increased our efficiency in fulfillment; (2) the decrease in our per-order logistics and warehousing services expenses, due to the expansion of our business; and (3) the increase in the number of sales order, and the resulted economies of scale. For more information, see "Business — Technology."

Selling and marketing expenses

Our selling and marketing expenses increased by 58.5%, from RMB278.5 million in 2019 to RMB441.3 million in 2020. The increase was primarily attributable to the increase in promotion and advertising expenses, and in staff costs related to selling and marketing activities, as a result of the expansion of our business.

Selling and marketing expenses as a percentage of revenue decreased from 21.8% in 2019 to 19.8% in 2020, primarily attributable to the enhancement of the performance and efficiency in our selling and marketing team.

Research and development expenses

Our research and development expenses increased by 56.7%, from RMB52.4 million in 2019 to RMB82.1 million in 2020. The increase was primarily attributable to (1) the increase in staff cost as a result of the expansion of our research and development team, as we further enhanced our dedication to research and development activities; and (2) our increase in investment in our systems for data processing and data security maintenance.

Research and development expenses as a percentage of revenue decreased from 4.1% in 2019 to 3.7% in 2020.

General and administrative expenses

Our general and administrative expenses increased by 108.9%, from RMB57.9 million in 2019 to RMB121.0 million in 2020. The increase was primarily attributable to (i) the increase in staff cost which is generally in line with the growth of our business and the increase in the volume of product and service offerings we provide to our users; and (ii) the increase in professional service fee resulted from the engagement of professional service parties in 2020 as a result of our series C financing and the Reorganization. For more information, see "History, Reorganization and Corporate Structure."

General and administrative expenses as a percentage of revenue increased from 4.5% in 2019 to 5.4% in 2020, primarily attributable to the increase in professional service fee resulted from the engagement of professional service parties in 2020 as a result of our series B+ financing and the Reorganization, which outpaced the increase in our revenue.

Fair value changes on financial liabilities at FVTPL

Our fair value change on financial liabilities at FVTPL increased by 400.8%, from RMB150.7 million in 2019 to RMB754.6 million in 2020. Such increase was primarily attributable to the increase in the fair value of preferred shares we issued in preceding rounds of financing due to the increase in the valuation of our Company.

Other gains and losses, net

We recorded other gains of RMB11.0 million in 2020, in comparison with other gains of RMB4.2 million in 2019. Such change was primarily attributable to the increase in our income from financial products.

Other income

Our other income increased by 215.5%, from RMB5.1 million in 2019 to RMB16.2 million in 2020. Such increase was primarily attributable to an increase in government grants due to favorable government policies during the COVID-19 outbreak.

Finance costs

Our finance costs increased by 8.8%, from RMB5.6 million in 2019 to RMB6.1 million in 2020. Such increase was primarily attributable to an increase of interest on lease liabilities.

[**REDACTED**]

Our [**REDACTED**] increased from nil in 2019 to RMB[**REDACTED**] million in 2020, as we started to incur [**REDACTED**] related to the [**REDACTED**] in 2020.

Income tax expense

Our income tax expense increased by 128.2%, from RMB8.2 million in 2019 to RMB18.8 million in 2020, primarily due to the increase in taxable income.

Net loss for the year

As a result of the above, our net loss increased by 235.7%, from RMB273.9 million in 2019 to RMB919.7 million in 2020.

DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from the Accountants' Report set out in Appendix I:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Total non-current assets	308,924	692,729	678,466
Total current assets	445,253	1,093,417	2,267,693
Total assets	**754,177**	**1,786,146**	**2,946,159**
Total non-current liabilities	859,363	2,489,683	4,797,059
Total current liabilities	332,224	601,505	738,929
Total liabilities	**1,191,587**	**3,091,188**	**5,535,988**
Paid-in capital/share capital	50,156	50,156	403
Reserves	34,158	48,336	422,496
Accumulated losses	(531,376)	(1,456,907)	(3,035,146)
Equity attributable to owners of the Company	(447,062)	(1,358,415)	(2,612,247)
Non-controlling interests	9,652	53,373	22,418
Total equity	(437,410)	(1,305,042)	(2,589,829)
Total equity and liabilities	**754,177**	**1,786,146**	**2,946,159**

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

	As of December 31,			As of January 31,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Current Assets				
Inventories	168,549	323,470	434,022	[597,743]
Trade and other receivables and prepayments	87,932	187,584	279,591	[289,299]
Amounts due from related parties	814	309	1,086	[1,380]
Financial assets at FVTPL	43,267	321,480	–	[600,266]
Cash and cash equivalents	144,691	260,574	1,552,994	[944,839]
Total current assets	**445,253**	**1,093,417**	**2,267,693**	**[2,433,527]**
Current Liabilities				
Trade and other payables	247,387	440,697	586,651	[759,588]
Amounts due to related parties	14,233	45,568	22,512	[43,352]
Contract liabilities	25,996	50,653	59,780	[50,799]
Lease liabilities	38,994	53,865	61,383	[60,922]
Income tax payable	5,614	10,124	8,603	[945]
Deferred income	—	598	—	[—]
Total current liabilities	**332,224**	**601,505**	**738,929**	**[915,606]**
Net current assets	**113,029**	**491,912**	**1,528,764**	**[1,517,921]**

We had net current asset positions of RMB113.0 million, RMB491.9 million, RMB1,528.8 million and RMB[1,517.9] million as of December 31, 2019, 2020, 2021 and January 31, 2022. Our net current assets or liabilities as of each of these dates was primarily attributable to our growing balance of inventories, financial assets at FVTPL, and cash and cash equivalents. Cash and cash equivalents account for a substantial portion of our current assets. See "— Liquidity and Capital Resources" for further details on change of the balance of our cash and cash equivalents.

Our net current assets increased from RMB491.9 million as of December 31, 2020 to RMB1,528.8 million as of December 31, 2021, primarily due to an increase in cash and cash equivalents, inventories, trade and other receivables and prepayments, and a decrease in amounts due to related parties, partially offset by a decrease in financial assets at FVTPL and an increase in trade and other payables.

Our net current assets increased from RMB113.0 million as of December 31, 2019 to RMB491.9 million as of December 31, 2020, primarily due to an increase in financial assets at FVTPL, inventories, cash and cash equivalents and trade and other receivables and prepayments, partially offset by an increase in trade and other payables, amounts due to related parties, contract liabilities and lease liabilities.

As of December 31, 2021, we had net current assets of RMB1,528.8 million, net liabilities of RMB2,589.8 million and accumulated losses of RMB3,035.1 million, primarily due to the significant fair value changes of shares with preferred rights. The details of these shares with preferred rights are set out in Note 25 to the Accountants' Report in Appendix I to this document.

Inventories

Our inventories primarily consist of products available for sale. The following table sets forth inventories as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Products	168,205	323,454	434,013
Others	344	16	9
Total	168,549	323,470	434,022

Our inventory of products balance increased from RMB168.2 million as of December 31, 2019, to RMB323.5 million as of December 31, 2020, and to RMB434.0 million as of December 31, 2021, primarily due to the increase in the inventory of pharmaceutical products as a result of our expansion of business and the growth of our product sales volume.

The table below sets forth our inventory turnover days for the periods indicated:

	For the year ended December 31,		
	2019	2020	2021
Inventory turnover days[(1)]	51.7	60.6	54.2

Note:

(1) Inventory turnover days for a year equals the average of opening and closing inventory balance divided by cost of revenue for the relevant years and multiplied by 360 days.

Our inventory turnover days increased from 51.7 days for the year ended December 31, 2019 to 60.6 days for the year ended December 31, 2020. The increase was primarily attributable to the increase in our inventory level as a result of the expansion of our business, our strategic mergers and acquisition activities, and our anticipation of increase in demands of our products. In addition, due to the impact of COVID-19 by the end of December 31, 2019, we had relatively large stocks in many regions to ensure supply, resulting in the larger turnover days. Our inventory turnover days decreased to 54.2 days for the year ended December 31, 2021, primarily as a result of our improved inventory management ability.

As of January 31, 2022, RMB[185.2] million, or [43.0]% of our inventory balance as of December 31, 2021 had been sold or utilized.

Trade and Other Receivables and Prepayments

Trade and other receivables and prepayments primarily consist of outstanding amounts due from our customers for the purchase of the product and service offerings we provided in the ordinary course of business.

Our trading terms with some of our customers are on credit. We take into consideration a number of factors in determining the credit terms of a customer, including its cash flow conditions and credit worthiness. See "Business — Access to Our Product and Service Offerings — Business Distribution" for further details of our distributor management. Trade receivables are generally settled in accordance with the terms of the respective contracts. We seek to maintain strict control over our outstanding receivables, and overdue balances are reviewed regularly.

The following table sets forth our trade and other receivables and prepayments as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Trade receivables			
Trade receivables from third parties	23,573	51,480	91,351
Less: allowance for credit losses	(221)	(1,864)	(343)
Subtotal	23,352	49,616	91,008
Other receivables and prepayments (Current)			
Staff advances	977	49	60
Welfare receivable	1,166	1,085	1,534
Advance to suppliers	20,903	42,223	41,378
Prepaid expenses	15,636	22,493	34,280
Recoverable value-added tax	1,660	21,563	32,238
Receivable from non-controlling shareholders	3,000	4,650	3,900
Receivable from third-party online platforms	15,190	34,387	53,769
Deposits receivables	4,492	7,511	11,455
Deferred issue costs	–	738	5,338
Others	1,770	3,286	6,434
Less: allowances for credit losses	(214)	(17)	(1,803)
Subtotal	64,580	137,968	188,583
Total	87,932	187,584	279,591

Our trade and other receivables and prepayment balances increased by 49.0% from RMB187.6 million as of December 31, 2020 to RMB279.6 million as of December 31, 2021, and by 113.3% from RMB87.9 million as of December 31, 2019 to RMB187.6 million as of December 31, 2020. Such increases were primarily attributable to the increase in trade receivables and other receivables from company clients as a result of our expansion of business.

Our current other receivables and prepayments increased by 36.7% from RMB138.0 million as of December 31, 2020 to RMB188.6 million as of December 31, 2021, primarily attributable to (i) an increase in receivable from third-party online platforms as a result of the increase in sales, and (ii) an increase in prepaid expenses, as we increased self-developed products to better utilize the consumer market information we grasped and thus improve our gross profit margin, and, accordingly, the prepayments we made to the manufacturers who produced such products increased.

Our current other receivables and prepayments increased by 113.6% from RMB64.6 million as of December 31, 2019 to RMB138.0 million as of December 31, 2020, primarily attributable to (i) an increase in advance to suppliers as a result of our increased procurement driven by our increased sales, (ii) an increase in prepaid expenses, which mainly consist of prepaid promotion expenses, as a result of our business expansion, (iii) an increase in recoverable value-added tax as a result of input value-added tax not being recognized to offset output tax before the end of the financial year, and (iv) an increase in receivable from third-party online platforms as a result of the increase in our sales volume.

Aging analysis of trade receivables by age, net of allowance for doubtful debts presented based on the invoice date is as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Within 3 months	22,289	45,801	87,298
3 to 6 months	1,103	3,533	2,231
6 to 12 months	125	744	1,570
Over 12 months	56	1,402	252
Less: allowance for ECL	(221)	(1,864)	(343)
Total	23,352	49,616	91,008

As of December 31, 2019, 2020 and 2021, the majority of our trade receivables are due within six months.

The following table sets forth the turnover days of our trade receivables, net of allowance for credit loss:

	For the year ended December 31,		
	2019	**2020**	**2021**
Trade receivable turnover days	5.0	6.1	7.0

(1) Trade receivables turnover days for a year equals the average of the opening and closing trade receivables balance divided by total revenue during the relevant year and multiplied by 360 days, as applicable.

Our trade receivable turnover days were 5.0, 6.1 and 7.0 in 2019, 2020 and 2021. The increase of trade receivable turnover days in 2019, 2020 and 2021 was primarily attributable to the credit terms we grant to customers.

As of January 31, 2022, approximately RMB[56.5] million, or [62.0]% of our trade receivables as of December 31, 2021 had been settled.

Financial Assets at FVTPL

Our financial assets at FVTPL primarily consist of financial products issued by banks, which are short-term investments with expected rates of return depending on the market rate of underlying financial instruments including treasury bonds, central bank bills, structured deposit and other financial assets.

The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Current:			
Financial products issued by banks	43,267	321,480	—

We managed and evaluated the performance of investments on a fair value basis in accordance with our risk management and investment strategy. In assessing a proposal to invest in financial products issued by banks, a number of criteria must be met, including, but not limited to: (i) investment in high risk products are prohibited; (ii) the primary objectives of investment activities are safety, liquidity and reasonable yield; (iii) the proposed investment must not interfere with our business operations or capital expenditures; and (iv) the wealth management products should be issued by a reputable bank. Mr. Xu Ning, our executive director, is responsible for our investment management and supervised our investment activities during the Track Record Period. See "Directors and Senior Management" for a detailed description of Mr. Xu's qualifications and credentials. Prior to making any material investments in wealth management products or modifying our existing investment portfolio, the proposal shall be approved by Mr. Xu, who sets the investment objectives and makes the final investment decisions.

We have formed a stringent system of internal control on seeking to obtain a reasonable level of investment return while ensuring that we maintain the overall level of risks related to investment under control. In order to enhance our liquidity position without significantly increasing our exposure to the financial risks, we principally engaged in the purchase and redemption of wealth management products using surplus cash on hand, which constituted the majority of our purchases and sales of financial assets at fair value through profit or loss during the Track Record Period. During the Track Record Period, substantially all of the wealth management products we purchased were principal-protected. As of December 31, 2021, all of our financial products issued by banks had been redeemed.

The financial assets at FVTPL categorized within level 2 and level 3 of fair value measurement were primarily our short-term investments in wealth management products. For level 2 financial assets at fair value through profit or loss, the fair value had been determined by discounted cash flow and observable inputs. For level 3 financial assets at FVTPL, the fair value had been determined by applicable valuation technique which was the discounted cash flow model and unobservable inputs. There was no change to valuation techniques during the Track Record Period.

Based on the above, we believe the investments delivered overall long-term growth while increasing our operating efficiency, and were in our best interest. Specifically, we believe the investments in financial assets at FVTPL increased the utilization of our cash balance while ensuring the short-term liquidity, and we made such investment under the premise of implementing risk control measures and investment strategy to ensure that the wealth management products that we purchased were issued by reputable large financial institutions with low risk and reasonable yield, thus elevating the efficiency of our funds while balancing controllable risks.

Trade and Other Payables

Our trade and other payables primarily consist of payables to our suppliers. The following table sets forth our trade payables and other as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Trade payables	103,379	226,252	285,940
Bill payables	4,140	—	—
Other payables	139,868	214,445	300,711
Total	247,387	440,697	586,651

Our trade and other payables balances increased by 33.1% from RMB440.7 million as of December 31, 2020 to RMB586.7 million as of December 31, 2021, and by 78.1% from RMB247.4 million as of December 31, 2019 to RMB440.7 million as of December 31, 2020. Such increases are primarily attributable to the increase in our purchase from suppliers as a result of our expansion of business.

Aging analysis of trade payables based on invoice date is as follows:

	As of December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Within 3 months	100,292	195,336	259,166
3 to 6 months	78	19,920	8,235
6 to 12 months	—	5,342	6,330
Over 12 months	3,009	5,654	12,209
Total	103,379	226,252	285,940

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

	For the year ended December 31,		
	2019	2020	2021
Trade payable turnover days(1)	32.6	40.6	36.6

Note:

(1) Trade payables turnover days for a year equals the average of the opening and closing trade payable balance divided by cost of revenue during the relevant year and multiplied by 360 days, as applicable.

Our average trade payable turnover days were 32.6, 40.6 and 36.6 in 2019, 2020 and 2021. The increase of trade payable turnover days in 2020 was primarily attributable to a general increase in credit terms granted to us by our suppliers due to our successful negotiation with business partners during the Track Record Period. Our trade payable turnover days remained relatively stable in 2021 compared to 2020.

As of January 31, 2022, approximately RMB[88.4] million, or [31.0]% of our trade payables as of December 31, 2021 had been settled.

During the Track Record Period, we did not have any material default on our trade payables.

Contract Liabilities

We collected payments in advance from customers primarily for sales of pharmaceutical and healthcare products, marketplace service fees and unearned revenue awards to customers. We have recognized the following liabilities related to contracts with customers under "contract liabilities":

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Advance from sales of products	16,476	37,762	43,973
Advance service income	357	1,490	7,024
Unearned awards to customers	14,541	21,157	17,682
Total	31,374	60,409	68,679

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Current	25,996	50,653	59,780
Non-current	5,378	9,756	8,899
Total	31,374	60,409	68,679

Our contract liabilities increased by 13.7% from RMB60.4 million as of December 31, 2020 to RMB68.7 million as of December 31, 2021, and increased by 92.5% from RMB31.4 million as of December 31, 2019 to RMB60.4 million as of December 31, 2020. Such increases are generally in line with the increase in our sales order from users as a result of our expansion of business.

Lease Liabilities

See "— Indebtedness — Lease liabilities."

Goodwill

Our goodwill as of December 31, 2019, 2020 and 2021 were RMB85.5 million, RMB256.4 million and RMB255.8 million, respectively.

For the purpose of impairment testing, goodwill is allocated to a group of cash generating units. The carrying amounts of goodwill allocated to significant cash generating units are as follows:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Shanghai Smart Pharmacy and its subsidiaries	10,978	10,978	10,978
Beijing Smart Pharmacy and its subsidiaries	4,041	4,041	4,041
Guangdong Smart Pharmacy	48,503	48,503	48,503
Renhe Yaofangwang and its subsidiaries	–	167,351	167,351

Our impairment review on the goodwill according to IAS 36 were conducted by the management with reference to valuation carried out by independent qualified professional valuer. For the purpose of impairment review as of December 31, 2019, 2020 and 2021, the recoverable amount of the significant cash generating units containing goodwill is determined based on value-in-use calculations by using the discounted cash flow method, based on the following inputs:

Shanghai Smart Pharmacy and its subsidiaries:

	As of December 31,		
	2019	**2020**	**2021**
Financial projection period	5-year	4-year	5-year
Forecasted average annual revenue growth rate	35%	29%	18%
Estimated terminal growth rate beyond the projection period extrapolated	3%	3%	3%
Pre-tax discount rate	23.63%	24.07%	24.02%

Beijing Smart Pharmacy and its subsidiaries:

	As of December 31,		
	2019	**2020**	**2021**
Financial projection period	5-year	4-year	5-year
Forecasted average annual revenue growth rate	19%	14%	10%
Estimated terminal growth rate beyond the projection period extrapolated	3%	3%	3%
Pre-tax discount rate	22.87%	23.31%	23.84%

Guangdong Smart Pharmacy:

	As of December 31,		
	2019	**2020**	**2021**
Financial projection period	5-year	4-year	5-year
Forecasted average annual revenue growth rate	40%	26%	16%
Estimated terminal growth rate beyond the projection period extrapolated	3%	3%	3%
Pre-tax discount rate	23.45%	23.95%	23.47%

Renhe Yaofangwang and its subsidiaries:

	As of December 31,	
	2020	**2021**
Financial projection period	7-year	5-year
Forecasted average annual revenue growth rate	30%	28%
Estimated terminal growth rate beyond the projection period extrapolated	3%	3%
Pre-tax discount rate	22.06%	23.78%

Our management leveraged their extensive experience in the industry and provided forecast based on past performance and expectation of future business plans and market developments. Our management, together with the valuer, performed impairment test for the goodwill and determined such goodwill was not impaired, since the headroom for the Significant CGUs containing goodwill amounted to:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Shanghai Smart Pharmacy and its subsidiaries	36,447	57,669	82,928
Beijing Smart Pharmacy and its subsidiaries	48,366	73,943	100,421
Guangdong Smart Pharmacy	30,871	64,041	32,643
Renhe Yaofangwang and its subsidiaries	N/A	N/A	74,474

Sensitivity analysis has been performed based on the assumptions that revenue or terminal value or the pre-tax discount rate has been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased by as below:

Shanghai Smart Pharmacy and its subsidiaries:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Revenue decrease by 5%	3,200	5,300	6,800
Terminal value decrease by 5%	2,700	3,200	4,900
Pre-tax discount rate increase by 5%	6,100	6,400	11,100

Beijing Smart Pharmacy and its subsidiaries:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Revenue decrease by 5%	4,900	7,100	9,411
Terminal value decrease by 5%	3,500	4,200	5,849
Pre-tax discount rate increase by 5%	8,500	8,900	12,914

Guangdong Smart Pharmacy:

	As of December 31,		
	2019	**2020**	**2021**
	RMB'000	**RMB'000**	**RMB'000**
Revenue decrease by 5%	5,900	8,100	6,000
Terminal value decrease by 5%	3,600	4,300	3,000
Pre-tax discount rate increase by 5%	8,500	8,900	7,300

Renhe Yaofangwang and its subsidiaries:

	As of December 31,
	2021
	RMB'000
Revenue decrease by 5%	16,848
Terminal value decrease by 5%	10,088
Pre-tax discount rate increase by 5%	22,399

Headroom and sensitivity analysis have not been performed for Renhe Yaofangwang and its subsidiaries as of December 31, 2020, as such information is not meaningful having regards Renhe Yaofangwang was acquired by the Company in December 2020. As of December 31, 2019, 2020 and 2021, the estimated revenue, estimated terminal value, and pre-tax discount rate must change by the percentage set out below to remove the remaining headroom for the Significant CGUs containing goodwill, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount.

Shanghai Smart Pharmacy and its subsidiaries:

	As of December 31,		
	2019	**2020**	**2021**
Revenue decrease by	41.91%	49.00%	60.32%
Terminal value decrease by	50.88%	81.95%	83.49%
Pre-tax discount rate increase by	26.91%	68.61%	63.71%

Beijing Smart Pharmacy and its subsidiaries:

	As of December 31,		
	2019	**2020**	**2021**
Revenue decrease by	50.00%	51.57%	53.36%
Terminal value decrease by	68.45%	87.30%	85.85%
Pre-tax discount rate increase by	39.92%	71.60%	67.15%

Guangdong Smart Pharmacy:

	As of December 31,		
	2019	**2020**	**2021**
Revenue decrease by	26.45%	39.36%	27.07%
Terminal value decrease by	46.05%	76.70%	53.64%
Pre-tax discount rate increase by	20.77%	56.78%	28.41%

Renhe Yaofangwang and its subsidiaries:

	As of December 31,
	2021
Revenue decrease by	21.68%
Terminal value decrease by	36.85%
Pre-tax discount rate increase by	19.30%

Reasonable possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2019, 2020 and 2021. For more details on the analysis, see Note 18 to the Accountants' Report in Appendix I to this document.

Other intangible assets

Our other intangible assets primarily consist of software, trademark and franchise right and customer relationship. Our other intangible assets increased significantly from RMB45.4 million as of December 31, 2019 to RMB230.1 million as of December 31, 2020, and decreased to RMB199.2 million as of December 31, 2021. We determine the estimated useful lives and related amortization for our other intangible assets with reference to the estimated periods that we intend to derive future economic benefits from the use of these assets.

The estimated useful lives of other intangible assets are as follows:

Category	Estimated useful lives
Software	3-5 years
Trademark and franchise right	5-9 years
Customer relationship	5 years

The above other intangible assets were acquired from third parties or purchased as part of business combination during the Track Record Period. The trademark acquired from third party is related to three trademark registration certificates granted by Trademark Office of the State Administration for Industry and Commerce of China. Our management considered the trademark would be able to apply on our online medicine trading service or technologies for 9 years with reference to the remaining valid period of such trademark registration certificates. The franchise rights acquired in the business combinations were related to franchise right contracts. Our management considered the franchise rights would be able to apply on our online medicine trading service or technologies for 5-9 years with reference to the franchise right contracts. We will revise the amortization charges where useful lives are different from that of previously estimated. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortization expense in future periods.

Financial Liabilities at FVTPL

We entered into share subscription agreement with independent investors and issued five series (the "Series A", "Series A+", "Series B", "Series B+" and "Series C", respectively) of shares with preferred rights (together, the "**Preferred Shares**"). We designated the Preferred Shares as financial liabilities at FVTPL as they are contingently redeemable by the holders of these preferred shares under certain events out of our control and will be settled other than by the exchange of a fixed amount of cash for a fixed number of our shares. As of December 31, 2019, 2020 and 2021, our financial liabilities at FVTPL were RMB763.9 million, RMB2,343.5 million and RMB4,651.0 million, respectively. The reconciliation of Level 3 fair value measurements is as follows:

	Shares with preferred rights/ Preferred Shares
	RMB'000
As of December 31, 2019	763,883
Issue of shares with preferred rights	825,000
Changes in fair value	754,591
As of December 31, 2020	2,343,474
Issue of Preferred Shares	4,476,585
Redemption of shares with preferred rights	(3,081,310)
Changes in fair value[(1)]	912,201
As of December 31, 2021	4,650,950

Note:

(1) Change in fair value presented in RMB includes effect of exchange on translation from USD balances.

For a detailed analysis of financial liabilities at FVTPL, see Note 25 to the Accountants' Report in Appendix I to this document.

KEY FINANCIAL RATIOS

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

	For the year ended December 31,		
	2019	2020	2021
Revenue growth	118.2%	74.7%	65.1%
Gross profit margin[1]	36.8%	34.4%	31.6%
Net margin[2]	(21.5)%	(41.3)%	(43.5)%
Adjusted net margin (non-IFRS measure)[3]	(9.7)%	(6.7)%	(9.0)%
Current ratio[4]	1.3	1.8	3.1
Quick ratio[5]	0.8	1.3	2.5

(1) Gross profit margin equals gross profit divided by revenue for the year and multiplied by 100%.

(2) Net margin equals net loss/gain divided by revenue for the year and multiplied by 100%.

(3) Adjusted net margin (non-IFRS measure) equals adjusted net loss (non-IFRS measure) divided by revenue for the year and multiplied by 100%.

(4) Current ratio equals current assets divided by current liabilities as of the same date.

(5) Quick ratio equals current assets less inventories and divided by current liabilities as of the same date.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we financed our operations primarily through [**REDACTED**] on issue of shares with preferred rights. We expect to use a portion of the proceeds from the [**REDACTED**] to fund our working capital requirements.

As of December 31, 2019, 2020 and 2021, we had cash and cash equivalents of RMB144.7 million, RMB260.6 million and RMB1,553.0 million, respectively. The increase of cash and cash equivalents for the year ended December 31, 2021 was mainly due to the investments from the Pre-[**REDACTED**] Investors and the redemption of our financial products issued by banks. See "History, Reorganization and Corporate Structure — Major Shareholding Changes and Pre-[**REDACTED**] Investments."

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

	For the year ended December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Operating cash flows before movements in working capital	(57,476)	(61,546)	(219,125)
Changes in working capital	(201,689)	(115,910)	(50,245)
Income taxes paid	(6,732)	(15,590)	(26,120)
Net cash used in operating activities	(265,897)	(193,046)	(295,490)
Net cash from/(used in) investing activities	10,577	(486,471)	306,635
Net cash from financing activities	353,769	795,400	1,271,553
Net increase in cash and cash equivalents	98,449	115,883	1,282,698
Cash and cash equivalents at beginning of year	46,242	144,691	260,574
Effect of foreign exchange rate changes on cash and cash equivalents	–	–	9,722
Cash and cash equivalents at end of year, represented by	144,691	260,574	1,552,994

Net Cash Used in Operating Activities

Net cash used in operating activities primarily comprises our loss before income tax and non-cash and non-operating items, and adjusted by changes in working capital.

In 2021, net cash used in operating activities was RMB295.5 million, which was primarily attributable to the increase in inventories of RMB109.8 million and increase in trade and other receivables and prepayments of RMB89.6 million, and adjusted by (i) non-cash and non-operating items, which primarily consists of loss on fair value change of financial liabilities at fair value through profit or loss of RMB912.2 million, depreciation of right-of-use assets of RMB78.4 million, and share-based payments expenses of RMB323.9 million; and (ii) changes in working capital, which primarily resulted from an increase in trade and other payables of RMB136.6 million. We expect our operating cash flow position to 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. See "Business – Business Sustainability."

In 2020, net cash used in operating activities was RMB193.0 million, which was primarily attributable to the increase in inventories of RMB116.0 million and increase in trade and other receivables and prepayments of RMB83.1 million, and adjusted by non-cash and non-operating items, which primarily consists of loss on fair value change of financial liabilities at fair value through profit or loss of RMB754.6 million, depreciation of right-of-use assets of RMB47.7 million, depreciation of property and equipment of RMB20.9 million and share-based payment expense of RMB13.1 million.

In 2019, net cash used in operating activities was RMB265.9 million, which was primarily attributable to the increase in inventories of RMB84.7 million, increase in trade and other receivables and prepayments of RMB44.7 million and decrease in trade and other payables of RMB84.5 million, and adjusted by non-cash and non-operating items, which primarily consists of loss on fair value changes of financial liabilities at fair value through profit or loss of RMB150.7 million, depreciation of right-of-use assets of RMB35.6 million, and depreciation of property and equipment of RMB16.8 million.

See "— Discussion of Certain Selected Items from the Consolidated Statements of Financial Position" for primary reasons relating to the underlying causes for our operating cash flow changes.

Net Cash from/(Used in) Investing Activities

In 2021, net cash from investing activities was RMB306.6 million, which was primarily attributable to redemption of financial assets at FVTPL of RMB4,137.1 million and partially offset by purchases of financial assets at FVTPL of RMB3,805.4 million.

In 2020, net cash used in investing activities was RMB486.5 million, which was primarily attributable to purchases of financial assets at fair value through profit or loss of RMB3,607.8 million and net cash outflow on acquisition of subsidiaries of RMB204.3 million and purchase of property and equipment of RMB19.6 million, and was partially offset by redemption of financial assets at FVTPL of RMB3,340.8 million.

In 2019, net cash generated from investing activities was RMB10.6 million, which was primarily attributable to redemption of financial assets at FVTPL of RMB2,005.4 million and interest received of RMB2.4 million, and was partially offset by purchases of financial assets at FVTPL of RMB1,956.7 million, purchase of property and equipment of RMB20.3 million, and net cash outflow on acquisition of subsidiaries of RMB13.2 million.

Net Cash from Financing Activities

In 2021, net cash from financing activities was RMB1,271.6 million, which was primarily attributable to proceeds on issue of Preferred Shares of the Company of RMB2,740.3 million and other borrowing raised of RMB1,270.0 million, and was partially offset by redemption of shares with preferred rights of RMB1,345.0 million and repayment of other borrowing of RMB1,267.8 million.

In 2020, net cash from financing activities was RMB795.4 million, which was primarily attributable to proceeds on issue of shares with preferred rights of RMB825.0 million and advance from related parties of RMB28.8 millions, and was partially offset by repayments of lease liabilities of RMB46.9 million.

In 2019, net cash from financing activities was RMB353.8 million, which was primarily attributable to proceeds on issue of shares with preferred rights of RMB400.0 million.

INDEBTEDNESS

Borrowings

As of December 31, 2019, 2020 and 2021, we did not have any bank borrowings. We did not have any unutilized banking facilities as of the Latest Practicable Date.

Our Directors confirm that, except for disclosed elsewhere in this document, as of the Latest Practicable Date, there was no material covenant which would impact our ability to undertake additional debt financing. Our Directors further confirm that we did not experience any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Lease Liabilities

Since IFRS 16 was adopted by us throughout the Track Record Period, we recognized right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases and low value assets. The table below sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of January 31,
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Current	38,994	53,865	61,383	[60,922]
Non-current	79,983	87,388	95,629	[98,157]
Total	118,977	141,253	157,012	[159,079]

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

	As of December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Within one year	38,994	53,865	61,383
One to two years	34,635	40,694	48,018
Two to five years	43,000	45,217	44,908
Over five years	2,348	1,477	2,703
Total	118,977	141,253	157,012

Except as disclosed in this document, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of January 31, 2022.

Financial Liabilities at FVTPL

As of December 31, 2019, 2020 and 2021, our shares with preferred rights had a fair value of RMB763.9 million, RMB2,343.5 million and RMB4,651.0 million, respectively. For further information regarding the shares with preferred rights, see Note 25 to the Accountants' Report in Appendix I to this document. Between December 31, 2021 and January 31, 2022, we did not issue or repurchase any preferred shares. All the shares with preferred rights are unsecured and unguaranteed.

Amounts Due to Related Parties

As of December 31, 2019, 2020 and 2021, we had unsecured and unguaranteed amounts due to related parties of RMB14.2 million, RMB45.6 million and RMB22.5 million, respectively, among which RMB14.0 million, RMB16.6 million and RMB20.1 million, respectively, were trade nature, primarily being payable for purchase of goods, and RMB0.2 million, RMB29.0 million and RMB2.4 million, respectively, were non-trade nature, primarily including loans and brand usage fee payables, which will be settled prior to the completion of [**REDACTED**], except for those payables arising from the normal course of business which will be typically settled periodically.

As of January 31, 2022, we had unsecured and unguaranteed amounts due to related parties of RMB[42.4] million which were trade nature, payable for purchase of goods.

CONTINGENT LIABILITIES OR GUARANTEES

As of December 31, 2019, 2020 and 2021, we did not have any material contingent liabilities or guarantees.

CAPITAL EXPENDITURES

The following table sets out a breakdown of our capital expenditures for the periods indicated:

	For the year ended December 31,		
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Purchase of property of equipment	(20,276)	(19,595)	(20,466)
Payments for right-for-use assets	(1,848)	(493)	(4,367)
Purchases of intangible assets	(5,447)	(2,751)	(4,479)
Total	(27,571)	(22,839)	(29,312)

Our historical capital expenditures primarily consist of purchases of property and equipment, payments for right-for-use assets and purchases of intangible assets. Our capital expenditures were RMB27.6 million, RMB22.8 million and RMB29.3 million in 2019, 2020 and 2021, respectively.

We plan to fund our planned capital expenditures using cash generated from operations and the net [**REDACTED**] received from the [**REDACTED**]. See "Future Plans and Use of [**REDACTED**]." We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of December 31, 2019, 2020 and 2021 we had no other material commitments.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

MATERIAL RELATED PARTY TRANSACTIONS

See Note 36 of Appendix I to this document for more details about our related party transactions during the Track Record Period. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

Our activities expose us to a variety of financial risks, such as market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our Directors.

Our major financial instruments include financial assets at FVTPL, trade and other receivables, cash and cash equivalents, amounts due from related parties, lease liabilities, trade and other payables, amounts due to related parties and financial liabilities at FVTPL. Details of the financial instruments are disclosed in respective notes to the Accountants' Report set out in Appendix I to this document. The policies on how to mitigate these risks are set out below. Our Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

The functional currency of our entities is RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of the our entities. In addition, we has intra-group balances with a subsidiary denominated in foreign currency which also expose us to foreign currency risk.

During the years ended December 31, 2019 and 2020, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant. We considered that any reasonable changes in foreign exchange rates of other currencies against the functional currency would not result in a significant change in our results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency were considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

As of December 31, 2021, we had the following financial assets and financial liabilities, which were cash and cash equivalents, financial liabilities at FVTPL, lease liabilities and other payables, denominated in currencies other than RMB.

	As of December 31, 2021
	RMB'000
Assets:	
– HKD	2,814
– USD	698,053
Liabilities:	
– HKD	3,770
– USD	4,655,552

The sensitivity analysis below has been determined based on the exposure to foreign currency rates and includes only outstanding foreign currency denominated monetary items and adjusted their transaction at year end for a 5% change in foreign currency rates. The sensitivity analysis includes cash and cash equivalents, financial liabilities at FVTPL, lease liabilities and other payables. A 5% increase or decrease is used when reporting foreign currency rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign currency rates.

If 5% weakening/strengthening of USD and HKD against RMB, our post-tax loss for the year ended December 31, 2021 would decrease/increase by RMB197.9 million, respectively. This is mainly attributable to our exposure to foreign currencies rates of USD on its financial liabilities at FVTPL as of December 31, 2021.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose us to cash flow interest rate risk, whereas fixed rate instruments expose us to fair value interest risk. Our cash flow interest rate risk primarily arose from cash and cash equivalents, details of which have been disclosed in Note 23 to the Accountants' Report in Appendix I to this document. Our fair value interest risk primarily arises from lease liabilities, details of which have been disclosed in Note 20 to the Accountants' Report in Appendix I to this document. No sensitivity analysis on interest rate risk on bank balance is presented as management consider the sensitivity on interest rate risk on bank balance is insignificant.

Other price risk

We exposed to price risk in respect of its financial products issued by banks measured as financial assets at FVTPL and shares with preferred rights measured as financial liabilities at FVTPL. The above financial instruments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

Shares with preferred rights are affected by changes in our equity value, the sensitivity analysis of which has been disclosed in Note 34.4 to the Accountants' Report in Appendix I to this document. The fair value change of financial products issued by banks is not considered to be significant.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Our credit risk is mainly associated with cash and cash equivalents, trade and other receivables, financial assets at FVTPL and amount due from related parties. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

Our cash and cash equivalents are mainly deposited in state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of default in relation to these financial institutions. We consider the instruments have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant during the Track Record Period. We consider that there is no significant credit risk and no material losses due to the default of the other parties. See Note 34.2(b) to the Accountants' Report in Appendix I to this document.

Liquidity risk

In the management of the liquidity risk, we monitor and maintains a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

For the remaining contractual maturity of the our financial liabilities and lease liabilities, which has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities on the earliest date which we can be required to pay, see Note 34.2(c) to the Accountants' Report in Appendix I to this document.

DIVIDEND

During the Track Record Period and up to the Latest Practicable Date, we did not declare any dividend to our shareholders.

We are a holding company incorporated under the laws of the Cayman Islands. As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account. Even if there is an accumulated loss, a dividend may be paid out of the share premium account, provided that the memorandum and articles of association of the Cayman Islands company do not prohibit such payment and that the Cayman company satisfies the solvency test set out in the Cayman Companies Act. There are no provisions in the Memorandum and Articles which prohibit dividends being declared and paid out of our share premium account notwithstanding our profitability, provided that our Company satisfies the solvency test set out in the Cayman Companies Act. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. There is no assurance that dividends of any amount will be declared or be distributed in any year. Although currently we do not have a formal dividend policy or a fixed dividend distribution ratio, our Board may declare dividends in the future after taking into account various factors including our future earnings and cash inflows, future plan for use of funds, long-term development of our business and other legal and regulatory restrictions.

As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves until the aggregate amount of such reserves reach 50% of its registered capital, which are not available for distribution as cash dividends. Our PRC Legal Advisors are of the view that the declarations of dividends by some of our subsidiaries incorporated in PRC during the Track Record Period are in compliance with relevant PRC laws and regulations.

WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, taking into account of the following financial resources available to us described below, we have sufficient working capital to cover our costs, for at least the next 12 months from the expected date of this document:

- our future operating cash flows in respective periods;
- cash and cash equivalent of RMB1,553.0 million as of December 31, 2021; and
- the estimated net [**REDACTED**] from the [**REDACTED**].

DISTRIBUTABLE RESERVES

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

[REDACTED] AND [REDACTED] COSTS

Assuming an [**REDACTED**] of HK$[**REDACTED**] per Share (being the mid-point of the indicative [**REDACTED**] range stated in this document), the aggregate commissions and fees, together with the Stock Exchange [**REDACTED**], SFC transaction levy, FRC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the [**REDACTED**], which are payable by us are estimated to amount in aggregate to be approximately RMB[**REDACTED**] million (including (i) [**REDACTED**] of approximately RMB[**REDACTED**] million, and (ii) non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**] million, which consist of fees and expenses of legal advisors and Reporting Accountant of approximately RMB[**REDACTED**] million and other fees and expenses of approximately RMB[**REDACTED**] million), accounting for [**REDACTED**]% of gross proceeds from the [**REDACTED**]. We incurred RMB[**REDACTED**] million of [**REDACTED**] and issue costs during the Track Record Period. We expect to charge approximately RMB[**REDACTED**] million of the estimated [**REDACTED**] to profit or loss and to capitalize issue costs approximately RMB[**REDACTED**] million following the [**REDACTED**].

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

Please refer to Appendix II to this document for details.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this document, there has been no material adverse change in our financial, operational or trading positions or prospects since December 31, 2021, being the date of our consolidated financial statements as set out in the Accountants' Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.