

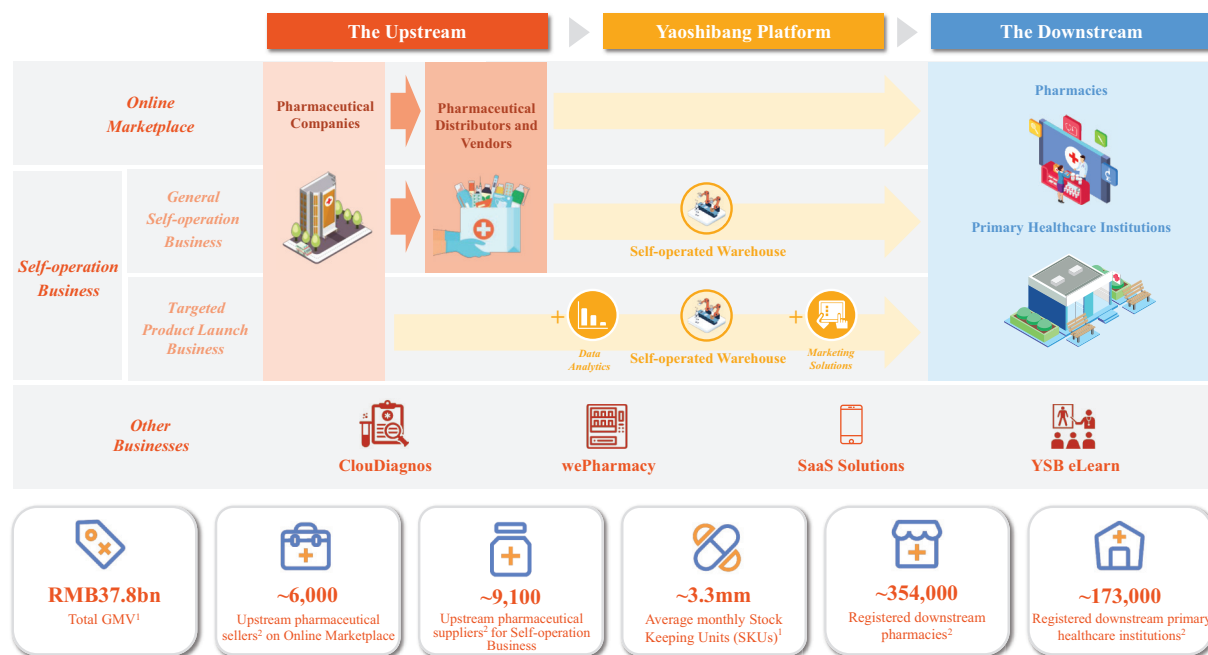
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OUR BUSINESS

We are a digital pharmaceutical platform serving businesses outside of hospitals in China. Digital market as an emerging trend contributed to 28.2% of the RMB639.7 billion outside-of-hospital pharmaceutical circulation market in China, in terms of gross merchandise value (“GMV”) in 2022. We recorded a GMV of RMB37.8 billion in 2022, representing a market share of 21.0% in China’s digital market of outside-of-hospital pharmaceutical circulation services. As an enabler of the digitalisation of the outside-of-hospital pharmaceutical and medical service market, we have developed technology-backed solutions to connect and empower the upstream, including pharmaceutical companies, distributors and vendors, and the downstream, including pharmacies and primary healthcare institutions. Primary healthcare institutions refer to downstream pharmaceutical retailer that is not a hospital or a pharmacy, including, but not limited to, a private clinic, township health centre, village clinic, and community medical institution. We have turned the process of pharmaceutical transaction and service into a digitalised, standardised and scalable one. Since our inception, we have been committed to addressing the challenges faced by the players in the outside-of-hospital pharmaceutical market, and have cultivated capabilities and accumulated invaluable experience from the primary healthcare level. Seizing on the opportunities in this market, we have built an ecosystem, where we enable the various players along the pharmaceutical value chain to gather and interact. We create values for these players and the whole society. Although we face intense competition from other B2B pharmaceutical sales platforms and traditional pharmaceutical distributors, we strive to establish a safe and efficient transaction and service platform for businesses along the pharmaceutical value chain.

Leveraging our technological capabilities, we have created and keep enhancing a business model to meet the growing demand for the digitalisation of the outside-of-hospital pharmaceutical market. Our business model is centred on our Online Marketplace and Self-operation Business, and is further complemented by a series of other businesses. Our total GMV reached RMB37.8 billion in 2022, representing a CAGR of 38.6% from that in 2020, both the highest among leading digital pharmaceutical platforms serving businesses outside of hospitals in China, and a market share of 21.0% in 2022. We serve the largest digital pharmaceutical transaction and service network, including, among others, around 354,000 downstream pharmacies and around 173,000 primary healthcare institutions, as of 31 December 2022. Furthermore, we had 308,000 average number of monthly active buyers (“MAB”) in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China. The average number of monthly available stock keeping units (“SKUs”) transacted on our platform was around 3.3 million in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China. Our aforesaid industry positioning is supported by analyses performed by Frost & Sullivan.

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Notes: (1) For the year ended 31 December 2022; (2) As of 31 December 2022

Online Marketplace. We started with a mobile internet-based Online Marketplace in 2015 to address the supply and demand mismatch in China’s outside-of-hospital pharmaceutical market. We created a digital marketplace for registered pharmaceutical sellers and buyers to transact with each other. We charge sellers a commission, which is based on a certain percentage of their sales on our Online Marketplace. The average Online Marketplace commission rate we charged, which equals to commissions we received from third-party sellers divided by the corresponding GMV, was 2.8%, 2.9% and 3.1% in 2020, 2021 and 2022, respectively. The average number of monthly available SKUs was around 3.3 million in 2022, respectively. The vast selection of SKUs and the quality of the products have made our Online Marketplace a reliable platform for pharmaceutical transactions.

Our Online Marketplace helps simplify the multi-layer structure in China’s outside-of-hospital pharmaceutical market and streamline the pharmaceutical transaction process, as digitalisation makes the steps along the transaction process, such as certificate exchange, product selection and financial reconciliation, easier to be accomplished as compared with traditional offline transactions. For example, our digital platform enables our buyers to easily find the products to purchase by using the search and filter functions, and our platform generates algorithm-based feedback for our sellers to identify popular products. Transaction records are accessible from each user’s terminal so that our buyers and sellers can easily track and link their financial records. Our Online Marketplace addresses the multi-layer problem in the outside-of-hospital pharmaceutical market by providing a well-connected platform where buyers can directly and freely select and order products from sellers, and therefore helps reduce transaction costs and improve the overall efficiency of transactions. As of 31 December 2022, we had attracted around 6,000 pharmaceutical sellers and around 527,000 buyers to transact on our Online Marketplace. The GMV of our Online Marketplace of third-party merchants was RMB22.6 billion in 2022, representing approximately 59.8% of the total GMV, and growing at a CAGR of 28.8% from that in 2020.

Self-operation Business. As an ever-increasing number of upstream and downstream participants are attracted to our platform, we started the Self-operation Business in 2019 to provide better fulfilment and services to our buyers. We generate revenue from sales of products. In 2022, we

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procured and sold around 278,000 SKUs every month on average, to downstream pharmacies and primary healthcare institutions. These SKUs are carefully selected based on our analyses of buyers’ transaction preferences and history, after obtaining the consent of relevant parties based on the privacy policy of our platform. To facilitate high-quality service and fast and reliable delivery, we have developed a proprietary fulfilment system, integrating procurement, warehousing, delivery and working capital management into a centrally managed digitalised process. Centralised and digitalized management has enabled us to effectively control inventory turnover days at 26.5 days in 2022, better than the industry average level in the pharmaceutical circulation industry. We strategically designed mapping strategy for our own warehousing networking and had built 20 smart warehouses in 19 cities as of 31 December 2022. In our smart warehouses, we ensure that an order is processed and completed for delivery in, on average, 2.85 hours in our warehouses in 2022. In 2022, we have also significantly reduced delivery time, especially for inter-province delivery, to 41 hours for cities and 51 hours for towns, outperforming the industry average by approximately 20%. The GMV of our Self-operation Business was RMB15.2 billion in 2022, representing approximately 40.2% of the total GMV, and growing at a CAGR of 58.5% from that in 2020.

Targeted Product Launch Business. We started the Targeted Product Launch Business as part of our Self-operation Business in 2020. We procure from pharmaceutical companies and their selected master vendors and sell to our buyers and generate revenue from sales of pharmaceutical products procured. To better leverage our deep industry know-how, we conduct market analyses to help pharmaceutical companies better comprehend and capture downstream demand, identify products to be tailored for such demand, and collaborate with pharmaceutical companies to promote their products through our digital marketing solutions. Through Targeted Product Launch Business, on the one hand, we bring to pharmaceutical companies incremental demand and the insights we have gained from a large number of transactions on our platform, and on the other hand, we address the needs of our buyers and help them secure cost-effective deals. We maintain a healthy relationship with pharmaceutical companies and are able to procure directly from them and their selected master vendors at competitive prices. As of 31 December 2022, we were in collaboration with more than 500 pharmaceutical companies to launch the promotion of around 1,100 SKUs. The GMV of our Targeted Product Launch Business reached RMB1,009 million in 2022, representing a CAGR of 72.8% from that in 2020 and contributed to 6.6% of the GMV of our Self-operation Business in 2022. The key differences between our Targeted Product Launch Business and our General Self-operation Business include that, for upstream participants, suppliers of our Targeted Product Launch Business include pharmaceutical companies. In terms of product selection, we tend to focus on new products and existing products with certain characteristics, such as pharmaceuticals of high demand but limited brand awareness, pharmaceuticals that are sold well in hospitals but not adequately promoted in pharmacies outside of hospitals, and pharmaceuticals that are well promoted and therefore better known in one geographic region but are less known in another. We have a specific department designated for selecting products, managing product performance and reviewing the gross profit margin of our Targeted Product Launch Business. Products are assigned with a label on our YSB App indicating to our buyers that these are transacted in our Targeted Product Launch Business. Moreover, we provide digital marketing solutions to help our suppliers promote their products, so that they are willing to offer products at reduced procurement prices in return for the digital marketing solutions we provide to them, so that we tend to enjoy higher gross profit margin.

Other businesses. We developed a series of businesses, to help improve the operating efficiency of the upstream and the downstream, and to empower pharmacies and primary healthcare

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institutions with market insights and professional knowledge to enhance their service capability and quality. We are therefore able to maintain a healthy, active and self-reinforcing ecosystem.

- *ClouDiagnos.* We partner with primary healthcare institutions, place testing equipment at selected primary healthcare institutions, perform the testing and generate testing results. Our ClouDiagnos services provide strong support to medical professionals at primary healthcare institutions for them to make more informed medical recommendations, and improve the diagnostic quality at the primary healthcare level. We collect diagnostic testing service fees from our services.
- *wePharmacy.* wePharmacy is a 24-hour access smart unmanned pharmaceutical booth that connects our wePharmacy buyers and the end customers with pharmacist services. With the help of wePharmacy, both prescription and over-the-counter (“OTC”) pharmaceuticals can be offered to the end customers. By design, each wePharmacy booth can hold over 2,000 SKUs. wePharmacy not only can help pharmacies extend the operating hours during night time, but can also enhance their operating efficiency by improving sales per square metre or sales per employee. We collect revenue from sales of products, i.e., the wePharmacy booths, and service fees. We also charge annual service fees for system upgrade, repairs and maintenance of wePharmacy booths.
- *SaaS solutions.* As of 31 December 2022, our SaaS solution ePalm had provided inventory management and sales management services to around 40,000 pharmacies, and our SaaS solution CloudComm had provided sales management, analyses and forecast services to over 5,200 pharmaceutical sellers. We offer digital solutions to help our sellers and buyers manage their operations and sales. We charge a one-time installation fee and annual subscription fee for our SaaS solutions.
- *YSB eLearn.* We provide online courses for the preparation of the pharmacist qualification examinations. Since our inception in 2015 and up until 31 December 2022, we provided online training courses to, cumulatively, around 220,000 pharmacists and prospective pharmacists. Most of our courses in YSB eLearn are offered for free.

OUR ECOSYSTEM

Leveraging our technological advantages and unique business model, we connect the following players in the pharmaceutical value chain and have formed an ecosystem, centred on our *Yaoshibang* platform and implemented through pharmaceutical services and solutions. As of 31 December 2022:

- *Pharmaceutical companies.* We were in collaboration with more than 500 pharmaceutical companies under our Targeted Product Launch Business and equipped them with unique and valuable insights about market demand.
- *Distributors and vendors.* We had dealt with around 8,600 distributors and vendors in our Self-operation Business. We had offered around 6,000 distributors and vendors a well-connected platform to distribute their products and receive market feedback on our Online Marketplace.
- *Pharmacies.* We had enabled around 354,000 pharmacies, covering over 50% of the total number of pharmacies, to achieve operational excellence, control procurement and fulfilment costs, diversify their product offerings and better serve the end customers. As of 31 December 2022, we had attracted around 354,000 pharmacies to transact on our platform. In addition, according to the report published by Intelligence Research Group, an

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independent industry research and consulting agency in China, among the chain pharmacies, we have cumulatively, since our inception and up until 31 December 2022, served 55 pharmacy brands that are listed among the Top 100 Chain Pharmacies in China in 2022.

- *Primary healthcare institutions.* We had helped around 173,000 primary healthcare institutions, including, among others, private clinics, township health centres, village clinics, and community medical institutions. We help them better deal with daily operation, provide some of them testing equipment, and diversify their service offerings to better serve the end customers. We had covered around 17% of the total number of primary healthcare institutions in the industry. As of 31 December 2022, we had attracted around 173,000 primary healthcare institutions to transact on our platform.
- *Pharmacists.* Since our inception in 2015 and up until 31 December 2022, we helped, cumulatively, around 220,000 pharmacists and prospective pharmacists prepare for qualification examinations and provide them with resources to enhance their knowledge base.
- *Medical professionals.* We had empowered over 10,000 medical professionals at primary healthcare institutions to expand their service range and improve their service quality.

OUR MARKET OPPORTUNITIES

China’s pharmaceutical circulation industry consists of in-hospital market and outside-of-hospital market. Pharmaceutical circulation is the process where pharmaceutical distributors and vendors procure pharmaceuticals from upstream pharmaceutical companies, and sell to other pharmaceutical distributors and vendors, downstream hospitals, pharmacies and other retail terminals. According to Frost & Sullivan, in 2021, the market size of China’s outside-of-hospital pharmaceutical circulation industry represents about 35.5% of the market size of the whole pharmaceutical circulation industry. The market size of China’s outside-of-hospital pharmaceutical circulation industry is expected to grow from RMB639.7 billion in 2022 to RMB1.0 trillion in 2027, representing a CAGR of 9.6%.

Driven by technology advances such as cloud computing and big data, pharmaceutical transactions and services have been gradually transformed by digital solutions. According to Frost & Sullivan, in terms of GMV, the market size of China’s digital market of outside-of-hospital pharmaceutical circulation services grew from RMB53.5 billion in 2018 to RMB180.2 billion in 2022 at a CAGR of 35.5%. However, the digitalization of outside-of-hospital pharmaceutical circulation is still at an early stage. The digitalisation of China’s outside-of-hospital pharmaceutical circulation started in around 2008 to 2010 and was mainly personal computer-based. Mobile-based digitalisation mode started in around 2014 to 2015, along with the sound development of information technology, such as 4G and 5G. As of 2022, the penetration rate of China’s digital market of outside-of-hospital pharmaceutical circulation services to the overall outside-of-hospital pharmaceutical circulation market, in terms of GMV, was merely 28.2%. According to Frost & Sullivan, in terms of GMV, the market size of China’s digital market of outside-of-hospital pharmaceutical circulation services is expected to reach RMB358.3 billion in 2027 at a CAGR of 14.7% and its penetration rate to the overall outside-of-hospital pharmaceutical circulation market is expected to reach 35.4% in 2027.

There exists challenges in China’s outside-of-hospital pharmaceutical circulation industry, especially at the primary healthcare level, in particular:

- *Fragmented market with supply and demand mismatch.* China’s outside-of-hospital pharmaceutical transaction and service market is fragmented and regionalised. Large

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pharmaceutical sellers lack the incentives to serve the demand, especially the long-tailed SKUs, of the small and scattered buyers. Small pharmaceutical sellers may be unable or unwilling to meet certain downstream demand due to lack of scale and resources. As a result, buyers are underserved in many aspects, such as the choice of SKUs, the quantity and quality of products, complicated procedures leading to slow fulfilment and delivery, and the lack of pre-sale advice and after-sale services.

- *Multi-layered market with high transaction costs and low efficiency.* Pharmaceutical circulation market is multi-layered in China, which is especially true at the primary healthcare level. The multi-layered structure leads to low efficiency, high transaction costs and unsatisfactory experience for buyers. Moreover, sellers lack the effective technological means to quickly identify and locate market demand and thus they could not always realise potential sales opportunities.
- *Opaque pricing and product tracking difficulties.* A highly fragmented and multi-layered market leads to asymmetric information among the industry players, leading to problems such as opaque pricing, difficulties in tracking products, unfair competition, etc., and jeopardising the interests of the participants along the pharmaceutical value chain and the overall safety of pharmaceutical transactions.
- *Lack of digital management tools at the primary healthcare level.* Lack of digital management tools leaves basic management and operational needs, such as supply chain management, in-store management and skill training, largely unsatisfied at the primary healthcare level.

We understand the challenges in the pharmaceutical circulation industry and ride on the market trends. Sellers have increasing needs to identify market needs, improve turnover and product tracking. Buyers have increasing needs to digitalise their management, control costs and expand the retail sales market. We start from and focus on empowering the players at the primary healthcare level, where there is an immense potential with abundant market opportunities and where we have deep knowledge of. We possess the technological capabilities to effectively transform the outside-of-hospital pharmaceutical transactions and services into an ecosystem that seamlessly connects the players along the value chain and provides them with ample healthcare solutions. We closely monitor the favourable changes in policies such as prescription outflow and medical resources being increasingly allocated to the primary level.

See “Industry Overview” for further details.

COMPETITIVE LANDSCAPE

The market size of China’s digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV was RMB180.2 billion in 2022, representing about 28.2% of the overall outside-of-hospital pharmaceutical circulation market. Digitalised pharmaceutical circulation can be divided into two business models, namely marketplace model and self-operation model. Under marketplace model, a platform acts as a marketplace to bridge upstream pharmaceutical sellers and downstream pharmaceutical buyers and facilitate pharmaceutical transactions online. Under self-operation model, a player develops and operates a self-owned supply chain, directly supplying pharmaceuticals to outside-of-hospital terminals in the form of digital commerce transactions on a platform.

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Putting various factors into consideration, such as, the business resources, network and experiences accumulated, the players in the China’s digital market of outside-of-hospital pharmaceutical circulation services may choose to focus on marketplace model, self-operation model, or a combined mixed model of both. While the players may focus on one model at the beginning, most of them have accumulated enough resources and experiences after years of business operations, and they have extended or possessed the capability to extend their business to cover the other model. The coexistence and interaction between marketplace model and self-operation model is commonly seen among the players in the China’s digital market of outside-of-hospital pharmaceutical circulation services.

The following table presents the major players in China’s digital market of outside-of-hospital pharmaceutical circulation services:

Company	GMV (RMB million for the twelve months in 2022)	Market Share (Calculated based on GMV)	Market Ranking (Calculated based on GMV)	MAB (Monthly average for the twelve months in 2022)	Market Ranking (Calculated based on MAB)	Percentage of GMV in 2022 from marketplace model	Percentage of GMV in 2022 from self-operation model
YSB Inc.	37,833	21.0%	1	308,000	1	59.8%	40.2%
Competitor A	23,000	12.8%	2	120,000	4	99.0%	1.0%
Competitor B	20,000	11.1%	3	230,000	2	100%	0
Competitor C	17,969	10.0%	4	175,000	3	25.4%	74.6%
Competitor D	17,101	9.5%	5	110,000	5	<5%	>95%

Source: Frost & Sullivan

We are the largest digital pharmaceutical platform serving businesses outside of hospitals in China in terms of total GMV (marketplace model and self-operation model combined) in 2022. Our MAB ranked the highest among these major players in China’s digital market of outside-of-hospital pharmaceutical circulation services.

We ranked in second place in terms of GMV from marketplace model among these major players in China’s digital market of outside-of-hospital pharmaceutical circulation services. The average number of monthly available SKUs transacted on our platform in 2022 was the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China.

We ranked in second place in terms of GMV from self-operation model among these major players in China’s digital market of outside-of-hospital pharmaceutical circulation services. In 2022, we were able to ensure that, on average, an order was processed and completed for delivery much faster than the industry average level. We maintained inventory turnover days at a level better than the industry average level in the pharmaceutical circulation industry, in 2022. Our inter-province delivery time for cities and for towns in 2022 is also much lower than the industry average level.

The aforementioned industry information is supported by analyses performed by Frost & Sullivan. See “Industry Overview—Overview of China’s digital market of outside-of-hospital pharmaceutical circulation services” and “—Competitive landscape and entry barriers of China’s digital market of outside-of-hospital pharmaceutical circulation services” for further details.

OUR VALUE PROPOSITIONS

We believe that we offer compelling value propositions for participants in our healthcare ecosystem. Leveraging our deep knowledge of China’s outside-of-hospital pharmaceutical market,

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technologies and smart supply chain capabilities, we connect the industry players in our ecosystem and reinforce strong network effect. We have developed a series of technology-backed solutions to connect and empower our ecosystem participants. We have turned the process of pharmaceutical transactions and services into a digitalised, standardised and scalable one. We strive to build an ecosystem that seamlessly connects the players along the pharmaceutical value chain and creates values for them and the whole society.

Value propositions to the downstream. The experience of buyers is core to our business. We have improved the accessibility of safe, accommodating and affordable products and services in China, especially for pharmacies and primary healthcare institutions in areas with limited healthcare resources historically. We are committed to becoming the go-to platform for the downstream.

- *Abundant product offerings.* We provide a vast selection of SKUs to our buyers, including prescription and OTC pharmaceuticals, healthcare products and medical devices. Through our Online Marketplace, we fulfil the demand of long-tail pharmaceuticals and help address the problem of inadequate supply at the primary healthcare level. Through our Self-operation Business, we provide a comprehensive selection of core SKUs that are among the most frequently sourced SKUs by our buyers.
- *Transparent and competitive pricing.* We digitally unite our buyers into a virtual alliance and improve their bargaining power for better prices. We provide them with transparent pricing. We also simplify the transaction process by reducing or eliminating the multi-layered structure and thereby minimising unnecessary transaction costs. For our Self-operation Business, we procure large amounts of products and such economies of scale allow us to get favourable pricing terms and pass on the savings to our buyers.
- *In-time and reliable fulfilment.* Our warehousing and delivery system is strategically designed to provide safe, fast and reliable delivery. We have designed and built a system that automatically generates an optimal delivery plan for each order. We are capable of delivering high volumes of small ticket size orders to the primary healthcare level and remoted areas economically, with our average delivery time outperforming the industry average level by approximately 20% in 2022.
- *Stable supply with high quality.* We set strict standards for conducting transactions on our platform. Our warehousing and delivery management system ensures stable product supply.
- *Technology-backed solutions and services.* We empower our downstream players with our technology-backed initiatives. Our ClouDiagnos provides strong support to medical professionals at primary healthcare institutions for them to provide reliable and affordable diagnostic services and make more informed medical recommendations to patients. Our wePharmacy facilitates pharmacies to provide 24-hour unmanned services to end customers. Our SaaS solutions help pharmacies streamline inventory management.

Value propositions to the upstream. Our upstream participants are critical in providing a stable stream of high-quality products to our platform. The hundreds of thousands of buyers, simplified distribution channels, and improved transparency and allocation of healthcare resources across the country together attract numerous upstream participants to come to benefit from our ecosystem and to better serve the market.

- *Access to the largest network of buyers.* We provide our upstream a time-efficient and cost-effective way to access a diverse pool of buyers, especially those at the primary level

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and from remote areas. Such buyers are comprised of around 354,000 pharmacies, including, among other, small and medium-sized chain pharmacies and monomer pharmacies, and around 173,000 primary healthcare institutions, including, among others, private clinics, township health centre, village clinic, and community medical institution. We offer upstream participants a well-connected platform to effectively access geographically scattered buyers, distribute their products, and increase sales.

- *Effective sales and marketing solutions.* With direct reach to all the touchpoints of the healthcare and pharmaceutical value chain, we are able to capture and analyse vast amount of information. Upstream participants can benefit from our feedback, learn the market trends, and make strategic decisions to address downstream demand. They can also monitor sales and promotions, track their products and provide after-sales services. In particular, we provide pharmaceutical companies insights about market opportunities so that they can better cater to the downstream needs. We also provide upstream participants a series of digital solutions for direct marketing, including group buy and livestreaming.
- *Digital management solutions.* We are one of the first platforms in the outside-of-hospital pharmaceutical market to offer SaaS solutions to our sellers. These digital solutions help our sellers manage operations and sales.
- *New business opportunities.* The solutions we provide to empower our downstream also revitalise our whole ecosystem. When we attract and retain more active buyers to our ecosystem, in turn we bring new business opportunities to our upstream.

OUR FINANCIAL PERFORMANCE

We generate revenue primarily from sales of pharmaceutical products through our Self-operation Business, and commissions from pharmaceutical sellers transacting on our Online Marketplace. In connection with our other businesses, we collect diagnostic testing service fees from primary healthcare institutions and SaaS usage fees from pharmacies.

We have a track record of business growth. Our total revenues grew at 66.4% from approximately RMB6.1 billion in 2020 to RMB10.1 billion in 2021, and further at 41.4% to RMB14.3 billion in 2022. The gross profit margin is 10.0%, 9.1% and 10.1% in 2020, 2021 and 2022, respectively. In 2020, 2021 and 2022, we recorded a loss of RMB571.7 million, RMB501.6 million and RMB1,500.0 million, respectively. The loss recorded in 2020, 2021 and 2022 was primarily attributable to costs and expenses associated with the expansion of our fast-growing Self-operation Business, the development of our other businesses and fair value changes of financial liabilities at fair value through profit and loss in connection with our preferred shares.

OUR STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

China’s largest and fast-growing digital pharmaceutical platform serving businesses outside of hospitals, benefiting from strong network effects

According to Frost & Sullivan, we are the first in the outside-of-hospital pharmaceutical circulation industry to adopt mobile internet to integrate the pharmaceutical value chain. Our total

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GMV reached RMB37.8 billion in 2022, representing a CAGR of 38.6% from that in 2020, both the highest among leading digital pharmaceutical platforms serving businesses outside hospitals in China.

As of 31 December 2022, we attracted around 354,000 pharmacies and around 173,000 primary healthcare institutions to transact on our platform, representing a CAGR of 20.9% and 39.3% from that in 2020, respectively. As of 31 December 2022, we had around 6,000 sellers on our Online Marketplace and around 9,100 suppliers in our Self-operation Business. We strive to be the go-to platform for pharmaceutical transactions.

Buyer engagement is core to our sustainable business development. We are able to maintain high buyer engagement and keep monetising our large and active buyer base. Our average number of MAB is the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China in 2022, according to Frost & Sullivan. We had 202,000, 256,000 and 308,000 average number of MAB on our platform, during the Track Record Period, among which, the average number of MPB represents a percentage of 80%, 87% and 92%, respectively. Average number of orders per paying buyer per month increased from 12.6 in 2020 to 27.3 in 2022, representing a CAGR of 46.8%.

Through the connectivity of our platform bringing together participants along the pharmaceutical value chain, an ecosystem has emerged and provided us with a powerful set of network effects. We are able to achieve better industry coverage and higher GMV and generate deeper market insight. Network effects allow us to grow our user base and monetization opportunities in a cost-effective manner. The strong network effects will continue to drive our sustainable business growth.

Synergetic integration of and dynamic balance between Online Marketplace and Self-operation Business, driving continuous growth of business innovations

We operate a scalable synergised business model. The Online Marketplace and Self-operation Business, mutually complementing and reinforcing, together as a strategic whole, critically support the overall healthcare ecosystem. We believe that our business model presents the most effective way to address the supply and demand mismatch problem. In 2022, the GMV of our Self-operation Business represents about 40.2% of the total GMV. By maintaining a good balance of and exploiting synergies between the two businesses, we have created a high barrier that prevents our competitors from successfully copying our business model and achieving scalable operation. The Online Marketplace and the Self-operation Business are synergised to meet the needs of all buyers. For buyers whose demand is more certain, frequent and stable, the Self-operation Business provides high-quality products and fast and reliable fulfilment. For buyers whose demand is long-tail, scattered or unpredictable, our Online Marketplace can fulfil such demand by offering more comprehensive SKUs at a good price. We allow buyers to source products seamlessly across the two businesses on our *Yaoshibang* platform. As a result, more buyers are attracted to the platform, increasing the GMV of both our Online Marketplace and Self-operation Business. Moreover, we have been continuously enhancing the selection of SKUs. The average number of monthly available SKUs transacted on our platform was around 3.3 million in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China, according to Frost & Sullivan.

While adequately fulfilling the needs of our buyers, we are able to maintain strong synergetic effects. Our Online Marketplace complements our Self-operation Business, providing scalability powered by the network effects and an abundant selection of products, and helping establish our brand and the competitive moat of our Self-operation Business. The valuable experience we gained from

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operating our Online Marketplace also provides important insights for our Self-operation Business regarding the selection and procurement of SKUs. Our Self-operation Business, on the other way around, feeds our Online Marketplace with valuable insights in product and service development and supply chain management from directly transacting with our buyers. These insights help us better support the sellers on our Online Marketplace to grow sustainably and better serve our buyers.

Leveraging the experience and capabilities we have gained, we continue our business model innovation and have started the Targeted Product Launch Business since April 2020. Targeted Product Launch Business is a proven success of the synergetic integration of our business model. We collaborate with pharmaceutical companies, and bring them effective marketing solutions. We provide pharmaceutical companies with more access to and closer connection with buyers. Since its inception, our Targeted Product Launch Business has benefited from the network effects, experienced rapid growth and adds scale to our overall business. The GMV of Targeted Product Launch Business was RMB1,009 million in 2022, representing a CAGR of 72.8% from that in 2020. Our experience and capabilities also enable us to expand into other businesses such as ClouDiagnos and wePharmacy in 2021, so that we are able to provide comprehensive and one-stop services to our customers and their end customers.

Technologies and digital solutions empowering the participants along the value chain

We are a technology-driven company and place the utmost focus on continually improving our technology to better serve our ecosystem participants. We have developed a series of solutions in house—including, among others, sales management solutions, inventory manage tools, all-in-one printing, and digitalised certification exchange—backed by cloud-computing, big data, and advanced algorithm. We operate our platform to deliver digital solutions to our ecosystem participants to address the challenges faced by them in various business scenarios and empower them to improve efficiency and control costs.

We offer our ecosystem participants a series of SaaS solutions. As of 31 December 2022, we had provided SaaS services to over 5,200 sellers to help them connect our *Yaoshibang* platform seamlessly. As of the Latest Practical Date, we are one of the very few in the outside-of-hospital pharmaceutical circulation industry to provide such services to sellers, according to Frost & Sullivan. We also offered SaaS services to around 40,000 pharmacies. For example, we provide ePalm to pharmacies with a full-package of digital management tools, including, among others, smart storage, membership management, inventory management and account management. Digitalisation helps our ecosystem participants grow intelligently and creates value to the whole society with comprehensive, high-quality and affordable healthcare services. It in turn enhances the development of our platform and the overall sustainability of our ecosystem.

Furthermore, we have accumulated valuable insights from transacting with and serving the participants along the pharmaceutical value chain and from our ever-evolving analytical capabilities. Such insights help buyers make informed procurement decisions. We also help the upstream better understand the downstream demand through data analyses and design customised marketing plans.

Smart supply chain management enhancing user experience and operating efficiency

We have developed our smart supply chain management system in house, which has significantly contributed to our success and our ever-growing scale. We combine advanced

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technologies and management expertise to integrate the front and back ends of the supply chain, covering procurement, warehousing and delivery. With the help of our smart supply chain, we have improved our inventory management and operating efficiency.

Our procurement system tracks the life-cycle of available SKUs, analyses their historical price fluctuation, and generates smart procurement suggestions for our procurement team to review. We are able to maintain high inventory turnover.

Our warehousing system is centrally managed and powered by algorithm and the insights we accumulated from transacting on our Online Marketplace and Self-operation Business. We have streamlined the process and improved overall efficiency. In 2022, we were able to ensure that, on average, an order was processed and completed for delivery in 2.85 hours, much faster than the industry average level. We strategically designed a warehousing mapping and had built 20 smart warehouses in 19 cities as of 31 December 2022. Leveraging on smart supply chain management, we maintained inventory turnover days at 26.5 days, better than the industry average level in the pharmaceutical circulation industry, in 2022.

Our delivery system is digitally managed and provides fast and safe services to our buyers. In 2022, the average inter-province delivery time outside of province was 41 hours for cities and 51 hours for towns, outperforming the industry average by approximately 20%, with the industry average being 48 to 60 hours for cities and 60 to 72 hours for towns. Fast delivery allows pharmacies to place frequent orders with smaller ticket size, which in turn helps improve the inventory turnover of pharmacies. Moreover, we maintained low logistics expenses at 1.46% of the GMV of our Self-operation Business in 2022, much lower than the industry average rate.

Rooted in massive outside-of-hospital pharmaceutical circulation industry with tailored digitally supported business development strategies

We strategically commenced our business in the massive outside-of-hospital pharmaceutical circulation industry, especially at the primary healthcare level, as a start point. The primary healthcare level is fragmented and layered, leading to problems such as the supply and demand mismatch, high transaction costs, and low operating efficiency. Buyers are clustered at the primary healthcare level but are scattered due to geographical limitations. They have little bargaining power against the upstream on their own. We have brought mobile internet and digital solutions to the market to address the industry challenges. We have, effectively, built a virtual alliance for the downstream, where the demand of each and every buyer is equally addressed, regardless of their size or geographical location.

We tailored our business development (“BD”) strategies to best reflect our positioning. Our BD strategies are built upon our experience, competence and capacity we cultivate and grow from serving and transacting at the primary healthcare level. We closely monitor the immense potential and opportunities in the market and track the favourable regulatory development to constantly adjust our BD strategies and grow with the market. Leveraging our unique business model and market positioning, we believe we will take a significant share of the market expansion. As of 31 December 2022, our BD team consisted of over 2,800 members and each of our BD member can manage around 130 pharmacies on average.

Visionary management team with internet technology and healthcare service experiences

We are led by an experienced management team, headed by our founder, Mr. Buzhen Zhang. Mr. Zhang is also the chairman of the board, and has served as chief executive officer since our

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inception. Mr. Zhang is a market pioneer and a renowned entrepreneur who has long-time passion for the healthcare industry. He has led us since our inception, establishing and developing our vision, mission and culture, with a clear roadmap of long-term development. Mr. Zhang is a seasoned entrepreneur with extensive experience for over 20 years in managing internet technology companies and developing technological solutions for businesses in China. Prior to founding the Company, Mr. Zhang worked at Fang.com for 15 years, responsible for both technological development and business management. Through the experience, Mr. Zhang accumulated deep expertise of using technological means to solve business problems especially for small retail establishments. The insights derived from such expertise was instrumental in understanding the critical issues faced by China’s outside-of-hospital pharmaceutical market and subsequently developing effective solutions based on technologies.

Our management team has combined experience in healthcare services and information technology, enabling pharmaceutical transactions and services and developing digital supply chain. They are dedicated to delivering better healthcare services to pharmacies and primary healthcare institutions and leading the transformation in the China’s outside-of-market pharmaceutical circulation industry with their clear vision and passion. Our values, along with our employee training, career development and incentive programmes, have contributed greatly to our talent acquisition and incubation.

OUR STRATEGIES

To enhance our market share, promote our brand, improve our profitability, and further, to achieve our long-term goal to establish a safe and efficient transaction network for businesses along the pharmaceutical and medical value chain, we intend to pursue the following strategies:

Systematically grow the scale, comprehensiveness and depth of our pharmaceutical circulation business

We will continue to transform the outside-of-hospital pharmaceutical transactions and services and develop our platform, centred on our Online Marketplace and Self-operation Business, and further complemented by a series of other businesses. We will grow the scale of our business and enhance the comprehensiveness and depth of our solutions and services.

Enhance our Online Marketplace. We have established the largest digital pharmaceutical transaction and service network outside of hospitals in China and we plan to further expand our coverage and increase our penetration in the outside-of-hospital pharmaceutical market. We plan to grow our presence in large chain pharmacies. Powered by the strong network effects, we plan to further promote our brand to attract new sellers and buyers to transact on our Online Marketplace. We will build in-app links, such as *Medical Devices* and *Chinese Medicine*, on our Online Marketplace to promote healthcare products.

Expand our Self-operation Business. We will continue to broaden and deepen the geographical reach of the service network of our Self-operation Business, and further integrate online and offline services to reach, serve and retain more buyers. We will upgrade our smart supply chain and employ digital solutions to enhance our service quality and fulfilment capability. We plan to expand our smart supply chain to cover more areas, including the primary healthcare level and remoted areas. In the meanwhile, we will broaden the scope of our SKU offerings, including, among others, generic drugs, new drugs and specialty drugs, to fully exploit the benefits of prescription outflow.

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Regarding our Targeted Product Launch Business, as there is a growing awareness among pharmaceutical companies of the outside-of-hospital pharmaceutical market in China, we will keep exploiting the network effects and reinforcing the collaboration with our suppliers. We will broaden and deepen such collaboration and cooperate directly with more well-known pharmaceutical companies with good reputation. We plan to diversify the SKU pool by assisting pharmaceutical companies to launch the promotion of more customised products to fulfil market demand. We will also upgrade our digital marketing services to strengthen the bond between our upstream and downstream ecosystem participants.

Enhance our technology capabilities and digital solutions and continue to innovate

We will continue to invest in research and development in building digitalised infrastructure and attract and cultivate more talents, reinforcing our leading position in technological development.

Increase research and development in advanced technologies. We plan to continue investing in upgrading our algorithm, deep learning capabilities and data analytics. We will keep integrating such technologies into our digital solutions and services. We plan to apply new technologies into our daily operations. We will improve the efficiency of data processing and operations, as well as the quality of our services.

Improve our digital solutions. We will enhance and upgrade the functions of our current SaaS solutions, promote their use, better respond to the needs of our ecosystem participants, and improve the monetization of these solutions. We plan to increase penetration of SaaS solutions to serve more upstream and downstream participants. We plan to create other precisely targeted digital services for our ecosystem participants to address their specific needs and to improve their engagement, such as SaaS solutions to provide tailored digital marketing plans for upstream participants and those to help them enhance the internal efficiency of production, warehousing and delivery.

Further invest in our smart supply chain. We plan to invest in the operation and management of our smart supply chain for the outside-of-hospital pharmaceutical market, improving its technological development, data analytics and fulfilment efficiency. We are committed to providing faster delivery at lower prices to help buyers better serve their end customers. We plan to upgrade our warehouse management system and optimise its algorithm, so that it will generate more accurate and comprehensive results. We plan to improve our algorithm and apply other technologies, to handle more complex requests and better control operating costs. We will, in the future, improve automation in our smart supply chain management, as a measure to control costs and reduce human errors.

Grow our other businesses online and offline and improve service quality

We plan to increase investment into our other businesses, expand business lines to fulfil the unmet needs and grow our customer bases. We will continue identifying market potential to diversify our revenue sources and enhance our monetization capabilities. We will further enhance the overall service quality and improve the experience of our ecosystem participants, increasing their engagement to our platform.

Build a one-stop systematic ClouDiagnos solution. We plan to further grow our ClouDiagnos services, expand its geographical reach, and diversify its coverage to include all types of primary healthcare institutions. We will provide more portable equipment to these primary healthcare institutions and improve their diagnostic quality. We will further expand our service offerings. We will

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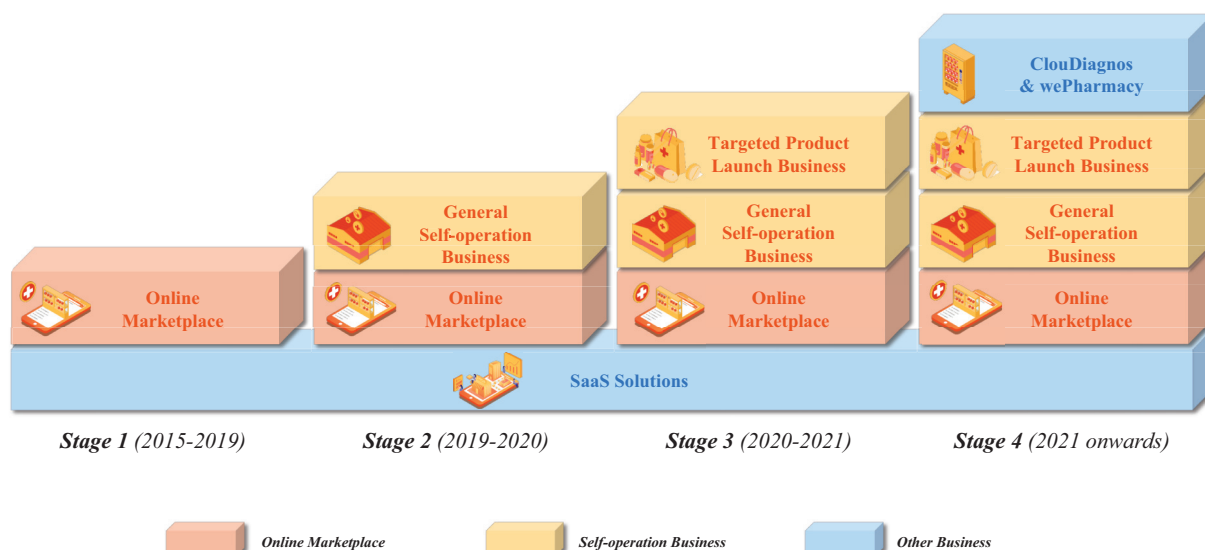
launch auxiliary medical consultation in the near future to help medical and pharmaceutical professionals provide more informed advice to patients. With the one-stop solution, our pharmaceutical circulation business and ClouDiagnos services together will create a self-reinforcing virtuous circle to fully serve the needs of pharmacies, primary healthcare institutions and their end customers. Our ClouDiagnos services will be highly synergistic with our pharmaceutical circulation business. The self-reinforcing virtuous circle will help us enhance brand awareness, reduce customer acquisition costs and increase purchase volume. It will also create a barrier for other players who have not cultivated a large base of primary healthcare institution buyers and help us maintain buyer engagement.

Promote wePharmacy. We will further promote our wePharmacy, improve its structural design, upgrade its functions, and enhance its connectivity with other services. We will continue applying digital solutions into wePharmacy to realise fully automated management. We plan to seek collaboration with more pharmacies to promote the popularity of our wePharmacy. We also plan to leverage the experience we gained from developing wePharmacy to develop and provide more extensive one-stop unmanned solutions to pharmacies. We will expand the availability of and the channel to access pharmaceuticals, providing 24-hour access to smart pharmaceutical services to the end customers.

Pursue strategic partnerships, investments and acquisitions

We plan to selectively and cautiously pursue strategic partnerships, investments and acquisitions to explore synergetic effects, promote the growth of our business, diversify our product and service offerings, and improve our digitalised management capabilities. We will enhance our ecosystem to reinforce our leading position in the outside-of-hospital pharmaceutical transactions and services. As of the Latest Practicable Date, we had not identified any target for investment or acquisition.

OUR BUSINESS MODEL AND EVOLUTION



We started with a mobile internet based Online Marketplace in 2015 to address the supply and demand mismatch in China’s pharmaceutical distribution network. A digitalised marketplace can provide buyers direct and easy access to a vast selection of SKUs. On the one hand, we believe that technology-backed solution is the key to address the challenge that China’s pharmaceutical distribution

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network is fragmented and multi-layered. We are the first mover in the industry to provide mobile internet based integrated pharmaceutical services, compared with traditional means. Mobile internet apps are more effective in cultivating a highly active and sticky user base. Through mobile internet apps, we make our products and services easily accessible and make pharmaceutical business convenient to conduct. On the other hand, there are extremely numerous pharmaceutical SKUs with very scattered and long-tailed demand. Pharmaceutical distributors sometimes find it difficult to carry a comprehensive selection of products, while pharmacies and primary healthcare institutions find it difficult and costly to procure all products needed from suitable sellers within their geographical regions. With a mobile internet based Online Marketplace, we, therefore, are able to bring together sellers and buyers who otherwise would have no venue to trade in an efficient, secure and scalable way. By attracting a large and growing base of pharmaceutical sellers and buyers to deal directly on the Online Marketplace, we have created strong network effects.

We started our Self-operation Business in 2019, in response to the growing procurement and fulfilment needs from the downstream. Self-operation Business brings us additional benefits. First, the Self-operation Business gathers aggregate purchasing power from a wide network of buyers, which increases our bargaining power against suppliers and allows us to pass on the savings to our buyers. Second, we are able to select, based on our experience in pharmaceutical transactions and services, commonly used pharmaceuticals with high quality to precisely match the downstream needs. Third, we are able to exercise full control over warehousing and fulfilment management, thereby improving the quality and stability of our delivery and after-sale services to buyers. Established upon the buyer base brought by the Online Marketplace and supported by digitalised management, our Self-operation Business smoothly connects the entire supply chain from procurement, warehousing, order processing, invoicing, payment collection, to the delivery to downstream pharmacies and primary healthcare institutions.

After years of successful operation and achievement in both the Online Marketplace and the Self-operation Business, we started the Targeted Product Launch Business, under our Self-operation Business, in April 2020, to enhance the relationship with our suppliers. The deep industry know-how we accumulated from the downstream helps us earn a meaningful position to negotiate with our suppliers, including pharmaceutical companies, provide them feedbacks on products, and offer them digital marketing solutions. We have developed strong capabilities to become a more significant player and contributor to the B2B pharmaceutical value chain. We also address the needs of the downstream pharmacies and primary healthcare institutions.

While we gradually develop and improve our pharmaceutical circulation business, we are also committed to bringing advanced technology and management insights to our ecosystem participants. We are able to monetise our technological advantage. We started providing SaaS solutions to sellers and buyers in 2016. The SaaS solutions help sellers and buyers with store management. Our R&D personnel responsible for developing and updating our SaaS solutions have abundant professional knowledge of mobile internet information technology, big data computing and artificial intelligence. They are responsible for analysing market information from the upstream and downstream, and designing, developing, testing and launching SaaS solutions to accommodate the needs of our sellers and buyers. Our SaaS solutions are continuously updated to improve the experience of our sellers and buyers. Apart from the SaaS solutions, our digital pharmaceutical circulation business is further complemented by a series of other businesses. We empower our ecosystem participants and improve their engagement. We started providing online training for pharmacists and prospective pharmacists in 2015. In 2021, we started to partner with primary healthcare institutions to provide the end customers

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with diagnostic testing services. In the same year, we introduced wePharmacy, a 24-hour access smart unmanned pharmaceutical booth that provides real-time pharmaceutical sales and services.

Our pharmaceutical circulation business and other businesses, together, integrate into a scalable and synergised business model. Our business model is carefully tailored for meeting the demand from our ecosystem participants. Our ecosystem participants can seamlessly switch across and access our products and solutions on our platform. Our Online Marketplace offers a vast selection of SKUs and price advantage to buyers whose demand is long-tailed, scattered or unpredictable. Our Self-operation Business provides high-quality products and safe, fast and reliable delivery to buyers whose demand is more certain, frequent and stable. Our Targeted Product Launch Business responds to the under-tapped market demand of purchasing products with high quality at affordable prices. Our SaaS solutions help with daily operation and management. Our other businesses complete the puzzle of transforming the outside-of-hospital pharmaceutical circulation market into a closed-loop ecosystem.

Our self-enforcing ecosystem, enabled by the quality of our services and powered by the growth of our ecosystem, provides us steady flows of opportunities and capacity for us to grow our business. We are able to retain an active base of ecosystem participants. As of 31 December 2022, we had around 6,000 sellers on our Online Marketplace and around 9,100 suppliers in our Self-operation Business. We had served around 354,000 pharmacies and 173,000 primary healthcare institutions, covering approximately 97% of counties and 82% of towns across China. These buyers are traditionally burdened by regional limitation and by the uneven access to pharmaceuticals and other healthcare resources. Additionally, we are able to retain an active base of buyers. In 2022, we had around 308,000 of average number of MAB, respectively. Moreover, we devote ourselves to maintaining a large profile of SKUs to satisfy the diversified needs of buyers. In 2022, the average number of monthly available SKUs was around 3.3 million. We believe that our product offerings can meet all kinds of needs from buyers.

Through our enhancement of our pharmaceutical circulation business and our expansion into other businesses, we have developed diverse revenue streams. The following table sets forth a breakdown of our revenue both in absolute amount and as a percentage of our total revenue during the Track Record Period.

	For the Year Ended 31 December					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Self-operation business	5,691,414	93.8	9,589,512	95.0	13,519,017	94.7
Online marketplace	372,716	6.2	489,247	4.8	694,204	4.9
Other businesses	777	0.0	14,779	0.2	61,589	0.4
Total	6,064,907	100.0	10,093,538	100.0	14,274,810	100.0

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The following table sets forth our key operating metrics during the Track Record Period.

	For the Year Ended December 31 / As of December 31		
	2020	2021	2022
GMV (RMB million)			
GMV from Online Marketplace	13,638	17,040	22,632
GMV from Self-operation Business	6,053	10,473	15,201
GMV from General Self-operation Business	5,715	9,586	14,192
GMV from Targeted Product Launch Business	338	887	1,009
Total GMV	19,691	27,513	37,833
SKU			
Average Number of Monthly Available SKU (million) ⁽¹⁾	1.5	2.4	3.3
Average Number of Monthly Available SKU for Self-operation Business (thousand)	150	196	278
The Upstream			
Number of Sellers on Online Marketplace	3,599	4,703	6,072
Number of Suppliers of Self-operation Business ⁽²⁾	5,063	7,841	9,139
The Downstream			
Overall			
Registered Number of Buyers (thousand)	332	434	527
Registered Number of Pharmacies (thousand)	243	305	354
Registered Number of Primary Healthcare Institutions (thousand)	89	130	173
Average Number of MAB (thousand)	202	256	308
Average Number of MPB (thousand)	161	223	283
Paying Ratio	80%	87%	92%
Average Number of Orders per Paying Buyer per Month⁽³⁾	12.6	21.7	27.3
GMV per Order (RMB)	806	474	409
Online Marketplace			
Average Number of MPB for Online Marketplace (thousand)	145	207	269
Average Number of Orders per Paying Buyer per Month for Online Marketplace ⁽⁴⁾	9.8	15.8	18.8
GMV per Order for Online Marketplace (RMB)	798	434	374
Self-operation Business			
Average Number of MPB for Self-operation Business (thousand)	109	185	234
Average Number of Orders per Paying Buyer per Month for Self-operation Business ⁽⁵⁾	5.6	8.5	11.4
GMV per Order for Self-operation Business (RMB)	821	559	475
Online Marketplace subsidy ratio⁽⁶⁾	1.2%	0.8%	0.7%
Online Marketplace commission rate⁽⁷⁾	2.8%	2.9%	3.1%

Notes:

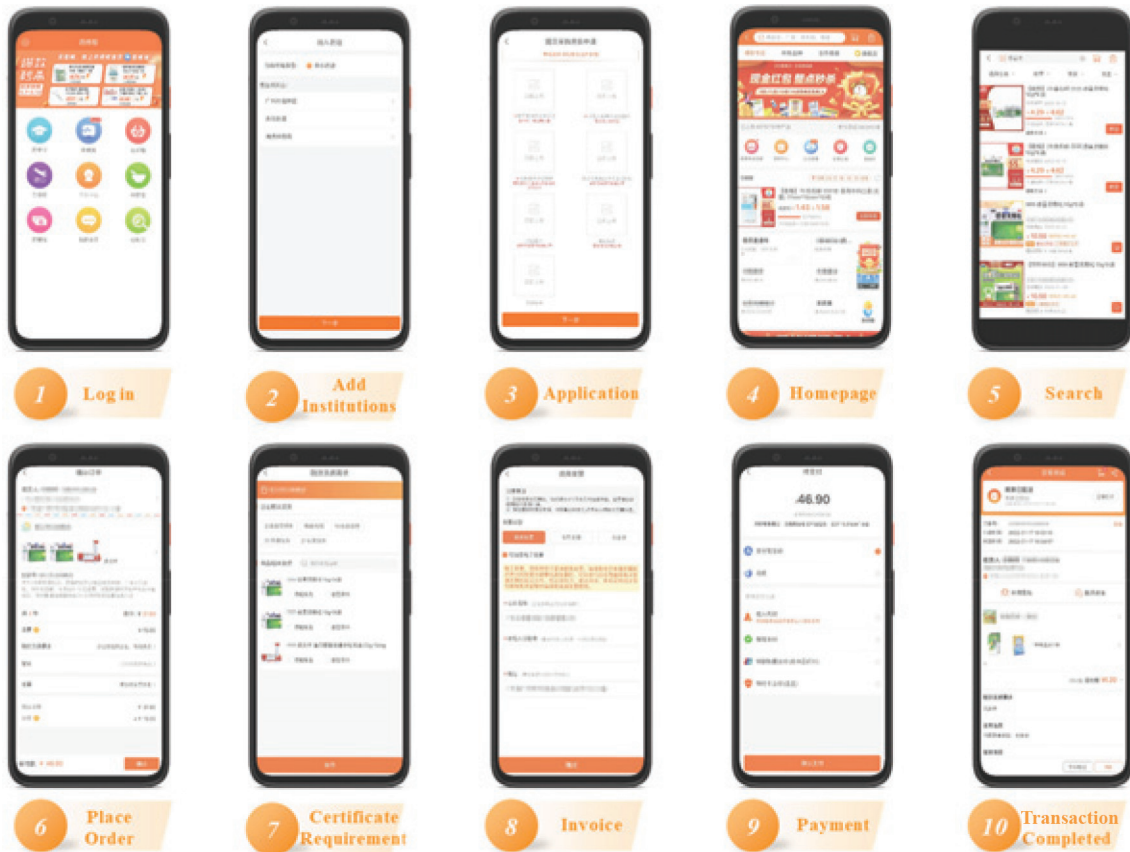
- (1) Average number of monthly available SKU refers to the average of the number of SKUs that are available at the end of a given month during a given period, without eliminating duplication.
- (2) Number of suppliers of Self-operation Business includes, among others, number of suppliers of Targeted Product Launch Business.
- (3)(4)(5) Average number of orders per paying buyer per month refers to number of monthly average orders divided by average number of MPB in a given period. Overall average number of orders per paying buyer per month does not equal to average number of orders per paying buyer per month for Online Marketplace plus average number of orders per paying buyer per month for Self-operation Business because of the existence of overlapping paying buyers of Online Marketplace and Self-operation Business.
- (6) Online Marketplace subsidy ratio refers to the amount of subsidies provided to buyers and used on Online Marketplace divided by GMV from Online Marketplace.
- (7) Online Marketplace commission rate refers to the commission fees (before deducting value-added tax) charged to third-party sellers by Online Marketplace, divided by GMV from Online Marketplace.

OUR ONLINE MARKETPLACE

Our Online Marketplace helps address the supply and demand mismatch and provides cost-effective access to a vast selection of SKUs to buyers. We believe we have established a leading position in the industry that is attributable to our ability to connect and empower, on the one hand, pharmaceutical companies and distributors who look for an efficient approach to sell their products to a wide range of buyers, and, on the other hand, pharmacies and primary healthcare institutions whose traditional seller reach is within a limited radius.

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Under the Online Marketplace, the sellers are upstream pharmaceutical distributors and vendors, and the buyers are mainly downstream pharmacies and primary healthcare institutions. We have put in place a rigorous selection process for both pharmaceutical sellers and buyers that wish to transact on our Online Marketplace. They must obtain and possess the relevant certificates, which are stored in our CertEx, for their business. We monitor their certificates regularly.



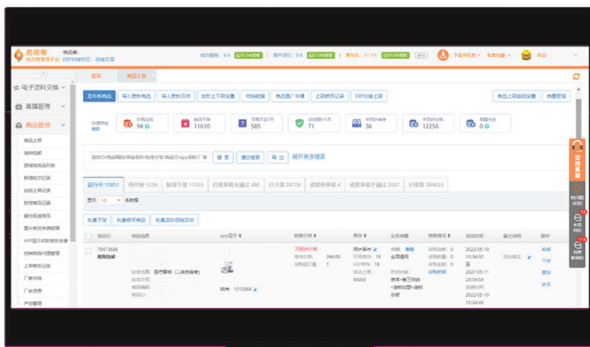
Transaction process from buyer side

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Homepage

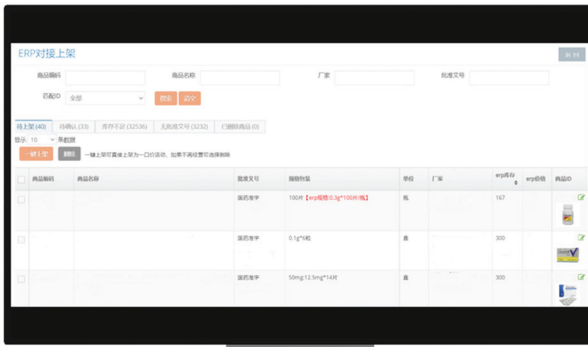
Provide sellers with various functions, including store management and marketing tools, etc.



On-shelf Management

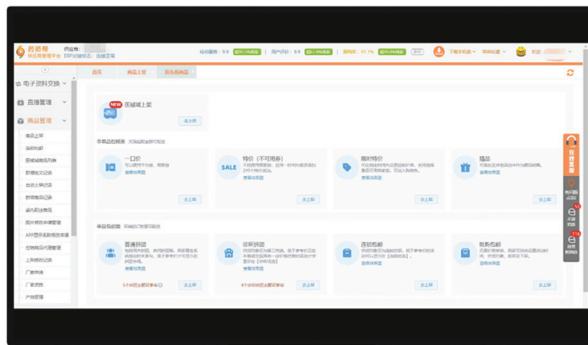
Conveniently add SKUs on shelf

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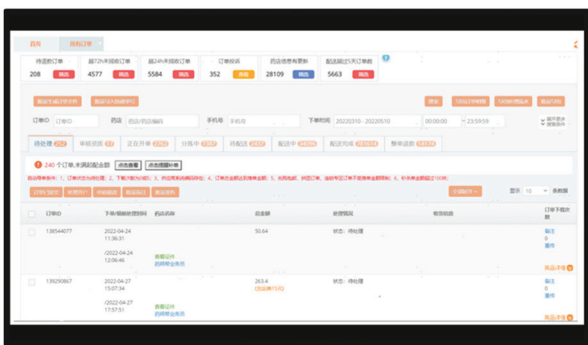
Connection with ERP

A connection between the PC platform and ERP system to import SKUs to the platform conveniently



Digital Marketing

Provide kinds of digital marketing tools, such as Group Buy, Promotion, etc.



Sales Management

Generate real-time to-do lists for each seller for them to better manage their operation and adjust sales strategies.

Transaction process from seller side

As of 31 December 2022, the Online Marketplace has a base of around 527,000 registered buyers, including both pharmacies and primary healthcare institutions. After buyers register on our platform and have their certificates verified with our CertEx, they can browse our Online Marketplace and source products with our comprehensive set of searching functions. Our searching function provides a range of parameters for buyers to view, filter and select products. Our Online Marketplace recommends products customised for each user on the home page, based on each buyer's transaction preference and history. After a buyer places an order, our system will pass the request to the seller of the products so that the seller can arrange for delivery.

Pharmaceutical distributors and vendors, our customers under Online Marketplace, also register on our platform. After sellers have their certificates verified with our CertEx, they can upload the product information to our Online Marketplace and update the information from CloudComm. We provide sellers with a range of performance feedback, updated daily, for them to better understand downstream demand and manage the sales. Sellers are responsible for the direct delivery to pharmacies and primary healthcare institutions and after-sale services.

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Benefits brought by our Online Marketplace are massive. On the one hand, we have drawn a flow of pharmacies and primary healthcare institutions to pharmaceutical distributors and vendors, our customers under Online Marketplace. They can learn the downstream demand and track their products easily. On the other hand, buyers can select among around 3.3 million SKUs in 2022, respectively, including prescription drugs, OTC drugs and healthcare products, with prescription drugs taking a percentage of around 50% of all the SKUs on our Online Marketplace. They have essentially formed a virtual alliance with better bargaining power altogether. Product prices are transparent. Buyers can order pharmaceuticals at the best price available in the platform and monitor the orders online. As a result, pharmacies can benefit from our Online Marketplace by being able to attract more end customers with diversified SKU offerings.

We are not aware of any incidents of inappropriate or illegal advertising or inaccurate product descriptions in relation to the sellers transacting on our Online Marketplace. We have established and implemented internal control measures to prevent the occurrence of these incidents. Our agreement with the sellers provides that product information published by the sellers on our Online Marketplace should be true and complete, that the description of the product attributes must match the product, and that no illegal, exaggerated or false descriptions is allowed. Product information shall not violate the relevant laws and regulations, including Advertising Law, Anti-Unfair Competition Law, among others. If the sellers violate the laws or regulations or infringe the legal rights, we reserve the right to delete the relevant information, take restrictive measures against the sellers, or stop providing services to the sellers.

We charge sellers a commission, which is based on a certain percentage of their sales on our Online Marketplace. The average Online Marketplace commission rate we charged, which equals to commissions we received from third-party sellers divided by the corresponding GMV, was 2.8%, 2.9% and 3.1% in 2020, 2021 and 2022, respectively. For transactions conducted on and payments proceeded through our Online Marketplace, we have been cooperating with a commercial bank to provide payment settlement services for participants on our platform since 2021 to professionally and efficiently handle the ever-increasing amount of fund flow and to better meet the requirements of the relevant PRC laws and regulations. When transactions are processed, our buyers can choose their preferred payment methods in our YSB App provided by different licensed payment institutions and they are then directed to the corresponding payment portals. All payments from our buyers are transferred to a payment settlement account in the commercial bank. Once buyers confirm the receipt of goods, payments will be settled by the commercial bank and transferred to sellers. In its capacity as a payment settlement service provider, the commercial bank charges us on cash-out from the commercial bank’s payment settlement account. Cash-out fees have been accounted towards transaction processing fees under cost of sales in our statement of profit or loss and other comprehensive income. Our PRC Legal Adviser is of the view that the relevant companies in our Group are not in violation of any relevant PRC laws or regulations in all material respects nor involved in any outstanding administrative proceeding in the PRC relating to electronic fund transfers and payment services.

OUR SELF-OPERATION BUSINESS

The Self-operation Business is an essential component for us to bring high-quality products and faster services to buyers. It also brings us economies of scale and reduce procurement costs.

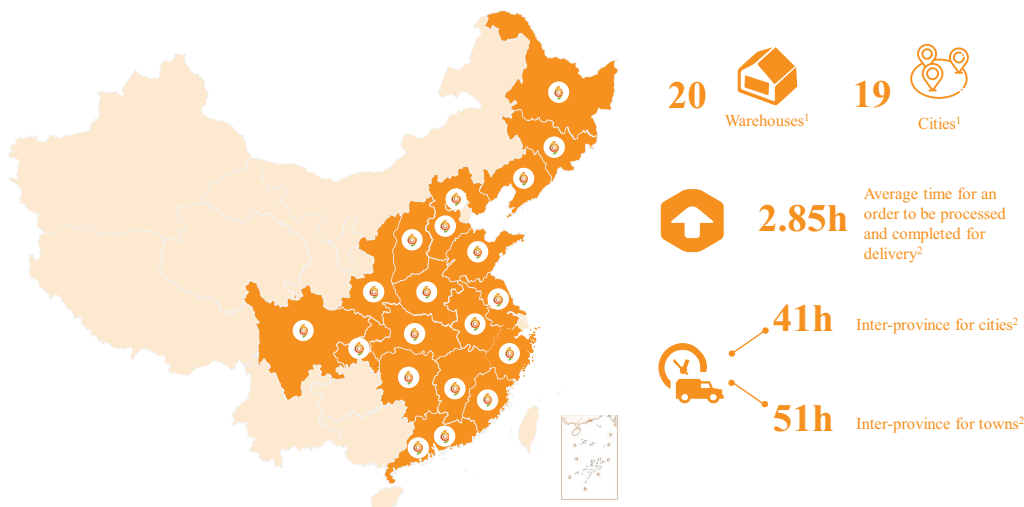
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General Self-operation Business

Under Self-operation Business, we procure from pharmaceutical companies, distributors and vendors, and sell to pharmacies and primary healthcare institutions on the platform.

Our Self-operation Business is conducted on our platform where we operate our own digital stores online. We are able to make procurement decision based on downstream demand and exercise higher level of quality control of products on our own. We select SKUs for the direct sale to buyers. In 2022, we procured and sold around 278,000 SKUs every month on average, to downstream pharmacies and primary healthcare institutions. These SKUs are more frequently purchased and are of high product quality. They are carefully selected based on the transaction history on the Online Marketplace and the analyses of buyers’ demand and transaction preference, after obtaining the consent of relevant parties based on the privacy policy of our platform.

Our Self-operation Business strengthens the entire supply chain and revitalises our ecosystem from procurement, warehousing, processing orders, invoicing, payment collection, to the delivery to downstream pharmacies and primary healthcare institutions. Our supply chain management system is digitalised and tailored for our Self-operation Business. As of 31 December 2022, we had built a nation-wide network of smart warehouses in 19 cities. We arrange delivery from our warehouses to our buyers, using third-party carriers with good reputation with respect to time, quality, and flexibility.



Notes: (1) As of 31 December 2022; (2) For the year ended 31 December 2022.

Our Self-operation Business has largely enhanced the experience of buyers, our customers under Self-operation Business. First, the Self-operation Business provides a selection of SKUs of high quality, each with complete and clear information, to address the daily demand of buyers. Second, the Self-operation Business provides stable supply and fulfilment through centralised management of inventory and delivery. Delivery time has been reduced, especially for inter-province delivery. The average delivery time outside of province is 41 hours for cities and 51 hours for towns. As a result, pharmacies and primary healthcare institutions can place orders in flexible size and frequency and get their orders fulfilled on time. We help them avoid overstocking so that they can better manage the shelf life of the pharmaceuticals they sell to the end customers.

The Self-operation Business also improves upstream performance. Our suppliers receive timely feedbacks on the downstream demand of products and after-sale services. Our suppliers can direct their

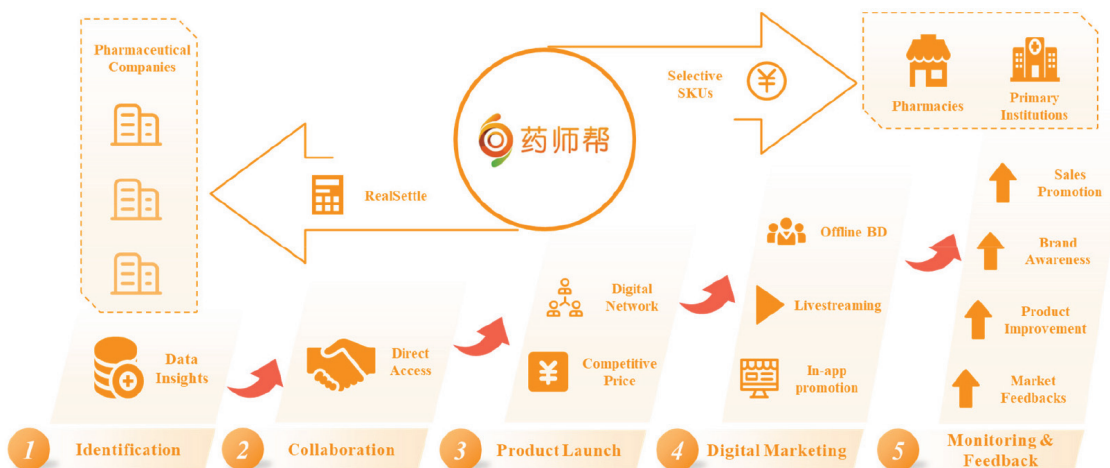
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decision-making according to the feedback we provide them on geographical preference, pharmacy distribution and the market sales trend. They can monitor pharmaceutical promotion performance, track their products and respond to market inquiries. They also enjoy the benefits from scalability provided by us.

We generate revenue from sales of pharmaceutical products. We are able to negotiate directly with pharmaceutical companies and other sellers to maintain competitive pricing. Revenue from our Self-operation makes up an important percentage of our total revenue. We sell, through our own stores on our Online Marketplace, pharmaceutical products we procure as part of our Self-operation Business, and our Online Marketplace also charges commissions from these stores that we operate as part of our Self-operation Business. The amount of commissions charged from our stores were RMB224.7 million, RMB424.1 million and RMB555.9 million in 2020, 2021 and 2022. Additionally, our Online Marketplace provides subsidies in the form of coupon to our buyers. Buyers may use such coupons either with third-party merchants or our own stores on our Online Marketplace. When the coupons are used in our stores, our Self-operation Business receives subsidies from our Online Marketplace. The amount of subsidies provided to buyers and used in our stores were RMB99.8 million, RMB155.6 million and RMB202.9 million in 2020, 2021 and 2022.

Targeted Product Launch Business

We collaborate with pharmaceutical companies, in our Targeted Product Launch Business to convert potential market opportunities into realised sales of products. We bring downstream insights to our suppliers for them to develop branded products to address the demand of end customers. Targeted Product Launch Business helped bring boosted sales to our ecosystem participants.



Under the Targeted Product Launch Business, we identify potential demand through market analyses. Leveraging enormous insights from years of experience in running both Online Marketplace and Self-operation Business, we are able to identify sales potential for products with certain characteristics, such as pharmaceuticals of high demand but limited brand awareness, pharmaceuticals that are sold well in hospitals but not adequately promoted in pharmacies outside of hospitals, pharmaceuticals that are well promoted and therefore better known in one geographic region but are less known in another. We then seek to collaborate with our suppliers to assist them in promoting products tailored for downstream needs to sell in our network. We are able to negotiate with our suppliers on the price and pass on the savings to buyers. Furthermore, we provide pharmaceutical companies a series of digital marketing solutions, such as livestreaming, to improve the sales. After

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such products are available for purchase on our platform, we monitor their life cycle and provide market feedback to our suppliers for them to further improve the products and tailor their marketing promotions. We do not charge fees in relation to digital marketing solutions we provide to our suppliers. Instead, our suppliers are willing to offer products to us at reduced procurement prices in return for the digital marketing solutions we provide to them, so that we tend to enjoy higher gross profit margin arising from reduction in overall procurement prices. As of 31 December 2022, we were in collaboration with more than 500 pharmaceutical companies to launch the promotion of around 1,100 SKUs.

Apart from digital marketing solutions we provide to our suppliers and therefore the more favourable procurement prices for us described above, other key differences between our Targeted Product Launch Business and our General Self-operation Business include that, for upstream participants, suppliers of our Targeted Product Launch Business include pharmaceutical companies. In terms of product selection, we tend to focus on the aforementioned products with sales potential. We have a specific department designated for selecting products, managing product performance and reviewing the gross profit margin of our Targeted Product Launch Business. Products are assigned with a label on our YSB App indicating to our buyers that these are transacted in our Targeted Product Launch Business.

Our Targeted Product Launch Business revitalises our pharmaceutical circulation business and enables us to stand out in the outside-of-hospital pharmaceutical circulation market. We benefit from our ecosystem and network effects established by our Online Marketplace and Self-operation Business. Insights we learn from enabling pharmaceutical circulation on our platform and our smart supply chain provide solid ground for our Targeted Product Launch Business to grow. Our Targeted Product Launch Business helps promote our brand and market awareness of our products and services through the collaboration with our suppliers, thereby contributing to our overall business growth. With an enhanced market position, we are able to attract more industry participants to deal with us and secure better terms from our strategic partners. We are able to, on the one hand, maintain a strong relationship with our suppliers. They can directly approach buyers through our livestreaming service and get first-hand knowledge from active interactions. We also provide smart warehousing for our suppliers so that their burden of inventory management can be partially relieved. On the other hand, we precisely capture the downstream demand and provide buyers, our customers, products with high quality at affordable prices.

We have demonstrated the success of the Targeted Product Launch Business. In July 2020, we collaborated with Company A for the promotion of Orlistat Capsules. We chose Company A because the brand is popular among buyers and because Company A’s existing Orlistat Capsules production and sales were not optimised. Before being involved in the Targeted Product Launch Business, the GMV of Company A’s Orlistat Capsules only represented around 4% of the total GMV of Orlistat products on the platform. As a response, we analysed the specific buyer requirements of Orlistat products based on information from downstream sales. We then collaborated with Company A to co-design marketing strategy and to customise the production. Supported by in-app promotion, such as livestreaming, product recommendation, and coupons, and offline BD execution, such as BD training, Company A’s Orlistat Capsules took around 46% of the market share in Orlistat products on the platform for the month immediately after the start of the Targeted Product Launch Business. The GMV of the first day reached over RMB400,000. The average monthly GMV were more than 20 times

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greater than that before the launch of the Targeted Product Launch Business. The monthly active pharmacy number grew from 640 to around 11,000. Total GMV in 2021 is about RMB50 million.

Similar stories have been found in various other cases. For example, the market of Celecoxib Capsules was largely dominated by a famous company and only until recent years have there been other pharmaceutical companies entering into this market. We sought to collaborate with a company whose product is more affordable and catered to increasing demand. Company B obtained the permission to manufacture Celecoxib Capsules in September 2021 and started to collaborate with us in November 2021. Since the commencement of the collaboration, we helped Company B increase the monthly GMV of Celecoxib Capsules from less than RMB0.2 million in November 2021 to more than RMB0.8 million in September 2022.

For our Targeted Product Launch Business, we generate revenue from sales of products. The Targeted Product Launch Business has undergone rapid growth and we believe it will become an important stream of our revenue.

OTHER BUSINESSES

ClouDiagnos

We introduced ClouDiagnos in 2021. ClouDiagnos works hand-in-hand with our pharmaceutical business to meet the increasing need of primary healthcare institutions. This one-stop testing solution largely alleviates the problems that can arise in primary healthcare institutions, which traditionally suffer from the lack of capability to carry out medical tests, low fulfilment efficiency, low product and service quality and unassured medical safety.



ClouDiagnos
A one-stop testing solution improving testing and diagnostic capabilities in the primary healthcare level

When a patient visits a primary healthcare institution we collaborate with and takes a test, testing samples will be collected and sent to our lab or a third-party lab. After the testing result is generated, we will send it to the primary healthcare institution. Doctors can then provide more informed medical recommendations. The testing covers a wide spectrum of health indicators. The whole process of result generation, delivery and communication is done online, reducing human efforts and human errors, and helping save time for medical professionals and their patients. We help primary

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healthcare institutions provide better diagnostic quality and improve the traceability of testing results. ClouDiagnos also includes laboratory testing services relating to, for example, genes, cells and molecular genetics, to assist in diagnostic testing and treatment research and development. Please refer to “Contractual Arrangements—Reasons For Our VIE Structure” for more details. According to the latest standard medical testing service agreement between primary healthcare institutions and us, we shall be responsible for the accuracy of the test results and relevant losses arising out of any false test result.

We help build up diagnostic capabilities at the primary healthcare level and help primary healthcare institutions expand their service range and improve their service quality. To address the lack of medical equipment at the primary healthcare level, we place testing equipment, including portable equipment, such as point-of-care testing equipment for blood tests, in selected primary healthcare institutions, operate testing checkpoints, and cooperate with third parties to provide testing services. We do not transfer the title of testing equipment to primary healthcare institutions by placing them at these primary healthcare institutions, but record them as non-current assets on our statements of financial position. We currently do not charge testing equipment usage fees.

There is a strong synergy effect between ClouDiagnos and our pharmaceutical business. On the one hand, effective BD ensures that all 173,000 downstream primary healthcare institutions we serve can access our ClouDiagnos services, providing a large and stable user base. On the other hand, ClouDiagnos strengthens the bond between us and downstream primary healthcare institutions, and in turn promotes pharmaceutical sales on our platform. The synergy creates a barrier for other players who do not have a large primary healthcare institution buyer base and helps us maintain buyer engagement.

We collect diagnostic testing service fees from our services. As of 31 December 2022, we had collaborated with over 10,000 primary healthcare institutions.

wePharmacy

Our wePharmacy, introduced in 2021, is one of the first 24-hour access smart unmanned pharmaceutical booth that connects real-time pharmacist services in the outside-of-hospital pharmaceutical market. wePharmacy provides a series of useful functions to help pharmacies better serve their end customers. Pharmacies that purchase our wePharmacy booths decide what products to be offered, including prescription pharmaceuticals, OTC pharmaceuticals, among others. It provides 24-hour undisturbed services while no pharmacist or staff is required to present. wePharmacy has significantly improved the experience of both pharmacies and their end customers, especially those with urgent needs.



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We developed wePharmacy to enable pharmacies to provide 24-hour easy access of pharmaceuticals to end customers. wePharmacy can be placed on the roadside, in residential communities and in schools, to the extent permitted by local regulations and rules. End customers can either visit wePharmacy by themselves or place a takeout order online. wePharmacy provides a series of technology-backed functions. wePharmacy generates product recommendations. It connects with pharmacists remotely so that end customers can seek real-time advice, including prescription review, when they have trouble deciding what products to purchase. Additionally, wePharmacy can scan and upload prescriptions and therefore help save the costs and efforts of having medical professionals or staff on site to process the prescriptions. End customers can bring the prescription to wePharmacy for scanning and review by a pharmaceutical professional online. Once the prescription is reviewed, end customers can proceed with the purchase. There is no need to provide prescription again in the later and continuous purchases of a same product, before such prescription expires. Moreover, wePharmacy enables voice recognition, which helps end customers search for products quickly.

The process of the online review is illustrated as follows:

- First, end customers should either get electronic prescriptions from an internet hospital or upload the photocopy of the prescriptions issued by their doctors to the system;
- Second, the electronic prescriptions or the photocopy of the prescriptions will be transmitted, together with the pharmaceutical purchase orders, to pharmacies and their pharmaceutical professionals for online review;
- Third, after the pharmaceutical professionals review and confirm that the prescriptions are consistent with relevant requirements, they will enter their permission in the system for the sales of such prescription drugs to such end customers; and
- Finally, upon receipt of such permission, wePharmacy booths will complete the sales.

The transaction records are owned by pharmacies who control and manage pharmaceutical sales and prescription review, and we do not have the right to obtain the transaction records, including the records where requests to purchase prescription drugs are rejected by pharmaceutical professionals. However, based on the design of wePharmacy booths and relevant laws and regulations, a hypothetical situation where the purchase of prescription drugs being rejected could be, when the electronic prescriptions or the photocopy of the prescriptions are transmitted, together with the pharmaceutical purchase orders, to pharmacies and their pharmaceutical professionals for online review, prescriptions with no seals or signatures by doctors, insufficient information or other defects would fail the review. Pharmaceutical professionals will enter their rejection in the system for the sales of such prescription drugs. Upon receipt of such rejection, wePharmacy booths will deny the transaction and no prescription drugs will be dispensed to end customers.

We have incorporated technological solutions into wePharmacy. wePharmacy seamlessly connects product information and third party Enterprise Resource Planning (“ERPs”), enabled by our cloud-computing technology. We can therefore provide convenience to end customers. They can easily read clear and detailed product information from wePharmacy and no longer need to carry product instruction for use with them all the time. End customers can also freely select payment channels of their choice. In addition, wePharmacy is backed by our big data and advanced algorithm. It is capable of automatic inventory management, including, among others, first in, first out, or FIFO, product refill, the detection and warning of products that are close to their expiration date, and the cleanup of products that have expired. Products sold through wePharmacy are trackable.

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wePharmacy has helped pharmacies significantly reduce the overall operating costs. Compared with running a traditional pharmacy with pharmacists and salespersons staffed, wePharmacy requires a smaller floor space, much lower personnel costs, and fewer resources to support human staff.

End customers can purchase products stored in wePharmacy. wePharmacy can hold over 2,000 SKUs and about 10,000 product units, depending on the size of the products. It has the most diversified coverage of SKUs, compared with other unmanned pharmaceutical booths in the market, according to Frost & Sullivan. wePharmacy’s design helps increase operating efficiency to run a full-service pharmacy. Compared with unmanned pharmaceutical booths with traditional design, wePharmacy has significantly reduced the marginal cost of carrying an additional SKU. As of 31 December 2022, we owned nine patents on wePharmacy. The reduced cost can be mostly credited to wePharmacy’s design. First, wePharmacy requires much fewer input/output ports (“I/O ports”) to support 2,000 SKUs, compared with other unmanned pharmaceutical booths. The sharp reduction in I/O ports eases troubleshooting when a dysfunction occurs. Second, wePharmacy features improved track design. It reserves certain space for fault tolerance to alleviate instalment and repair difficulties. Third, wePharmacy introduces visual recognition techniques to improve refill accuracy.

With respect to inventory management of wePharmacy booths, we store the parts and accessories of our wePharmacy booths in our warehouses. Upon receiving a customer order, we then arrange the assembly of the booths.

We collect revenue from sales of products, i.e., the wePharmacy booths, and such revenue is recognized upon delivery, assembly and acceptance of booths. We also charge annual service fees from our customers for services we provide to them, usually settled semiannually across the term of services, including integration with customers’ ERP system and social security management system, upgrading booth operating system, maintenance of wePharmacy booths twice a year, and replacement of parts and accessories due to damages caused in the ordinary course of business. We set the fee rate according to our estimates of service and maintenance costs, market rate of similar products and target customer survey.

We have taken comprehensive measures to ensure the compliance in all material respects with the current PRC laws and regulations and expect to continue to pay close attention to the legislative and regulatory developments in this regard. As of the Latest Practicable Date, we only engage in the sales of wePharmacy booths, as well as providing software and maintenance services associated with the booths. We are not involved in the sales of pharmaceuticals from pharmacies to end customers via wePharmacy booths. Procurement, inventory management, sales and delivery of pharmaceutical products are fully controlled by these pharmacies. Pharmacies also fully control the monitoring of the dispense and purchase of prescription pharmaceuticals by end customers. Additionally, we do not hire or manage any pharmaceutical professionals and we are not involved in the prescription review by pharmaceutical professionals. To our best knowledge, these pharmaceutical professionals are hired, trained, managed and monitored by pharmacies.

As advised by our PRC Legal Adviser, as of the Latest Practicable Date, with respect to the obligations and responsibilities for the sale of prescription drugs, based on the current effective PRC laws and regulations, there had been no specific legal obligations and responsibilities imposed on the providers who sell unmanned pharmaceutical booths hardware. According to the Drug Administration Law of the People’s Republic of China (Revised in 2019) (《中華人民共和國藥品管理法(2019年修訂)》) and the Measures for the Supervision and Administration of Drug Circulation (《藥品流通監督管理辦法》), as advised by our PRC Legal Adviser, the legal obligations for the review of prescription

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dispensing and the legal responsibilities for selling prescription drugs shall be borne by pharmacies as pharmaceutical retailers, rather than us as a provider of the unmanned pharmaceutical booths. Therefore, any legal responsibilities arising out of any failure in the end of pharmaceutical professionals in prescription review should be borne by pharmacies, not us. In addition, pharmaceutical retailing business in China is a highly regulated and scrutinised business, where severe punishment can be imposed on pharmaceutical retailers for their illegal sales of prescription drugs. Notwithstanding the foregoing, in order to protect our interests, we have included certain safeguard clauses in our standard sale and installation agreement for wePharmacy booths. According to the latest standard sale and installation agreement, pharmacies shall use wePharmacy booths with particular prudence and in compliance with relevant laws and regulations, including but not limited to those on sales of prescription drugs and purchase procedures of prescription drugs. Pharmacies have the sole discretion to decide whether and how to use certain specific functions of wePharmacy booths, including sales of prescription drugs and prescription review by pharmaceutical professionals. The latest standard sale and installation agreement also provides that pharmacies shall be responsible for all risks and losses arising out of the improper use of wePharmacy booths or from any breach of laws or regulations associated with such improper use, and they shall indemnify and hold us harmless against any and all losses, claims, damages or liabilities arising out of such improper use.

SaaS Solutions

We provide a series of SaaS solutions to the industry participants along our value chain. The SaaS services are enabled by our technological advantage into cloud computing, big data and algorithm. Our R&D personnel responsible for developing and updating our SaaS solutions have abundant professional knowledge of mobile internet information technology, big data computing and artificial intelligence. They are responsible for analysing market information from the upstream and downstream, and designing, developing, testing and launching SaaS solutions to accommodate the needs of our sellers and buyers. Our SaaS solutions are continuously updated to improve the experience of our sellers and buyers.

We offer CloudComm to sellers. CloudComm provides a series of store management solutions such as seamless connection with our *Yaoshibang* Platform. CloudComm provides real-time interaction and information updates on price, inventory, order status, among others. CloudComm also provides InstaPrint, an all-in-one printing application, for sellers to efficiently print and transmit certification and qualification together with order information. We charge a one-time installation fee and annual subscription fee for InstaPrint, CloudComm’s all-in-one printing function.

We offer ePalm to downstream pharmacies. ePalm helps pharmacies with streamlined inventory management and connection into social security system. ePalm has greatly improved the capacity of downstream pharmacies, as well as the efficiency of the entire pharmaceutical circulation process. Traditionally, three to four people are needed to update procurement information. With the help of ePalm, just one person is enough to process it online. ePalm provides inventory update and management functions for pharmacies and compatible with more than 400 layout of shipment lists. It is also connected with information administered by the Social Security Departments to facilitate efficient message and fund transmission. We charge a one-time installation fee and annual subscription fee for ePalm.

We currently collect app user fees from CloudComm and ePalm. For more details on our CloudComm and ePalm, see “Business—Access to Our Digitalized Platform”.

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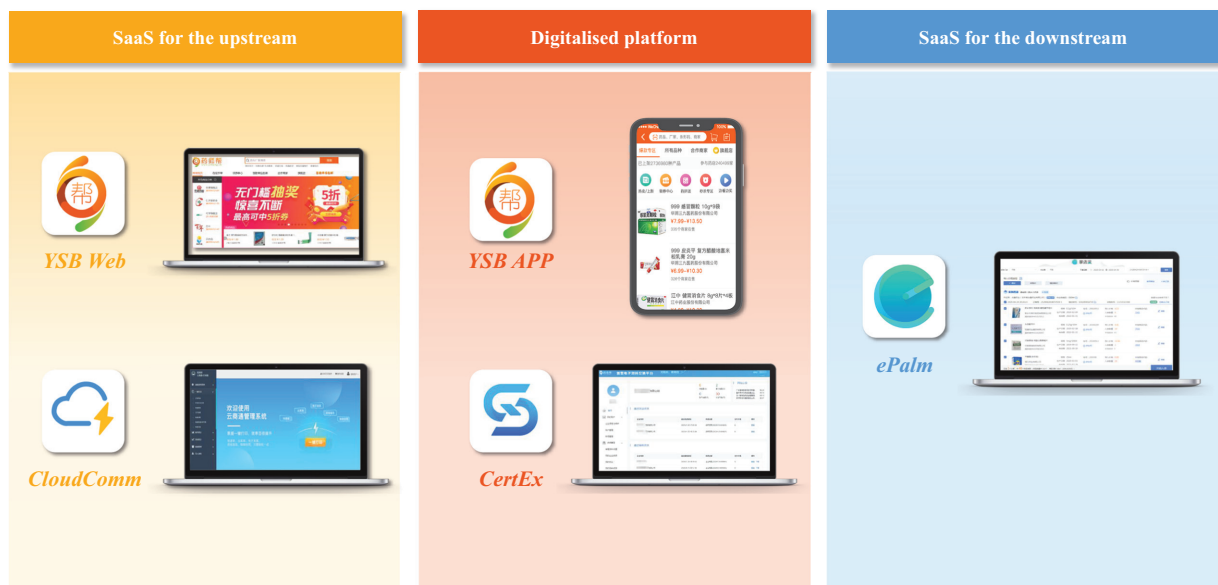
YSB eLearn

We started providing online training to pharmaceutical professionals in 2015. Since our inception in 2015 and up until 31 December 2022, YSB eLearn provided online training to, cumulatively, around 220,000 pharmacists and prospective pharmacists.

YSB eLearn has introduced various programmes to empower pharmacists. It offers online training sessions to help prospective pharmacists prepare for the Pharmacist Licensure Examination. We also invite pharmaceutical companies to provide online introductory sessions directly to pharmacists to help them better understand the pharmaceuticals in use. This programme reinforces the relationship between us and our pharmacies. We have grown our reputation and raised awareness of us among pharmacists through the sessions we provide.

Most of our courses in YSB eLearn are offered for free. For those with a fee, we charge pharmacists by the number of courses they take.

ACCESS TO OUR DIGITALIZED PLATFORM



YSB App

Our YSB App is the mobile internet portal entrance to offer pharmacies and primary healthcare institutions easy access to pharmaceutical products and services. In-app links and hyperlinks are embedded in the user interface to allow the industry participants in our ecosystem to switch seamlessly to other applications. Our YSB App provides easily accessible and user-friendly stage for us and our ecosystem participants to purchase and sell.

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A Mobile Internet Portal Entrance

Easy and User-friendly Access

Seamlessly Switch to Other Applications

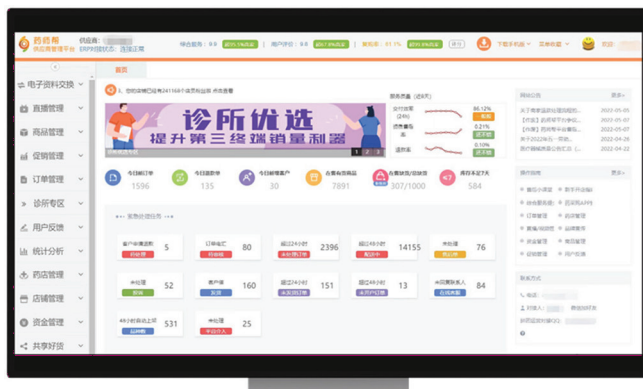
Enormous Amount of Information

Algorithm and Data Capabilities Driven

YSB App deals with an enormous amount of information of buyers' evolving purchase behaviours. Leveraging on our advanced algorithm and data analytics capabilities, YSB App generates product recommendation and promotion events customised for each buyer on its homepage. YSB App also develops techniques to provide streamline payment options.

YSB App is a useful data analytics tool and offers pharmacies and primary healthcare institutions fast and convenient experience. YSB App is capable of dealing with 7,000 transactions per minute. Its queries per second can reach as high as 10,000 per second.

YSB Web



Homepage

Provide sellers with various functions, including store management and marketing tools, etc.

YSB Web provides our sellers a sales management portal. It offers controllable experience in managing pharmaceutical supply. The portal is built on our data analytics capabilities. It provides real-time performance curves, percentile and other feedback to sellers based on approximately 40 parameters. Performance curves, percentile and other feedback are updated every hour or every day, depending on the parameter. It also generates real-time to-do lists for each seller for them to better manage their operation and adjust sales strategies.

The portal integrates with seller ERPs so that the information of the product for sale can be exported directly from seller ERPs. The portal automatically exports and transforms the information to

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make it more compatible with the sales standard for YSB App. Sellers can complete the shelving process with one click in their own ERPs. Every hour, YSB Web runs an algorithm-based selection of SKUs which are offered at best prices within a specified region and are with sufficient inventory storage, and subsidises the pharmaceutical sellers to offer further discounts on top of existing promotion events.

CloudComm



CloudComm
A real-time SaaS solution for sellers to provide InstaPrint and other management solutions

CloudComm complements YSB Web to provide pharmaceutical sellers a real-time SaaS solution that integrates with sellers and enables them to conduct scalable business on our platform. CloudComm connects sellers through customised SQLs. As of 31 December 2022, CloudComm connected over 5,200 sellers, worked hand-in-hand with a vast majority of ERPs in the market, and dealt with around 3.3 million SKUs per month on average in 2022.

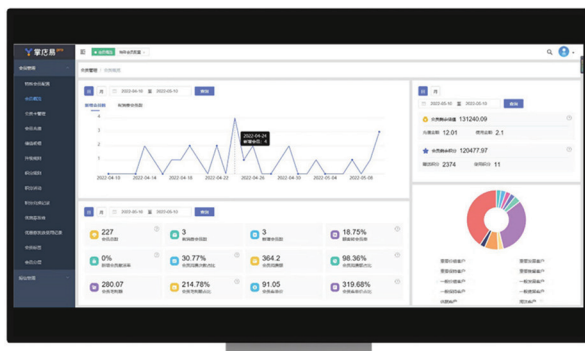
Real-time interaction between CloudComm and YSB Web eliminates delay in information transmission among industry participants along the supply chain and improves order transparency. When sellers update information such as price information, inventory availability and order status in CloudComm, buyers can immediately view the information in YSB App.

We developed InstaPrint, which is an embedded function of CloudComm and provides advanced all-in-one printing application for our sellers. As of 31 December 2022, over 5,200 pharmaceutical sellers had installed InstaPrint. Various certification and qualification documents are transmitted together with an order for pharmaceutical products through the platform, such as business information, purchase and sale contracts, pharmaceutical test reports, value-added tax receipts, etc. Traditionally, the documents are transmitted separately. The burden of confirmation and cross-referencing on the industry participants is huge. All-in-one printing, however, allows pharmaceutical sellers to print orders with the required certificates all in the same package.

InstaPrint brings various benefits to the industry participants along the supply chain. First, it has improved operating efficiency. Using this technology, seven people can process and furnish 10,000 packages in one day. Second, InstaPrint significantly reduces the occurrence of human errors, thereby increasing order fulfilment accuracy. It has reduced the receipt misplacement rate to lower than five per 1,000 orders. Third, InstaPrint can help sellers save operational costs.

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ePalm



ePalm - PC

A full-function management ERP for pharmacies, providing functions like cashier, VIP management, inventory management and so on.



ePalm - App

A mobile App version of ePalm providing convenient functions such as in-store by one click, inventory management, sales report, etc.

ePalm is essential for buyers to conduct scalable business on YSB App. As of 31 December 2022, around 40,000 pharmacies in about 410 cities and towns in China had installed ePalm. ePalm deals with around 3.3 million SKUs in 2022. ePalm is compatible with a vast majority of ERPs currently used by pharmacies. For pharmacies with their own ERPs in place, we provide a “lite” version of ePalm to effectively connect our apps with pharmacy ERPs. For pharmacies without their own ERPs, we provide ePalm Pro as a full-function management ERP.

ePalm helps pharmacies better manage their inventory, with information tracked and shared in their own ERPs. On the one hand, for products purchased from our platform, we launched the “in-store by one click” function to update inventory information. When an order is placed on YSB App, it is simultaneously reflected in the total pharmacy inventory level in ePalm. On the other hand, for products purchased elsewhere, we use Optical Character Recognition (“OCR”) techniques powered by ePalm to scan the shipment list. The OCR process efficiently filters information input and accurately presents the required information such as pharmaceutical product information and the size of a shipment. ePalm’s OCR capability is compatible with more than 400 layouts of shipment lists. After the OCR scanning, ePalm helps arrange product storage and signals if inventory shortage occurs for each SKU to pharmacies.

ePalm Pro is connected with the information administered by the Social Security Departments in 50 cities. When a purchase is effectuated where ePalm Pro is also connected, the relevant Social Security Department receives the message and transmits funds into the corresponding social security account of the pharmacy or primary healthcare institution.

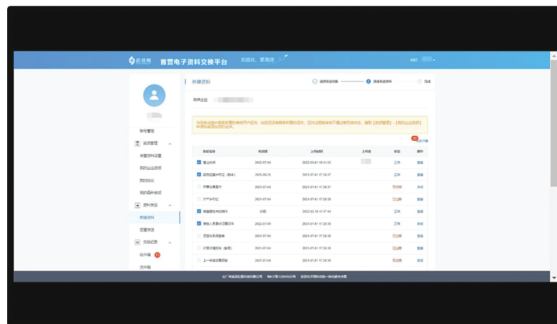
ePalm has greatly improved the capacity of downstream pharmacies, as well as the efficiency of the entire pharmaceutical circulation process. Traditionally, three to four people are needed to upload and record all the procurement information. With the help of ePalm, one person is enough to do it online.

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CertEx for certification exchange



CertEx
A certificate exchange platform to securely store and transmit pharmaceutical and operational certificates



CertEx
Provide a full set of digital solutions for certificates exchange

We self-developed a certificate exchange platform to securely store and transmit pharmaceutical and operational certificates of sellers and buyers. As required by regulations, parties to a pharmaceutical transaction should exchange their certificates, such as business licence, identification, etc., before they can effectuate a transaction. Traditionally without technological means, it could take weeks for the parties to mail and review the documents and communicate back and forth.

Our CertEx, supported by advanced algorithm, allows sellers and buyers to save the efforts and time for certificate authentication.

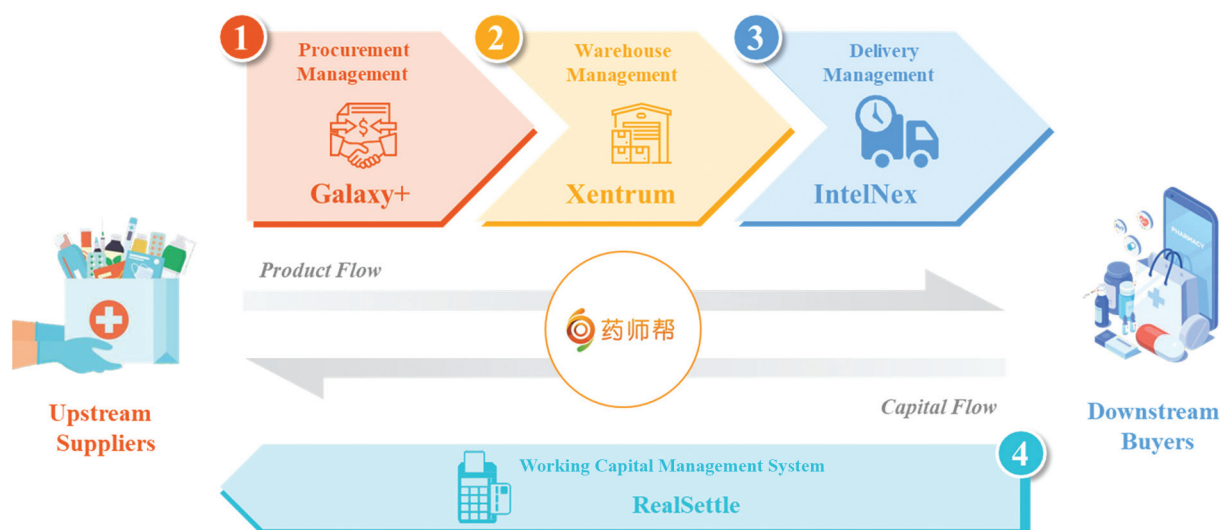
- With the help of CertEx, sellers and buyers can save the efforts and time for certificate authentication. After digitalizing the documents, exchange of certificates takes only five minutes, compared with several weeks traditionally.
- CertEx also provides an electronic official seal function for handling legally binding documents online.
- CertEx seamlessly integrates with YSB App and the SaaS solutions we provide to the players along its value chain, so that they can receive and update information and manage their sales and operation efficiently.
- CertEx grows its database as each additional transaction becomes digitalised. We receive important feedback from CertEx to improve its function. CertEx has now enabled multi-source exchange of certificates.
- CertEx presents the historical certifying record of each user so that a subsequent seller or buyer can make judgement about such user's authenticity and credibility based on the records. Eventually CertEx has created a self-enforcing system where the business opportunities an user can generate from CertEx grow with the number of CertEx users, and that in turn attracts more users to register with CertEx's services and to transact through our platform.

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- After certificates are uploaded and processed through CertEx, we will review them manually.
- We are not aware of any errors or incidents in relation to certificate authentication which might have a material adverse effect on our business, financial condition, and results of operations.

CertEx makes a significant contribution to the industry. It minimises human effort, reduces the time needed to comply with regulatory requirements, and improves the accuracy of the information stored and exchanged. Moreover, CertEx addresses the challenge of complying with the requirements in pharmaceutical circulation. Government regulatory bodies have started to recognise the importance of digitalizing certificate exchange. CertEx helps governmental authorities streamline the supervision process over pharmaceutical transactions and services. In particular, CertEx was recognised by Guangdong Food and Drug Administration as a platform with information system security protection.

SMART SUPPLY CHAIN MANAGEMENT



Our supply chain management system is specifically tailored for our Self-operation Business. We combine advanced technologies and supply chain optimization techniques to integrate the front and the back end of the supply chain and optimise our inventory management. Our supply chain enables inventory on demand and just-in-time delivery. As a result of our advanced supply chain management system, we have seen tangible improvements in our efficiency levels and those of the pharmacies and primary healthcare institutions we serve. Our supply chain management system consists of procurement, warehousing, delivery and working capital management. The system is designed to comply with the Good Supply Practise Standards for Pharmaceutical Products (“GSP”), and connect with provincial food and drug administrations for real-time monitoring.

The Galaxy+ procurement management system (“Galaxy+”)

We run a technology-backed procurement system to make efficient procurement decisions that help us maintain high inventory turnover.

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Effective procurement plays a significant role in effectively facilitating our integrated and synergised approach. Galaxy+ is supported by digital solutions and monitors the life cycle of around 720,000 SKUs.

- **Product recommendation.** Galaxy+ analyses the platform’s transaction history and generates algorithm-based recommendations for the Self-operation Business departments to make procurement decisions.
- **Price adjustment.** Galaxy+ calculates an optimised price range for each product based on the offering price of around 720,000 SKUs from more than 6,800 pharmaceutical sellers. The Galaxy+ price adjustment algorithm is based on historical market price fluctuation. Galaxy+ promulgates around 40 price adjustment rules to maintain reasonable SKU price levels. Galaxy+ also records and regresses the historical price adjustment range to forecast future price adjustments.
- **Procurement volume.** Galaxy+ forecasts the optimised volume based on historical transactions. Galaxy+ enables us to procure in smaller batches but with higher frequency, effectively maintaining optimal inventory levels, a high turnover rate and efficient use of working capital.

Galaxy+ enables the procurement process to be completed in seconds. Galaxy+ simplifies the procurement process and improves efficiency. Moreover, Galaxy+’s procurement recommendation plays a significant role in maintaining high inventory turnover for us.

The Xentrum system for warehouse management (“Xentrum”)

We have invested significantly to optimise our logistics network and the allocation of intellectual labour. We had built smart warehouses in 19 cities, as of 31 December 2022, and have been constantly improving the accuracy of models and efficiency of algorithms. Our warehouses are managed through our proprietary Xentrum system. Since its launch and up to the Latest Practicable Date, we had not received any error report of our Xentrum system.

We manage our supply chain through Xentrum, a self-developed nation-wide warehouse system that integrates online and offline activities. We receive massive number of orders in small ticket size and with varied frequency. Therefore, we need a tool to effectively group the orders and to make procurement in bulk to achieve efficiency. Xentrum is particularly developed to address this issue through proprietary software architecture and algorithm solutions installed to assist with the entire operational process. Xentrum has a number of key functions.

Xentrum comprises a warehouse data centre (“WDC”) as the central information processing hub and warehouse management systems (“WMS”) for each warehouse. Information is processed at the WMS level when warehouse specialists scan and upload order information. The WDC stores information and runs algorithm and data analytics. The WMS equipped in each warehouse calculates the most efficient solution for each order based on historical transaction information and the capacity of warehouse specialists. The WMS then distributes tasks to warehouse specialists for them to process and handle the orders.

Xentrum’s WMS is reliable and flexible and thus can handle uneven flows of product volume timely and precisely. Xentrum automatically generates customised furnishing modes, depending on information such as the buyer group, volume of each order, and the number of orders requesting the

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same SKUs. Each mode is accompanied by customised review. Moreover, Xentrum monitors every order and assigns a countdown timer to each order to make sure orders are processed as fast as possible.

Xentrum helps warehouse specialists take products for delivery via the most efficient route possible. First, Xentrum optimises rack arrangements based on algorithm-based analysis of historical information. Second, during the furnishing stage, Xentrum is programmed to generate a solution that maximises processing capacity and minimises the distance of the route.

We run an efficient B2B network of self-operated warehouses in terms of improving fulfilment speed and accuracy. In 2022, with the help of Xentrum, we ensure that, on average, an order is processed and completed for delivery in 2.85 hours. We maintained inventory turnover days at 26.5 days in 2022.

The IntelNex system for delivery management (“IntelNex”)

We arrange delivery from our warehouses to pharmacies and primary healthcare institutions, using delivery services and carriers with good reputation with respect to time, quality, and flexibility.

IntelNex uses transaction records as the base to deduce algorithm-based solutions for future orders. The delivery database serves as an infrastructure enabling IntelNex to run effectively. The database is built upon feedback from carriers and information from our historical orders. The database quickly evolves as every new order immediately generates an input. We analyse information as far-reaching as the fourth-level administrative division in China.

IntelNex generates an optimised delivery plan for each order. Based on geographical reality and historical preference, IntelNex makes several rounds of computation in seconds and generates for each buyer a customised package regarding carriers, payment plans, recommended number of packages, packaging types, etc.

IntelNex monitors the delivery process. It works hand-in-hand with the ERPs of the carriers to reconcile accounts and to identify abnormal orders. The feedback helps IntelNex to evolve and to make better forecasts for future orders.

IntelNex has helped us reduce logistics expenses to as low as 1.46% of the GMV of our Self-operation Business in 2022, much lower than the industry average level. IntelNex enables fast delivery, especially for inter-province delivery. In 2022, we are able to reduce average inter-province delivery time to 41 hours for cities and 51 hours for towns, much lower than the industry average level. IntelNex also enables broad reach to the fourth-level administrative division in China.

The RealSettle system for working capital management (“RealSettle”)

We developed a working capital management system to improve our liquidity while at the same time help sellers expand and secure sources of downstream demand. In particular, we directly make contractual arrangements with certain suppliers, together with a settlement system that directly connects procurement, transaction management, order tracking and monitoring and funds transmission. With this system, we empower our suppliers by providing them streamlined and secured transaction process with certainty.

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We have improved the transaction process with our suppliers by introducing the RealSettle system. RealSettle improves our liquidity and allows both our suppliers and us to track and monitor the pharmaceutical transaction processes. Through RealSettle, our suppliers can timely follow the status of the orders and submit a fund transmission application once they see the exchange of goods and settlement completed between our buyers and us. Usually, they will receive the corresponding payment of goods within three business days upon submitted application.

RealSettle’s digitalised connection saves investment on human capital, shortens internal processing periods, and improves information storage. RealSettle serves as a useful working capital management tool for us to improve our cash cycle as well as expand sources of sales and improve the overall transaction experience for our suppliers.

PRODUCTS AND SERVICES

Providing superior products and customer service quality is our high priority. In our ongoing efforts to maintain customer satisfaction and improve our products, we maintain a dedicated customer service team. We provide timely and attentive customer service through instant online messaging and call centres. Our platform service representatives answer customers’ questions with regard to our platform, products, after-sale services. We train our customer service representatives to answer inquiries and proactively introduce our products and promotional events to potential customers.

Pricing policy

The commission rates we charge from our sellers on our Online Marketplace are based on (i) the types of products transacted on our platform, and (ii) whether we have established long-term cooperation relationship with the sellers. We set the pricing of our products transacted and services used in our Self-operation Business, wePharmacy, and SaaS solutions based on the relevant costs and our expected gross profit, as well as the price range of similar products in the market. For the pricing of diagnostic testing under ClouDiagnos, we take into account of the type of testing services provided and the price range of similar services in the market.

Product mix

In terms of average number of monthly available SKUs, our prescription pharmaceuticals, OTC pharmaceuticals and other healthcare products represent 47.2%, 32.8% and 20.0% in 2022, respectively, of the total amount of products transacted on our YSB App. In particular, for our Self-operation Business, prescription pharmaceuticals, OTC pharmaceuticals and other healthcare products represent 54.4%, 37.9% and 7.8% in 2022, respectively, of the total amount of products offered.

Overlapping products

SKUs available in our Self-operation Business are carefully selected based on the transaction history on our Online Marketplace and the analyses of buyers’ demand and transaction preference. The average number of monthly available SKUs transacted on our platform was around 3.3 million in 2022. In our Self-operation Business for the same period, we procured and sold around 278,000 SKUs, every month on average, to downstream pharmacies and primary healthcare institutions. Given the fact that the total numbers of pharmaceuticals are limited, around 88.1%, 87.0% and 86.5% of monthly available SKUs in our Self-operation Business are also offered by sellers on our Online Marketplace in 2020, 2021 and 2022. Besides, as of 31 December 2022, around 3,600 registered sellers on our Online

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Marketplace are also our suppliers of our Self-operation Business. Since some of the SKUs are sold both by sellers on our Online Marketplace and by us in our Self-operation Business, potentially there could be competition between these sellers and us. Sellers on our Online Marketplace are aware of the existence of the potential competition. In fact, we have witnessed improving seller stickiness during the Track Record Period. Around 86.2% and 89.7% of sellers who successfully completed at least one transaction on our platform in 2020 and 2021, respectively, successfully completed at least one transaction on our platform in 2021 and 2022, respectively. Factors such as sellers’ operating strategies and the competition among sellers themselves may also affect this calculation. Buyers have their own discretion to decide whether to purchase products from sellers on our Online Marketplace or directly from us. Various other factors than price may impact buyers’ purchasing decisions, such as product quality, overall service, time-efficiency of delivery, etc.

We take a series of measures to ensure fair treatment between the sellers of our Online Marketplace and us, including:

- Rating mechanisms on our platform are applied equally to us and the sellers, and our buyers rate us and the sellers according to various factors such as product quality, service, delivery, etc.;
- Platform recommendations are based on factors such as ratings, and we do not give any additional weight to ourselves for such recommendations;
- We carry out regular reviews through our abnormal pricing alert system to make sure that our pricing is aligned with the market standard and a reasonable gross profit is maintained. Our abnormal pricing alert system consists (i) algorithm-driven analyses taking into account parameters such as market price in a given province (seven-day average transaction price in a given province), gross profit margin and unavailability of products, and (ii) daily manual review and discussion of abnormal prices;
- We offer coupons to buyers who can choose among us and the sellers at their own discretion; and
- Pricing policies are set equally for sellers and us.

Based on the independent due diligence conducted by the Sole Sponsor, including review of rating mechanisms and platform recommendation policies, examination of the abnormal pricing alert system, review of coupons use policies and product pricing policies, comparison of pricing between the sellers of the Online Marketplace and the Company’s Self-operation Business, and review of the internal control report, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to question the effectiveness of the above measures.

The prices of the SKUs available in our Self-operation Business are determined based on the costs associated with products and procurement and a mark-up. Determination of the mark-up is driven by market demand, i.e., how much our buyers are willing to pay for the products. In this regard, we may consider the price range of similar products in the market.

Customer complaints policy

We collect customer feedback through multiple channels. Customers can submit their feedback through YSB App and customer service hotline. We channel such feedback to different teams and use the valuable customers insights to guide the improvements and optimization of our products and

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services. We also integrate customer feedback into our decision-making process. Our customer service personnel promptly responds to customer complaints and suggestions. During the Track Record Period and up to the Latest Practicable Date, we have not received any material customer complaints.

Product return policy

We strictly abide by the maximum 30-day return policy for our products. Customers can return the products within 30 days of delivery subject to certain terms and conditions. Customers can rely on our after-sales services on our platform to submit online application for product exchange. We promptly process such applications or requests to improve customer satisfaction.

During the Track Record Period, we have experienced some immaterial product complaints and recalls from time to time. During the Track Record Period and combining our Online Marketplace and Self-operation Business, the value of products returned or refunded is about RMB70 million, RMB100 million and RMB183 million in 2020, 2021 and 2022, respectively, representing an insignificant percentage of 0.4%, 0.4% and 0.5% of the total GMV of our platform, respectively. We have subtracted the returned or refunded portion when we calculate GMV and revenue.

Moreover, we provide a series of guidelines for the sellers on our Online Marketplace. For our buyers' refund requests, we require sellers to process the requests within 48 hours if the product in question has not been placed for delivery and 72 hours if it has. For refund and return requests, we require sellers to process the requests within 72 hours. We require sellers to provide after-sale services to our buyers if product defect has been discovered.

Initiatives and internal control measures for third-party sellers on our Online Marketplace

We have been taking a series of initiatives for third-party sellers transacted on our platform to ensure proper usage and circulation of pharmaceutical products by third-party sellers and prohibit transactions of restricted drugs on the Online Marketplace, including requesting third-party sellers to inspect and rectify any prohibited sales and enhance their internal control and reviewing rectification reports delivered by third-party sellers. We have implemented company-wide risk control policies. For example, we implement the Platform Sellers Management Measures (《藥師幫平臺商家管理辦法》) to manage the risk control, qualification review, supervision and inspection during the process of sellers' registration and onboarding, grading, daily management and exit. In particular, we have implemented a series of detailed measures for products to be transacted on our platform:

- Products are managed according to different business categories to ensure that the products listed by sellers are within their business scope;
- For products that are listed as standard products, the standard product information cannot be modified so that such information is complete and standardised;
- For changes in product information, pictures and other information on YSB App, manual review by us is required to ensure that product display is compliant; and
- Restricted drugs are subject to strict systematic inspection and manual review by us before they can be transacted on our platform.

There had been no incident of the sales of restricted drugs on the Online Marketplace during the Track Record Period.

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Internal control measures against counterfeit or substandard products

During the Track Record Period, we were involved in five administrative penalties in relation to sales of counterfeit or substandard products, which resulted in fines and confiscation of products illegally sold and the proceeds from such sales. The total amount of fines for these administrative penalties is approximately RMB170,000. These fines have been fully paid, and the operation of the relevant entity has not been affected or interrupted by such administrative penalties.

During the Track Record Period, one of our subsidiaries was sued by a downstream buyer (as the plaintiff) claiming that the products it procured from such subsidiary were counterfeit. The total amount being claimed in this litigation is approximately RMB1.8 million. The case was settled in April 2022 on the condition that the subsidiary shall pay approximately RMB920,000 to the plaintiff. The amount was fully paid to the plaintiff in the same month. To recover the loss from the litigation, our subsidiary sued the supplier (as the defendant) of the disputed products to bear all damages arising from the quality of products. As of the Latest Practicable Date, the case had been settled on the condition that the supplier shall pay by instalments a total of RMB1,100,000 to our subsidiary.

Due to the insignificant amount in administrative fines and the closure of the litigation, our Directors are of the view that such administrative penalties and litigation, individually and collectively, will not have any material adverse effect on our business, financial condition and results of operations.

We have established and implemented internal control measures to ensure that the pharmaceuticals marketed or sold on Our Marketplace and in our Self-operation Business are not counterfeit or substandard products.

For our Online Marketplace:

- Sellers are not allowed to sell products that are prohibited by laws, regulations and rules. They are also prohibited from selling products listed in our prohibited product list.
- Sellers are not allowed to publish information about prohibited products in product names, descriptions or pictures, among others, on the product pages; or in store names, classification, introduction, announcements or reviews, among others, on the store pages.
- Once we discover that a seller has published prohibited products and information, we have the right to delete such products and related information.
- If a seller violates any related laws, regulations or rules, or if they sell products on our prohibited product list, we have the right to request liquidated damages against such seller, forfeit their deposit for operations, temporarily restrict their access to our platform, or permanently close their stores.

For each delivery we receive from our suppliers in our Self-operation Business, we inspect the products. If we find that such products fall below standards, we have the right to reject delivery or claim product return and refund.

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We experienced strong business growth and financial performance improvement during the Track Record Period. Based on our capabilities to fulfil the demand from participants in the outside-of-hospital pharmaceutical circulation market and the growth momentums we have achieved,

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our Directors believe that we are able to maintain sustainability and growth of our business. Taking into account the above, as well as based on the review of the accountants’ report, the due diligence conducted on the Group and the discussion with the Directors, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the Directors’ view.

Going forward, we plan to achieve profitability primarily by further: (i) expanding our buyer base and improving buyer engagement; (ii) growing the revenue of both pharmaceutical circulation business and other businesses; (iii) optimising our overall cost and expense structure and improving our operating margin; (iv) improving our working capital management; and (v) leveraging our competitive strengths and advantages. These will allow us to increase our revenue and manage our cost and expenses to reach profitability and realise positive operating cash flows.

Expanding our buyer base and improving buyer engagement

Expanding our buyer base and improving buyer engagement is crucial to sustainably expanding our business scale:

- With our commitment to becoming the go-to platform for buyers, we quickly attracted a large group of buyers to our platform. We had around 332,000, 434,000 and 527,000 registered pharmacies and primary healthcare institutions on our YSB App as of the end of 2020, 2021 and 2022, respectively, representing a CAGR of 26.0%. As of 31 December 2022, we had around 527,000 registered pharmacies and primary healthcare institutions on our YSB App.
- After attracting the buyers to our platform, we spent numerous efforts on fostering their engagement and improving their engagement. We had around 202,000, 256,000 and 308,000 average number of MAB in 2020, 2021 and 2022, respectively, representing a CAGR of 23.6%.
- By leveraging the strong buyer loyalty, we constantly monetise our large buyer base and increase the buyers’ wallet share. Buyers’ paying ratio increased from 80% in 2020 to 87% in 2021, and further to 92% in 2022. The average number of orders per paying buyer per month increased from 12.6 in 2020 to 21.7 in 2021, and further to 27.3 in 2022.

As a result of our growing buyer base and improving buyer engagement, our GMV has quickly ramped up. Our total GMV reached RMB37.8 billion in 2022, representing a CAGR of 38.6% from that in 2020, both the highest among leading digital pharmaceutical platforms serving businesses outside of hospitals in China, according to Frost & Sullivan. We expect to further expand our buyer base and improve buyer engagement through the following initiatives:

- We plan to further expand our coverage and penetration in pharmacies and primary healthcare institutions. As of 31 December 2022, we had enabled around 354,000 pharmacies, covering over 50% of the total number of pharmacies. In addition, we have served around 173,000 primary healthcare institutions, covering around 17% of the total number of primary healthcare institutions in the industry. As of 31 December 2022, we had attracted around 354,000 pharmacies and around 173,000 primary healthcare institutions to transact on our platform. The headroom for further penetration remains large. We plan to further recruit more seasoned BD personnel, improve the professional knowledge of existing BD teams, and strategically enhance our BD efforts in the space of large chain pharmacies and at the primary level. We also plan to leverage our digitalised

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tools, such as BDPartner, to support our BD teams to improve their service quality and efficiency. For chain pharmacies, while they tend to directly cooperate with their designated upstream suppliers to secure stable supply of regular SKUs, they also have scattered demand on most other SKUs and they do not necessarily have access to certain SKUs in their own regions. Chain pharmacies may find it inefficient and therefore they are less motivated to negotiate with massive upstream suppliers one by one to procure these SKUs. The broad and diversified SKUs offered on our platform, however, can meet such demand of chain pharmacies in a cost-effective way, supplement their procurement channels and enable them to improve their profitability. Additionally, chain pharmacies may not always be able to successfully negotiate a favourable procurement price with pharmaceutical companies. Moreover, we are willing to offer products in small ticket size so that pharmacies tend to have more flexibility in determining their SKU selection and inventory level.

- We plan to continue to enlarge and diversify our SKU pool. The number of SKUs offered on our platform has more than doubled from around 1.5 million in 2020 to 3.3 million in 2022. The vast selection of SKUs always comes to the first priority when buyers choose a platform to go. We plan to attract and retain more high quality pharmaceutical sellers on our Online Marketplace and incentivise them to transact through our platform. We also plan to cooperate with more pharmaceutical suppliers, especially with well-known pharmaceutical companies directly, to procure more high quality products for our Self-operation Business. We have accumulated experience from years of cooperation with pharmaceutical companies. We were in collaboration with more than 500 pharmaceutical companies under our Targeted Product Launch Business and equipped them with unique and valuable insights about market demand. Please refer to “—Our Self-operation Business—Targeted Product Launch Business” for an example on how we have demonstrated the success of our Targeted Product Launch Business. We have established collaborating relationships with Top 100 pharmaceutical companies and plan to build long-term relationships with more Top 100 pharmaceutical companies in the future and we expect to cooperate with 100 more pharmaceutical companies in 2023 so that more SKUs will be promoted. We also plan to deepen our cooperation with our existing pharmaceutical company partners to promote a more diversified pool of SKUs. In addition, we plan to expand our product offerings from pharmaceuticals to broader healthcare products, such as medical devices and Chinese medicines.
- We plan to improve the supply and fulfilment of our self-operated orders. Since we started our Self-operation Business in 2019, we have developed strong supply chain capability supported by our smart supply chain systems. We plan to continue to expand the network of our self-operated warehouses to extend our reach to our downstream market. We also plan to further upgrade and digitalise our supply chain management systems to optimise the delivery plan, shorten the delivery time and control the delivery costs, thus improve the experience of our buyers. Improved buyer experience will help retain more buyers and therefore improve buyer engagement of our platform. Our Self-operation Business can benefit from a more engaged buyer base and continue to scale, which will result in strong bargaining power and better pricing terms we can get from our suppliers. Additionally, as we will be able to accumulate more buyer insights from a more engaged buyer base, we will be able to attract more pharmaceutical companies to collaborate with us to promote

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branded products, which we generally enjoy better profit margins. Both these facts will help us to improve the profitability of our Self-operation Business.

- We plan to enhance our buyer engagement and foster brand loyalty. We plan to promote our other businesses. For example, our SaaS solutions seamlessly connect our platform with buyers’ ERP systems, thus making it operationally and economically impracticable for them to switch platforms. Our YSB eLearn reinforces the relationship between us and the pharmacists and we expect to benefit from word-of-mouth referrals and enhanced brand awareness. We also plan to launch more marketing initiatives, such as livestreaming and group buy, to further incentivise buyers to transact on our platform.

The above initiatives are expected to help us scale up with more diversified product offerings and improved user experience. We expect to benefit increasingly from the network effect of our extensive user base, and in the meantime, attract more registered users derived from organic traffic such as word-of-mouth recommendations and brand recognition. As such, our paying buyer base is expected to expand, as well as the purchase frequency of our buyers is expected to increase, thus leading to the growing GMV on our platform. Moreover, we expect our growth to benefit the participants in our ecosystem. On the one hand, since our buyers can access the broad and diversified SKU offerings on our platform, they can then provide diversified products to end customers and enhance their revenue sources and business performance. On the other hand, since we can attract more buyers to our ecosystem, we potentially also bring them to our upstream sellers, who will then be able to improve their sales.

Growing the revenue of both pharmaceutical circulation business and other businesses

We achieved meaningful growth trajectory of revenue over the Track Record Period. Our total revenues grew at 66.4% from approximately RMB6.1 billion in 2020 to RMB10.1 billion in 2021, and further at 41.4% to RMB14.3 billion in 2022. With the growing GMV of our platform as a foundation, we expect to further grow our revenue of pharmaceutical circulation business through the following initiatives:

- We expect to attain stronger bargaining power and set more favourable commission rate as our business continues to scale up. We also plan to further diversify and optimise the product portfolio on our marketplace, so that we can improve our overall commission level and generate more revenue from our Online Marketplace.
- We plan to further grow our Targeted Product Launch Business by broadening and deepening the cooperation with well-known pharmaceutical companies, diversifying the SKU pool of Targeted Product Launch Business, and upgrading and customising the digital marketing services to support relevant SKUs.

We plan to further develop our other businesses and enhance monetization abilities:

- We plan to further grow our other businesses which benefits our ecosystem participants by improving their service capabilities and quality. Our other businesses also have strong synergy with our pharmaceutical circulation business. On the one hand, we can leverage the large and stable user base of pharmaceutical business to promote our other businesses with lower costs. On the other hand, our other businesses enable our ecosystem participants to expand their revenue sources and improve their own business performance.
- We launched ClouDiagnos in 2021 aiming to solve the challenges and help primary healthcare institutions to improve their diagnostic capabilities. As of 31 December 2022,

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over 10,000 primary healthcare institutions have used our ClouDiagnos services. We see strong growth momentum from the positive feedback of our users and will leverage our strong salesforces to improve the penetration in our existing 173,000 downstream primary healthcare institution buyers. We plan to make ClouDiagnos a one-stop solution. Our ClouDiagnos helps primary healthcare institutions expand their service offerings to end customers, increasing the satisfaction level of end customers and in turn helping primary healthcare institutions better retain and expand their end customer pool. These benefits incentivise primary healthcare institutions to make their pharmaceuticals purchases through our platform. Our pharmaceutical circulation business and diagnostic testing services together will create a self-reinforcing virtuous circle to fully serve the needs of pharmacies, primary healthcare institutions and their end customers. The virtuous circle will help us enhance brand awareness and increase transaction volume.

- We introduced wePharmacy, a 24-hour access smart unmanned pharmaceutical booth that connects real-time pharmacist services, in 2021. wePharmacy provides 24-hour undisturbed services while no pharmacists or staff is required to present and thus enables pharmacies to significantly reduce the overall operating costs. We collect revenue from the sale of wePharmacy booth. As of 31 December 2022, we had received 100 orders, with total contract value of RMB10.8 million. We plan to further promote our wePharmacy through the collaboration with more pharmacies and thus expand the availability of and the channel to access pharmaceuticals, providing 24-hour access to smart pharmaceutical services to the end customers. Equipped with the ability to provide flexible access to pharmaceuticals to end customers, pharmacies using wePharmacy will be able to better serve end customers and increase their sales volume.
- Our digital solutions serve as an important infrastructure to bond us closely with our users. As of 31 December 2022, our SaaS solution ePalm had provided inventory management and sales management services to around 40,000 pharmacies. As of 31 December 2022, our SaaS solution CloudComm had provided sales management, analyses and forecast services to over 5,200 pharmaceutical sellers. We plan to continue to provide useful functions to sellers and buyers and help them optimise sales and operational management. In the meanwhile, advanced functions will enable us to further monetise our digital solutions from our expanding user base.

Optimizing our overall cost and expense structure and improving our operating margin

Improvement in overall gross margin

Our gross profit experienced significant growth during the track record period. In 2020, 2021 and 2022, our gross profit amounted RMB609 million, RMB914 million and RMB1,435 million, representing gross margins of 10.0%, 9.1% and 10.1%, respectively. Our gross profit margin declined from 10.0% in 2020 to 9.1% in 2021, primarily due to the expansion of our Self-operation Business, which generally has a lower gross profit margin than other businesses. Our gross profit margin increased from 9.1% in 2021 to 10.1% in 2022, primarily due to the expansion of our Self-operation Business, which is the largest contributor to our total revenues, and the gross profit margin of which increased from 5.2% in 2021 to 6.2% in 2022.

We expect our overall gross profit margin to steadily increase going forward:

- We plan to increase the contribution from businesses with higher profitability. For example, we plan to increase the contribution from Targeted Product Launch Business by

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directly collaborate with more pharmaceutical companies, helping them expand sales channels for more products and provide them with value-added services. Our GMV of Targeted Product Launch Business grew from RMB338 million in 2020 to RMB887 million in 2021, and further to RMB1,009 million in 2022 representing 2.7% of total GMV in 2022. In addition, other businesses, as a whole, recorded a gross profit margin of 56.6%, 51.0% and 40.6% in 2020, 2021 and 2022, respectively. We plan to further increase the revenue contribution from other businesses. As such, we would be able to improve our overall gross profit margin benefiting from increasing contribution from these businesses with higher gross margins.

- We will drive further economies of scale in our sales and offering of products with optimised product portfolio structure. Diversified product offerings and algorithm-powered product searching enable more choices for our buyers as well as better purchase experience. That will result in higher buyer engagement and more transactions done with us. As we continue to scale, we plan to bargain with payment service providers to negotiate a lower transaction processing fee rate going forward.
- With business scale growing larger giving us stronger bargaining power, we plan to negotiate with existing suppliers and seek new suppliers with favourable prices and terms. In addition, we plan to broaden our overall supply channels to achieve lower procurement costs. As we broaden our supply source and channels, it gives our algorithm-powered centralised procurement system more data to learn and generate better and more cost-effective procurement strategies, lowering our cost of revenue.

Improvement in operating leverage

During the Track Record Period, we were able to achieve meaningful operating leverage. While our operating expenses, including research and development expenses, sales and marketing expenses, and general and administrative expenses, increased by 46.3% from RMB907.4 million in 2020 to RMB1,327.4 million in 2021 and increased further by 27.4% to RMB1,691.6 million in 2022. Benefiting from the economies of scale of our business, operating expenses as a percentage of total revenues decreased from 15.0% in 2020 to 11.9% in 2022.

Selling and marketing expenses

Selling and marketing expenses as a percentage of total revenues decreased from 12.0% in 2020 to 10.5% in 2021, and further to 9.3% in 2022. We expect selling and marketing expenses to grow alongside our business growth, while as a percentage of our revenue continue to decline, primarily because:

- Through years of development, we have established a seasoned and stable BD team. We plan to increase the efficiency of our BD personnel by empowering them with better digitalization support from BDPartner. We also plan to invest in academic and on-job training to equip our of BD team with professional knowledge in pharmacology so as to upgrade the overall BD quality. Through these efforts, our BD personnel will be able to gradually increase the number of terminals each personnel can cover in the future, in order to lower the corresponding salaries and welfare benefits as a percentage of revenue.
- As we continue to grow our network of sellers and buyers on our platform, we expect that we will continue to increasingly benefit from the network effect of our extensive user

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base, as well as our brand image. We expect to attract and retain the users more through word-of-mouth effect, while less relying on launching extensive promotion and advertising projects. With more support from our digital tools, our future marketing campaigns are expected to be more customised and precise, thus to achieve higher marketing efficiency. In addition, with stronger buyer engagement as our business scales up, we plan to gradually lower our offering of discount coupons to buyers in the future. As such, we expect our marketing and promotion expenses as a percentage of revenue to gradually decrease.

- In addition, we plan to control our fulfilment expenses, mainly incurred for our self-operated orders, in the future:
 - (i) We expect to continue to benefit from the development of our technology, including our self-developed smart supply chain systems (Galaxy+, Xentrum, IntelNex), which increased our efficiency in fulfilment, as well as expanded our business scale.
 - (ii) We are in the process of ramping up and increasing the utilisation of our existing warehouses. As we develop a warehousing network that well covers our target markets, we expect the rental expenses to stabilise in future. We plan to procure and deploy more advanced machines in our warehouses to improve the utilisation and operating efficiency.
 - (iii) We also plan to further optimise the mapping and logistics network among our warehouses to direct orders more efficiently depending on routes and warehouse utilization, which is expected to manage our logistics expenses at a relatively low level. We will carefully select third-party delivery service providers who offer the most cost-effective solutions.
 - (iv) We will also optimise the selection and usage of packaging materials to control packaging-related expenses.
- As we do not plan to aggressively establish new warehouses in future, the depreciation and amortisation expenses in relation to our fulfilment facilities as a percentage of revenue is also expected to be under control in the future.

General and administrative expenses

General and administrative expenses as a percentage of revenue decreased from 2.6% in 2020 to 2.1% in 2021, and further to 2.0% in 2022. We will further enhance our level of centralised management, streamline our internal workflows, and leveraging technology to drive cost-efficient management. We expect our general and administrative expenses to decrease as a percentage of revenue in the future.

Research and development expenses

Technology is the core to our sustainable business development. Our research and development expenses increased from RMB25 million in 2020 to RMB79 million in 2022. We plan to continuously hire more IT staff and experts and to invest into our IT infrastructure in order to support the strong growth of both our pharmaceutical circulation business and other businesses. As such, we expect that our R&D expenses will stay at current level as a percentage of revenue in the future.

Our net loss margin narrowed down from negative 9.4% in 2020 to negative 5.0% in 2021, and increased to negative 10.5% in 2022. After adjusting the equity-settled share-based payment expenses,

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[REDACTED] and changes in fair value of financial liabilities at FVTPL, our adjusted net loss margin, a non-IFRS measure, narrowed down from negative 4.6% in 2020 to negative 3.4% in 2021, and further to negative 0.9% in 2022. Our track record on revenue growth and cost optimisation set the foundation of our path to profitability. Upon the successful implementation of the foregoing measures, our Directors are of the view that we have paved the way for long-term sustainable profitability.

Improving working capital management

To improve our working capital management, we have been working on and will continue to work on the following aspects.

- Our inventories increased by 64.3% from RMB516.1 million as of December 31, 2020, to RMB847.8 million as of December 31, 2021, primarily due to the expansion of our Self-operation Business. Our inventories further increased by 19.9% from RMB847.8 million as of 31 December 2021 to RMB1,016.2 million as of 31 December 2022, primary due to the growth of our Self-operation Business. Our inventory turnover days remained stable at 27.3 days in 2020, 27.1 days in 2021 and 26.5 days in 2022. We will monitor and control inventory turnover with our technology-driven warehousing and logistics systems and make procurement decisions based on sales. As Self-operation Business keeps scaling up and leveraging digitalised supply chain management, we expect inventory turnover days to remain stable in the foreseeable future.
- Our trade and other receivables decreased by 29.0% from RMB528.4 million as of 31 December 2020 to RMB375.1 million as of 31 December 2021, primarily because we enhanced our receivable management and leveraged our bargaining power to encourage our offline business customers to make payments to us through wire transfer in lieu of bank acceptance bills. Our trade and other receivables increased by 34.2% from RMB375.1 million as of 31 December 2021 to RMB503.5 million as of 31 December 2022, primarily due to (i) an increase in receivables in custodian as 31 December 2022 was not a working day and we were unable to withdraw the prepayments made by online customers of our Self-operation Business from the settlement system, and (ii) an increase in trade receivables primarily as a result of the increase in commissions charged to third-party sellers on our Online Marketplace. We will continue to enhance our fulfilment and delivery efficiency to our buyers so that we are able to collect payment on time. We will also continue to collect fees from our sellers on time to ensure a proper level of inflow of funds. Due to increased proportion of sales from self-operation orders settled online, we expect to significantly shorten our receivable collection cycle.
- Our trade payables increased from RMB1,832.6 million as of 31 December 2020 to RMB1,929.8 million as of 31 December 2021, primarily attributable to (i) deposits to be returned to two Series E-2 investors of RMB223.3 million, which represents investment security deposit we received from the two investors in 2021, and (ii) an overall increase in trade payables and note payables combined in relation to our purchases of pharmaceutical products as a result of the growth of our Self-operation Business. The increases were partially offset by a decrease in deposits received as we have gradually been migrating the payment system of our Online Marketplace to Shenzhen Ping An Bank, the settlement of sales proceeds through which does not result in deposits received recorded on our balance sheet. Our trade and other payables increased from RMB1,929.8 million as of 31 December 2021 to RMB2,398.1 million as of 31 December 2022, primarily due to an

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increase in trade payables mainly as a result of the growth of our Self-operation Business. We will continue to optimise our payment cycle, negotiate with our suppliers for better payment settlement terms and reduce the portion of transactions processed under prepayment. We expect shorten payable collection cycle in the foreseeable future, as we plan to expedite our payment cycle for our suppliers. Although it may impose challenge in our working capital management, we believe there is an important commercial consideration for us to maintain a good relationship with our suppliers and to retain high-quality suppliers for our business in the long run.

Leveraging competitive strengths and advantages

We believe that our current competitive strengths and advantages are key for us to achieve profit and cash breakeven. Our leading position and large scale have become our moat and enable us to grow and capture the market share in a effective and economical way. Our industry positioning below is supported by analyses performed by Frost & Sullivan.

- Our total GMV reached RMB37.8 billion in 2022, representing a CAGR of 38.6% from that in 2020, both the highest among leading digital pharmaceutical platforms serving businesses outside of hospitals in China. We serve the largest digital pharmaceutical transaction and service network, including, among others, around 354,000 downstream pharmacies and around 173,000 primary healthcare institutions, as of 31 December 2022. We plan to further expand our coverage and penetration in pharmacies and primary healthcare institutions.
- We are able to maintain an active buyer base which allows us to obtain market insights, design tailored strategies, and provide advices to our suppliers. We had 308,000 average number of MAB in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China. We are able to maintain good relationship with our ecosystem participants. We will further expand our buyer base and improve buyer engagement.
- Our platform offers comprehensive SKUs. The average number of monthly available SKUs was around 3.3 million in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China. Buyers are willing to transact with us as they can easily find what they need. We will continue to enlarge and diversify our SKU pool.
- In 2022, our supply chain management enabled us to maintain inventory turnover days at 26.5 days, better than the industry average level in the pharmaceutical circulation industry. We ensured that an order could be processed and completed for delivery in, on average, 2.85 hours in our warehouses, in 2022, much faster than the industry average level. In 2022, we kept the average inter-province delivery time at 41 hours for cities and 51 hours for towns, outperforming the industry average by approximately 20%. We are able to provide time-efficient purchase experience with high-quality product to our buyers, so that they are willing to continuously transact on our platform. In 2022, we also managed to keep low logistics expenses at 1.46% of the GMV of our Self-operation Business, much lower than the industry average rate. We plan to continue to expand the network of our warehouses and further upgrade and digitalise our supply chain management systems.
- Our platform is well connected to the SaaS solutions and our CertEx certificate exchange platform we provide to our ecosystem participants, so that they can manage transactions,

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operations and certain compliance matters in an integrated way. Few of the players in the outside-of-hospital pharmaceutical transaction industry provide similar services, specially from the seller side. We will continue to develop advanced functions to better assist our ecosystem participants.

- Our BD strategies are carried out by our dedicated BD team and digitalised management tools. Our BD team members are familiar with the market and are well trained. They have been an important source for us to quickly understand our downstream needs and we believe they are important for us to take a significant share of future market expansion. We plan to continue to train our BD team and provide them with better digital management tools so that they can help us better serve our buyers.

Based on the above, our Directors are of the view that our business is sustainable.

TECHNOLOGY

Technology is our foundation and a key component to our success. We built our core competency on big data, cloud-based solutions and smart supply chain.

Research and development

Our vision and focus on innovation have fuelled our growth and enabled us to continuously improve our existing offerings and develop new products and solutions. We believe a strong research and development capability is crucial to our continued success and ability to develop product offerings to keep up with rapid development and advances in software technology. We closely attend to the needs of our customers and respond to their feedback and requests through developing new solutions or adding advanced or optimised features in existing solutions. Our research and development activities mainly include constantly improving our algorithm and data analytics capabilities, improving testing capabilities of ClouDiagnos, designing and upgrading wePharmacy booths, developing and maintenance of our SaaS solutions, providing technological support to our Online Marketplace, managing supply chain and warehouses, and assuring data security of the our internal and external operations. In 2020, 2021 and 2022, we incurred RMB24.7 million, RMB56.6 million and RMB79.1 million of research and development expenses, respectively.

We have established our research and development team in Guangzhou, focusing on technology innovations and the research and development of our software solutions. As of 31 December 2022, we employed 330 dedicated research and development staff.

Data analytics and advanced algorithm

Our strong buyer behaviour analytics capabilities and advanced algorithm allow us to make important business decisions and enhance our products and services offering. We analyse transaction history, price variance and product preference to make important procurement decisions and maintain a high inventory turnover. Additionally, we analyse product and geographic preference and the distribution of buyers, to design, develop and maintain our warehousing network, to maximise warehousing capacity, and to facilitate efficient and punctual delivery. Moreover, we provide feedback on the popularity of SKUs so that sellers can get valuable product and price recommendations. Data analytics capabilities also allow us to collaborate with pharmaceutical companies to start the Targeted Product Launch Business, identifying market opportunities and promoting products digitally.

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Cloud-based solutions

We heavily relied on cloud-based applications. Cloud-based SaaS applications allow us to connect seamlessly with the upstream and downstream industry participants in the ecosystem. We design and develop proprietary software and data analytics capabilities that run on cloud to facilitate interactions and commercial exchange between participants in our digital ecosystem. Specifically, we have developed YSB Web and CloudComm for sellers and YSB App and ePalm for buyers. Rich and growing functions and data management tools are embedded in these solutions.

Our innovations allow us to seamlessly integrate with over 5,200 seller ERPs and over 39,000 buyer ERPs, as of 31 December 2022.

Smart supply chain

In relentless pursuit of supply chain efficiency, we have developed a suite of supply chain related smart systems. They are Galaxy+ for smart sourcing, Xentrum for warehouse workflow management and data analysis, and IntelNex for automatic delivery solution optimisation. As they are developed wholly in-house by our talented technology team and tailored in every detail to support our operations, we do not need to rely on third party providers to enhance our smart supply chain systems and reserve higher control of our supply chain management.

BUSINESS DEVELOPMENT AND MARKETING

Our business development team: direct sales force

Our sales activities are supported by our offline BD activities. BD is an essential portion of our business sourcing and the maintenance of downstream relationship. It is where we start to build close relationship with buyers and introduce them to our business. It also helps upstream pharmaceutical companies and distributors gain access to a broad coverage of buyers at low cost.

Our BD team is built on well-trained sales force and strong data analytics capabilities, which is proven to be a highly efficient and cost-effective model to drive user base expansion and maintain active user engagement. They are responsible for creatively promoting our applications, as well as products under the Targeted Product Launch Business.

Our BD team is a constant contributor in driving the growth of our business. Our BD team is made up of members who are familiar with the market and are trained with sales skills and pharmaceutical knowledge. They dive deep into the buyer level, conduct off-line visits and collect valuable feedback from buyers through in-person interactions. The feedbacks they collected help us understand our buyers and identify market expansion opportunities. Our BD team serves as the bond between our buyers and us. Such intimacy has effectively helped maintain our relationship with our buyers. As of 31 December 2022, our BD team consisted of over 2,800 members, covering 27 provinces.

Our BD team is centrally and digitally managed. We provide our BD team with real-time buyer updates, geographical information and sales strategies for our BD team members to quickly respond to buyer requests. Our centralised and digitalised management has enabled us to maintain a dynamic balance, retaining a relatively large BD team while controlling customer acquisition costs at the same time. As of 31 December 2022, each BD team member, on average, can manage around 130 pharmacies.

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BDPartner

We manage our BD activities through our proprietary BDPartner application, which handles and updates information about the downstream ecosystem and participants and manages thousands of BD team members. Information digitalization and performance-tracking enable the BD team to better manage sales activities and to maintain relationship with buyers. Our data analytics capabilities and advanced high-dimensional algorithm signal new pharmacies and identify existing pharmacies of which performance can be improved with our assistance.

BDPartner’s advanced algorithm allows it to update real-time information about the downstream ecosystem and participants whenever a pharmacy buyer places an order on YSB App. BDPartner analyses the transaction history of the most popular SKUs and their complements and substitutes to discover potential pharmacy buyers. Additionally, BDPartner studies the existing pharmacy buyers’ transaction pattern and develops SKU profiles for each geographical location. BDPartner then generates and distributes tasks to the BD team for them to conduct tracked in-store visits.

BDPartner provides various benefits. First, BDPartner matches pharmacies and primary healthcare institutions with BD members according to their geographical location to enable quick responses to downstream enquiries. BDPartner also pairs the BD members with new pharmacy buyers quickly to render service. Second, in-app tracking assures the quality of the BD team’s service. BDPartner includes a progress board that provides real-time sales progress to incentivise the BD members to optimise their performance. Third, BDPartner generates sales strategies based on performance feedback and sends specific instructions to the BD members. For example, for pharmacies that report declining orders, BDPartner would suggest discount strategies to help improve their performance.

With the help of BDPartner, a BD member can manage around 130 pharmacies on average, as of 31 December 2022.

Marketing and branding

We believe that the most effective form of marketing is to continue to enhance our user experience, as user satisfaction engenders word-of-mouth referrals and additional purchases. Specifically, our sales and marketing strategy is designed to improve our brand recognition, increase user traffic to our platform, build strong user loyalty, drive repeat purchases, and develop incremental revenue opportunities. All the services we provide to our ecosystem players help promote and reinforce our brand in the market. The synergy created by our Online Marketplace and the Self-operation Business serves as an important source of user acquisition for each other. The two in turn provides a strong user base as a foundation for us to grow other business such as ClouDiagnos. Our businesses reinforce among themselves, forming a virtuous cycle and symbiotic ecosystem.

Subsidies

We offer benefits to our buyers to encourage their activities on our platform. We provide coupon which offer different discount rates to active customers of our platform. We also provide coupon to newly registered customers. Additionally, we provide direct subsidies to selected product. Furthermore, we engage in group buy activities, which are discussed in details below. The subsidies provided to buyers and used on our Online Marketplace as a percentage of GMV from Online

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Marketplace was 1.2%, 0.8% and 0.7% in 2020, 2021 and 2022, respectively. According to Frost & Sullivan, our practice is consistent with other players in the outside-of-hospital pharmaceutical market.

Group buy

Group buy is a customised response to the situation that pharmacies are increasingly unwilling to maintain high inventory levels during the Post-Coronavirus Era. Pharmacies that place smaller orders at a time, however, find it difficult to secure an attractive price from upstream distributors. To address this issue, we source SKUs that are popular among a large number of pharmacies and encourages distributors to offer them at a lower price on the platform so that these SKUs are available from the group buy page. The platform runs algorithm to produce a comprehensive report to distributors regarding popular SKUs and the recommended offer price and volume. The platform also helps distributors refill their offerings. In addition, we offer a Tuesday Night Market for pharmaceuticals with expiration date being less than three months away, with prices as low as less than 30% of the normal product price. Buyers, especially primary healthcare institutions, can procure according to their inventory turnover. We also hold group buy events during non-peak hours or days to promote sales for sellers.

The benefits of group buy are two-fold. On the one hand, it enables pharmacies to procure SKUs according to their real demand and therefore improve their turnover rate, while paying attractive prices at the same time. On the other hand, distributors profit from a limited amount of very popular SKUs. Although the unit demand per pharmacy is relatively low, the total demand for the selected SKUs is large enough for the distributors to achieve a meaningful profit.

Livestreaming digital marketing

We believe some business to consumer (“B2C”) business marketing strategies can be implemented in a B2B business, for example, livestreaming marketing. Pharmaceutical companies can apply to us to participate in livestreaming events to promote their products online. Built on the large number of registered buyers and historical transaction records, algorithm-based analysis allows YSB App to send livestreaming invites to targeted pharmacies and primary healthcare institutions. The real-time interaction provides downstream pharmacies and primary healthcare institutions a chance to learn about pharmaceutical products directly from pharmaceutical companies. It also provides upstream pharmaceutical companies direct market feedback and allows them to react quickly with additional sales strategies.

INTELLECTUAL PROPERTY

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. As of 31 December 2022, we have registered 23 patents in China. We have registered 53 software copyrights with the PRC National Copyright Administration. We have 20 registered domain names in China, including ysbang.cn and yaoshibang.cn. As of 31 December 2022, we have registered 119 registered trademarks with the PRC State Intellectual Property Office.

Despite our efforts to protect our proprietary rights, unauthorised parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorised use of our technology is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our technology. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties

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may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or licence the infringed or similar technology on a timely basis, our business could be harmed. Even if we are able to licence the infringed or similar technology, licence fees could be substantial and may adversely affect our results of operations. See “Risk Factors—Risks Related to Our Business and Industry—We may not be able to prevent others from unauthorised use of our intellectual property, which could harm our business and competitive position” and “—We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.”

CUSTOMERS AND SUPPLIERS

Customers

We have a broad base of customers, including, primarily, pharmaceutical companies (mainly domestic) and distributors, pharmacies, and primary healthcare institutions. We have a deconcentrated customer base. That is because we have a large number of customers, including around 6,000 sellers on our Online Marketplace as of 31 December 2022 and around 234,000 average number of MPB in our Self-operation Business in 2022 among others, and we do not significantly rely on any single customer for its purchases of our products or services. For each of the years ended 31 December 2020, 2021 and 2022, our top five customers accounted for around 2.2%, 1.4% and 0.9%, respectively, far less than 30%, of our total revenue. Revenue from our largest customer alone accounted for less than 1% of our total revenue during each of the periods.

Suppliers

Our suppliers are primarily pharmaceutical companies and distributors. For each of the years ended 31 December 2020, 2021 and 2022, our top five suppliers accounted for less than 30% of our purchases, and purchases from our largest supplier alone accounted for less than 10% of our total purchases during each of these periods.

We believe we have sufficient alternative suppliers for our business that can provide us with substitutes of comparable quality and prices. During the Track Record Period, we did not experience any disruption to our business as a result of any significant shortage or delay in the supply of the products and services we sourced from our suppliers.

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The following sets forth a summary of material terms of the standard supply framework agreement we enter into with our suppliers:

Key Terms	Description
<i>Term</i>	Supply framework agreement typically has a term of one year.
<i>Products</i>	We purchase products from our suppliers who typically authorise us to be a sales agent of a predetermined district. Specific information of products shall be determined by the orders confirmed by the parties.
<i>Pricing</i>	For any given product, price charged to us by our suppliers shall not be higher than market price or price charged to their other customers. Specific price of products shall be determined by the orders confirmed by the parties. Suppliers may propose price for products sold to downstream buyers by us, but we are solely and independently responsible for determining such price.
<i>Delivery</i>	Suppliers shall be responsible for delivering product to our address and unloading the products. Suppliers shall bear the costs associated with transportation, loading and unloading, as well as the risk of loss and damage before we receive the products. Upon receipt of the products, risk of loss and damage is transferred to us.
<i>Payment Settlement</i>	Parties may agree on one or more of the following methods: (i) we pay our suppliers in a given month based on the volume we sold to our downstream and the payment we received for last month; (ii) payment is due within three days upon receipt and inspection of products; (iii) monthly payment settlement for products produced last month; (iv) prepayment to our suppliers by us once order is confirmed; or (v) any other predetermined payment settlement method.
<i>Product return</i>	For transactions carried out under method (a) above, for products that are not sold to the downstream within 90 days after we receive and inspect them from our suppliers, we can claim product return and refund within 120 days after such date. Upon receipt of such products, suppliers shall refund us or eliminate associated outstanding balance within ten days. For transactions carried out under other methods above, if products fall below standards, we have the right to claim product return and refund, and suppliers will bear the costs of the return process; for any other reasons, parties shall negotiate the details.
<i>Services</i>	We provide digital marketing services for products under Targeted Product Launch Business
<i>Compliance</i>	Parties shall maintain valid certification and qualification during the course of dealing, and once any certification and qualification expires or is revoked, the holding party shall promptly inform the other party and take proper measure to manage any ongoing transactions. If a material certification and qualification that supply framework agreement relies upon is revoked, such agreement shall automatically terminate. Parties undertake to provide each other certification, qualification, and other materials that is related with the transaction to make sure relevant laws, regulation and rules are complied with. Parties represent that information provided is authentic and valid. If one party suffers damage due to a material breach of this term, it has the right to demand compensation from the other party.
<i>Anti-Corruption</i>	All commercial bribery and non-business benefit arrangements shall be eliminated. A party shall not solicit funds, goods and other benefits from the party’s employees.

Overlapping customers and suppliers

During the Track Record Period, to the best knowledge and belief of our Directors, two and one of our top five customers were also our top five suppliers for the year ended 31 December 2021 and

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2022, respectively. For the year ended 31 December 2021 and 2022, our sales to these companies accounted for approximately 0.6% and 0.2% of our total revenues, respectively. During the same periods, our purchases from such companies accounted for approximately 6.9% and 1.1% of our total purchases, respectively.

According to Frost & Sullivan, it is common to have overlapping customer-supplier relationship when a marketplace and a self-operation business coexist in a company’s normal business operations.

Recurring customers

Customers of our Online Marketplace are mainly sellers on our Online Marketplace. We charge these sellers commissions. The number of recurring sellers on our Online Marketplace, defined as sellers who successfully completed at least one transaction on our Online Marketplace in the previous year of a given year and successfully completed at least one transaction on our Online Marketplace in the given year, was around 1,800 and 2,500 in 2021 and 2022, respectively. Around 86.2% and 89.7% of sellers who successfully completed at least one transaction on our Online Marketplace in 2020 and 2021, respectively, successfully completed at least one transaction on our Online Marketplace in 2021 and 2022, respectively. GMV contributed by these recurring sellers was around RMB15.9 billion and RMB20.6 billion in 2021 and 2022, respectively. Approximation of revenue from these recurring sellers is calculated by multiplying GMV contributed by these recurring sellers with an effective rate (being revenue from our Online Marketplace in a given year divided by GMV from our Online Marketplace in that year). Approximation of revenue from recurring sellers on our Online Marketplace as a percentage of revenue from our Online Marketplace was around 93.4% and 91.0% in 2021 and 2022, respectively.

Customers of our Self-operation Business are mainly buyers in our Self-operation Business. We generate revenue from sales of products to these buyers. The number of recurring buyers in our Self-operation Business, defined as buyers who placed at least one order in our Self-operation Business in the previous year of a given year and placed at least one order in our Self-operation Business in the given year, was around 194,000 and 267,000 in 2021 and 2022, respectively. Around 85.4% and 86.9% of buyers who placed at least one order in our Self-operation Business in 2020 and 2021, respectively, placed at least one order in our Self-operation Business in 2021 and 2022, respectively. GMV contributed by these recurring buyers was around RMB9.2 billion and RMB14.0 billion in 2021 and 2022, respectively. Approximation of revenue from these recurring buyers is calculated by multiplying GMV contributed by these recurring buyers with an effective rate (being revenue from our Self-operation Business in a given year divided by GMV from our Self-operation Business in that year). Approximation of revenue from recurring buyers in our Self-operation Business as a percentage of revenue from our Self-operation Business was around 87.6% and 91.9% in 2021 and 2022, respectively.

OFFLINE ALLOCATION CHANNELS

We sell offline to business customers who purchase our products and then sell to downstream businesses through their own online platforms or offline channels. Our customers here are business customers who have the relevant licenses and/or permits to sell pharmaceuticals to their downstream business customers. The transactions are conducted offline. Our sales team negotiates directly with our customers’ procurement team to confirm product demand and our customers then send their orders

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directly to our sales team. The delivery of the ordered products will be arranged accordingly. Settlement and financial reconciliation are conducted in accordance with the agreements entered into by our offline business customers and us.

During the Track Record Period, revenue from our offline business customers represented approximately 5.9%, 4.0% and 2.1% of the revenue of our Self-operation Business for the years ended 31 December 2020, 2021 and 2022, respectively. We record revenue from our offline business customers under our Self-operation Business. Product revenue is recognised upon business customers’ acceptance of product delivery, net of discounts and return allowance.

SEASONALITY

Our results of operations are subject to mild seasonal fluctuations. We usually observe an increase in revenue in the fourth quarter of each calendar year, primarily due to an increase in the demand of pharmaceutical products during winter. Furthermore, when digital commerce platforms hold special promotional events during China’s online shopping festivals on 18 June, 11 November and 12 December we typically observe an increase in sales of our products immediately following these campaigns. Seasonal fluctuations have not thus far posed material operational and financial challenges to us. However, the seasonal trends that we have experienced in the past may not apply to, or be indicative of, our future operating results.

COMPETITION

We believe that our ability to compete effectively depends on many factors, including the variety of our products, our pricing competitiveness, user experience on our platform, our technological leadership, effectiveness of our risk management, our ability to partner with primary healthcare institutions, pharmacies and pharmaceutical sellers to customise medical solutions, our marketing and selling efforts and the strength and reputation of our brands.

EMPLOYEES

We had a total of 5,916 employees as of 31 December 2022. As of 31 December 2022, all of our employees were located in China.

The following table sets forth the numbers of our employees categorised by function as of 31 December 2022.

<u>Function</u>	<u>Number of Employees</u>
General and Administrative	732
Selling and Marketing	2,876
Operations	1,978
Research and Development	330
Total	5,916

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our recruiting and retention strategy, we offer employees competitive salaries, performance-based sales commissions, performance-based cash bonuses and certain other incentives.

We primarily recruit our employees through recruitment agencies, on-campus job fairs and online channels, including our corporate website and social networking accounts. We have adopted a

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training programme, pursuant to which employees regularly receive trainings from management, technology, regulatory and other internal speakers or external consultants.

As required under the PRC regulations, we participate in housing fund and various employee social security plans that are organised by applicable local municipal and provincial governments, including housing, pension, medical, maternity, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. Bonuses and sales commissions are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivise their contributions to our growth and development.

None of our employees are currently represented by labour unions. We believe that we maintain a good working relationship with our employees and we did not experience any significant labour disputes or any difficulty in recruiting staff for our operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are committed to promoting corporate social responsibility and sustainable development and integrating it into all major aspects of our business operations. Corporate social responsibility is viewed as part of our core growth philosophy that will be pivotal to our ability to create sustainable value for our Shareholders by embracing diversity and public interests.

We aim to build a sustainable community with our employees, customers and business partners by supporting local initiatives that aim to create effective and lasting benefits to the local community, through various initiatives that may include corporate philanthropy, establishing community partnerships, and mobilising our employees to participate in volunteer work. In addition, we also endeavour to reduce any negative impacts on the environment through our commitment to energy saving and sustainable development. We will also focus on embracing diversity within our organisation and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. While maximising equal career opportunity for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

We will establish an ESG committee after the Listing, which will have the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year. The ESG committee will be a Board-level committee. Our Board members have rich experience in overall business and corporate governance management. They will participate in our ESG training to enhance their awareness of and capabilities to deal with ESG-related risk identification and internal control measures as well as general ESG matters.

Our Board will assume the responsibilities to (i) guide and formulate our ESG vision, strategy and structure and ensure that they are compatible with our needs and the relevant laws, regulations and standards; (ii) supervise the development and implementation of our ESG vision, strategy and structure through ESG policies; (iii) review our ESG policies and ensure their applicability and compliance with the relevant laws, regulations and standards, and (iv) review and approve our ESG reports and other ESG-related disclosures. Our Board will regularly discuss the material ESG risks that could affect our

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operations and long-term sustainable development, provide views and suggestions to the implementation groups, and monitor and strengthen our overall ESG system.

When identifying material ESG issues, our Board will consider the relevant laws, regulations and standards, such as the ESG Reporting Guide provided in the Listing Rules, Sustainable Development Goals promulgated by the United Nations, Standards published by the Global Reporting Initiative and the Standards published by Sustainability Accounting Standards Board, as well as current major economic, social and environmental issues, communicate with various stakeholders (such as our employees, sellers and buyers), and discuss and analyse the core ESG issues with our management, including what specific ESG issues to be prioritised. In particular, our Board and our ESG committee will consider issues of common concern to internal and external stakeholders, impact on our operations and sustainable business development, and issues arising from recent legal and regulatory development. Our ESG committee will:

- Analyse legal and regulatory requirements, macro-policies and industry practice, giving reference to international standards, ESG rating systems and outstanding practices of peer companies;
- Communicate with internal and external stakeholders to understand their core concerns;
- Conduct materiality assessment through matrix assessment; and
- Classify lists of issues of high-importance, medium-importance issues and low-importance.

Our ESG committee will monitor and manage matters related to ESG issues and confirm with our Board regarding the effectiveness of our ESG system. Our Board may assess or engage Independent Third Parties to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks. Our ESG committee will convene meeting and communicates regularly to report and present the implementation progress and key results. The execution of our ESG policies will involve personnel of key departments, such as supply chain management, operations, human resources, marketing, legal and others. For examples, to ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labour and safety laws and regulations.

Identification, assessment and mitigation of our ESG risks

During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any fines or other penalties due to non-compliance in relation to environmental, social and governance related matters, which had materially and adversely affected our financial condition or business operations.

We have identified the following ESG risks which we consider material and may have an impact on our business, strategies or financial performance.

Safety issues related to product quality

As an inherent risk in pharmaceutical transactions and services, we may face disputes or legal actions for health or safety related issues suffered by end customers. Selling pharmaceuticals for

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human consumption involves inherent legal and other risks, and there is increasing governmental scrutiny and public awareness regarding drug safety. Unexpected side effects caused by products we sell or we facilitate to sell through our platform by third-party sellers could expose us to product liability, negligence or other lawsuits. See “Risk Factors—Risks related to our business and industry—The failure of the sellers to control the quality of products they sell on our Online Marketplace, or to make timely and accurate delivery of their products sold on our Online Marketplace, may have a material and adverse effect on our business, financial condition and results of operations” and “—We may become subject to product liability and medical liability claims, which could cause us to incur significant expenses and be liable for significant damages if not covered by insurance.”

Set forth below are the various measures that we undertake to manage and mitigate risks related to product quality and safety:

- We require detailed product quality standards in our suppliers and third-party sellers on our Online Marketplace, including inspecting their certificates, establishing contractual obligations, reviewing their product quality records, among others.
- We impose mandatory training to our employees to enable them to exercise proper inspection of product quality and safety.

Supply chain management

Sound supply chain management are essential for us to ensure reliable product quality and sustainability along our supply chain. If we are unable to select qualified suppliers, or monitor, audit and manage different parties in the supply chain, it may expose us to risks of suppliers’ non-compliance with applicable laws and regulations and unethical practices, which could diminish our competitiveness and harm our reputation.

We have established a supply chain approval process, through which suppliers must provide relevant qualifications or certifications, such as their business licenses, pharmaceutical production or transaction licenses, operation licenses, among others. If the suppliers are not compliant with the applicable laws and regulations regarding safety and quality or commit misconducts, we may terminate our contracts with them. We also maintain quality test and control team to ensure the legal and regulatory compliance of each product.

Environmental protection

We monitor environmental, social and climate-related risks and opportunities that may impact on our business, strategy and financial performance and evaluate the magnitude of resulting impact over the short, medium and long-term horizon. We take these issues into account when developing our business strategy and may adjust our strategy in a particular country, region or city in response to changing environmental, social and climate-related landscape.

Packaging and delivery

We have established measures to make sure our packaging and delivery process is consistent with environmental protection. We carefully select packaging boxes for each order, as recommended by algorithm, to reduce packaging materials to the extent possible. We have also implemented plans to recycle packaging boxes from our suppliers and damaged boxes and wraps for reuse. Starting in May 2022, we have put in place a plan to incentivise our employees to recycle and reuse packaging

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materials. Pursuant to the plan, our employee will be entitled to a reward of (i) 15% of the packaging cost savings if the percentage of second-hand packaging boxes used in a given month is no less than 10% of the total packaging boxes used; (ii) 10% if the second-hand packaging boxes usage rate is between 8% and 10%; and (iii) 5% if the second-hand packaging boxes usage rate is between 5% and 8%.

We collaborate with third-party carriers to deliver products from our Self-operation Business warehouses to buyers. We do not have specific conservation or recycling requirements of the amount or type of packaging materials used by third-party carriers, but we tend to partner with those with sound environmental protection policies. In fact, our main delivery partners are public companies and they have their own ESG measure regarding green packaging and resource recycling.

Environmental protection

Although our business operations do not directly produce pollutants that directly affect the environment, we have implemented internal policies to reduce our carbon footprint, such as reducing the energy consumption through:

- Installing energy efficient lighting and ensuring lights are switched off when out of use either manually or through automatic sensors;
- Requiring double-sided printing of documents throughout our offices;
- Switching off certain IT equipment or automatic power shutdown for certain systems and devices; and
- Air conditioning controls, with measures including requirements on lowest temperature, regular maintenance of air cooling technologies and optimal timing controls.

We have made significant progress in saving water and electricity in our daily operations. Our water and electricity consumption per order we received in our Self-operation Business was about RMB1.15, RMB0.52 and RMB0.44 in 2020, 2021 and 2022, respectively, based on our unaudited management accounts.

Corporate social responsibility

We are committed to corporate social responsibility and meeting the society’s changing needs. We support and participate in socially responsible projects that align with our core values and mission and that promote the development of the pharmaceutical circulation industry generally. In particular, we have taken initiatives in the below areas:

- We help promote the circulation of pharmaceuticals and revitalise the outside-of-hospital market. We took the lead to digitalise pharmaceutical circulation for businesses and to address the supply and demand mismatch at the primary healthcare level. We help improve diagnostic capabilities at the primary healthcare level, which has gradually become the development focus of the PRC government. We also provide training to pharmacists.
- We take initiatives to alleviate the COVID-19 outbreak. Our commitment to society is embodied in our efforts during the COVID-19 outbreak. We proactively supported China’s nationwide efforts to contain the spread of COVID-19 and launched a variety of initiatives to combat the pandemic and to support communities. In 2020, we made a donation of

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masks and RMB1 million to Wuhan Benevolent General Association. In 2021, we donated 17,000 masks to Haizhu Cishanhui in Guangzhou. Our employees also participated in volunteer activities in Guangzhou to help fight the pandemic.

- We actively participate in other charity works. In 2021, we donated RMB600,000 to a student public fund in Beijing to help school-age children to earn an equitable education opportunities. We also participated in poverty alleviation initiatives in various counties in Meizhou, Guangdong Province.

PROPERTIES AND FACILITIES

As of the Latest Practicable Date, we operated our businesses through 79 leased properties in Guangzhou and various other cities in China. We do not own any properties. Our leased properties in China serve as our offices and warehouses. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for our business operations. We believe that there is sufficient supply of properties in China. Furthermore, even if we experience temporary interruption to our usage of any of our leased office space, we believe that our employees can continue to perform the material aspects of their duties remotely, given that our offices do not carry out any production, manufacturing or physical retail activities; and through our technology infrastructure our offices in other locations can adequately support the functioning of our business operations in areas where we experience temporary office space interruptions. Therefore, we do not rely on the existing leases for our business operations, and we do not believe a contingency relocation plan is required.

As of the Latest Practicable Date, our leased properties had a total gross floor area of approximately 265,000 square metres, and each leased property ranged from a gross floor area of 20 square metres to 22,000 square metres. The relevant lease agreements have lease expiration dates ranging from June 2023 to August 2027.

As of the Latest Practicable Date, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the [REDACTED], this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings.

The following table sets forth the location, approximate size, and primary use(s) of our material leased properties as of the Latest Practicable Date:

<u>Location</u>	<u>Approximate Size (Building) in Square Metres</u>	<u>Primary Use(s)</u>
Guangzhou	43,358	National headquarter, warehouses, R&D centre, business operations
Wuhan	22,924	Local office, warehouse
Jinan	16,065	Local office, warehouse
Chengdu	15,834	Local office, warehouse
Zhengzhou	13,291	Local office, warehouse
Changsha	12,741	Local office, warehouse
Changchun	12,719	Local office, warehouse

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Location	Approximate Size (Building) in Square Metres	Primary Use(s)
Shijiazhuang	12,142	Local office, warehouse
Jinhua	11,840	Local office, warehouse, dormitory
Xiamen	11,544	Local office, warehouse
Taiyuan	11,122	Local office, warehouse
Hefei	11,081	Local office, warehouse
Suzhou	10,768	Local office, warehouse
Beijing	10,666	Local office, warehouse
Xi'an	10,638	Local office, warehouse
Shenyang	9,573	Local office, warehouse
Nanchang	8,714	Local office, warehouse
Chongqing	8,608	Local office, warehouse
Harbin	7,804	Local office, warehouse
Hangzhou	3,276	Local office, warehouse
Nanjing	197	Local office
Fuzhou	116	Business operations

As of the Latest Practicable Date, the lessors of 26 properties the Group leased in China with an aggregate gross floor area of approximately 51,000 square metres (accounting for approximately 19.27% of the total leased properties) had not provided us with the property ownership certificates or relevant authorisation documents proving their rights to lease those properties. Our Directors are of the view that the title defects of the aforesaid leased properties will not have any material adverse impact on the overall business operation of us and the Listing, on the basis that (i) based on the advice of the our PRC Legal Adviser, the lessors of 71 leased properties of us (accounting for approximately 95.38% of the total leased properties) shall, according to the relevant lease contracts, bear the loss incurred by us due to such lessor's inability to provide property ownership certificates or relevant authorisation documents, (ii) it is the lessors' responsibility to obtain the property ownership certificates or relevant authorisation documents proving their rights to lease those properties so as to enter into the leases, and, as a tenant, we will not be subject to any administrative punishment or penalties in this regard, and (iii) even in the event that we have to vacate the property, we could find an alternative property to meet our operational needs.

As of the Latest Practicable Date, we had not obtained lease registration for 72 properties we leased in China, primarily due to the difficulty of procuring the lessors' cooperation to register such leases. Our Directors are of the view that the non-registrations of aforesaid leased properties will not have any material adverse impact on the overall business operation of us and the Listing, on the basis that (i) no penalty had been imposed on us for the failure to register and file the relevant lease agreements during the Track Record Period and up to the Latest Practicable Date, and (ii) as advised by our PRC Legal Adviser, the maximum penalty for each unregistered lease is RMB10,000.

As of the Latest Practicable Date, the actual use of six properties we leased in China with aggregate gross floor area of approximately 357 square metres (accounting for approximately 0.13% of the total leased properties) is not consistent with the use registered on the corresponding property ownership certificate and/or land use right certificate. Our Directors are of the view that the title defects of the aforesaid leased properties will not have any material adverse impact on the overall business operation of us and the Listing, on the basis that (i) the number and gross floor area of the properties whose actual use is not consistent with their permitted use is insignificant, and (ii) we will adopt stricter internal control measures and check the property ownership certificates and sublease authorisations before entering into new lease agreements in the future.

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As of the Latest Practicable Date, (i) we had put into use a total of 20 warehouses and we had one medical laboratory that had been decorated; (ii) for most of the aforementioned warehouses and the medical laboratory, we had not filed for corporate investment projects, nor obtained, applied for or completed some permits, inspection, and acceptance with related to construction project.

Our Directors are of the view that the defective formalities of the aforesaid construction projects and the maximum administrative penalties that may be imposed on the relevant subsidiaries under the relevant laws will not have any material adverse impact on the overall business operation of us and the Listing, taking into account the fact that we would be able to relocate to a different site if any of the relevant leased properties can not be used anymore due to the aforesaid defective formalities. In addition, we had not been subject to any administrative actions, fines or penalties during the Track Record Period and up to the Latest Practicable Date due to such non-compliance and were not aware of any rectification request by competent authorities as of the Latest Practicable Date, and if the relevant administrative authorities order us to carry out rectification in respect of the aforesaid construction projects, we will and will be able to carry out rectification in accordance with the laws and regulations in a timely manner.

INSURANCE

We maintain property insurance policies covering certain equipment and other property that are essential to our business operations to safeguard against risks and unexpected events. We also provide social security insurance including pension, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance, and housing fund plans for our employees. We consider our insurance coverage to be sufficient for our business operations in China.

In line with general market practise, we do not maintain any product liability insurance, business interruption insurance or key-man life insurance, which are not mandatory under PRC Laws. See “Risk Factors—Risks Related to Our Business and Industry—We may not have sufficient insurance to cover our business risks.” We also do not maintain insurance policies against risks relating to the Contractual Arrangements. During the Track Record Period, we did not make any material insurance claims in relation to our business.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

Compliance

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

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RISK MANAGEMENT AND INTERNAL CONTROL

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations, such as financial reporting, information system, internal control, human resources and investment management.

Financial Reporting Risk Management

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

Information System Risk Management

Sufficient maintenance, storage and protection of data and other related information is critical to our business. We have implemented various internal procedures and controls to ensure that data is protected and that leakage and loss of such data is avoided.

We believe it is crucial that our sellers and buyers understand how we handle their information so that they can make informed choices in deciding how such information is used and shared. To this end, we collect personal information and data from our sellers and buyers only with their prior consent, and we offer our sellers and buyers opt-out or opt-in options. We have established and implemented a strict company-wide policy on data collection, usage, disclosure, transfer and storage.

We have implemented a network of process and software controls to protect individual personal information and privacy. We encrypt data in network transmission. For back-end storage, we also use various encryption technologies at software and hardware levels to protect sensitive data. To minimise the risk of data loss or leakage, we conduct regular data backup and data recovery tests.

We collect and process data and narrowly tailor their usage to the extent possible.

- For Online Marketplace, we process data such as corporate documentation, pharmaceutical and healthcare product information, and basic information of the pharmacies, etc. For Self-operation Business, the categories of data processed by us include ERP sales data, PMS procurement data, sales and settlement data, etc. For both Online Marketplace and Self-operation Business, we also process personal data of platform users who are employees or representatives of corporate users in the same way. The categories of personal data involved mainly include the personal data of relevant individuals of pharmacies and primary healthcare institutions, including name, mobile phone number, address, national ID card number, corporate bank account information,

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etc. Purpose of processing such data is to provide procurement services of pharmaceuticals and healthcare products as a platform operator or as a self-operated business.

- For ClouDiagnos, including diagnostic testing services, for healthcare providers, we process the personal data of relevant individuals of primary healthcare institutions, such as name, mobile phone number and address; for patients, we process personal data such as the patients’ basic information and personal health and physiological information, including the patient’s name, mobile phone number and medical test reports. Purpose of processing such data is to provide testing services.
- For YSB eLearn, we may process the user’s name, course information, study progress and practise test records. Purpose of processing such data is to provide online courses and e-learning services.
- For SaaS solutions, we may collect national identity numbers and mobile phone numbers of relevant staff at the pharmacies. ePalm assists pharmacies in managing personal data such as the name, mobile phone number, purchase time, and payment method of the member that purchases pharmaceutical or healthcare products. It also assists pharmacies in processing personal data such as the name, mobile phone number, national identity number, contraindications to medication, and time of onset of illness of patients who apply for online prescriptions. Purpose of processing such data is to promote the sales of our SaaS solutions.
- We may also collect personal data of relevant staff of corporate clients, basic authentication information of corporate clients, as well as the photo-taking and sign-in data generated during our BD members’ visits to pharmacies. Purpose of processing such data is to manage sales and inventory and promote our business.
- After wePharmacy booths are sold, these booths are operated by our business customers and we are not involved in the in-device data processing activities that take place only on the booths except for the necessary maintenance. Personal information of end customers collected by the booths will only be owned by business customers and will not be stored by us.

We prioritise data security and privacy by strictly following our defined policy. We have a dedicated team to enforce our privacy practises. We have completed the grading and filing for our primary business information systems under China’s Multiple-level Protection System according to the Administrative Measures for the Graded Protection of Information Security (《信息安全等級保護管理辦法》). We have established a coordination mechanism with third parties to handle information security threats in a timely manner. We have established company-wide policies to cover various aspects of network security and data privacy and protection. We have adopted and implemented various cybersecurity and data protection policies which set out technical and organization measures to protect users’ data privacy and security, including: Guidelines for Personal Information Protection Impact Assessment (《個人信息保護影響評估指引》), Guidelines for Vendor Data Protection Management (《供應商數據保護管理指引》), Network and Data Security Management Policy (《網絡及數據安全管理制度》), Emergency Response Plan for Network and Personal Data Security Incidents (《網絡與個人信息安全事件應急預案》), Network Failure Operation Manual (《網絡故障操作手冊》), Information Security Operation Protocol (《信息安全操作規範》), Account Password Management Policy (《賬號口令管理制度》), Response Plan for Business System Disaster (《業務系統整體災難應急預案》), Confidentiality

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Provisions (《保密條款》), Confidentiality Grading Management Protocol (《保密分級管理規範》) and the requirements on data breach and destruction of important files and data in our YSB Employee Handbook (《藥師幫員工手冊》). We have also promulgated and issued the Confidentiality and File Management System for Overseas Securities Offerings and Listings (《境外發行證券和上市相關保密和檔案管理工作制度》) and the Guidelines for the Provision of Due Diligence Data for Overseas Listings Projects (《境外上市項目盡調數據提供指引》) to meet the requirements of applicable laws and regulations, including the Regulations on Strengthening Confidentiality and File Management for Overseas Securities Offerings and Listings of Domestic Enterprises (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》). We have an internal team dedicated to formulating data protection policy and monitoring data security practices, and we hold relevant personnel accountable for unauthorised access and data breaches. We strictly comply with laws and regulations and do not distribute or sell personal data for any illegal or unauthorized purpose.

These policies and measures can be enforced to ensure legal and regulatory compliance on the basis that:

- These policies and measures take into account the key legal requirements under applicable cybersecurity and data privacy laws and regulations, including the Personal Information Protection Law (《個人信息保護法》), the Cybersecurity Law (《網絡安全法》) and the Data Security Law (《數據安全法》), as well as their subordinated laws and regulations. These policies and measures transform the mandatory legal requirements into our internal compliance rules.
- We have appointed a dedicated person in charge of cybersecurity and data protection, who is fully responsible for the implementation of the above policies and measures. The main responsibilities of the person in charge of cybersecurity include, among others, organising the formulation of network and data security protection work plans and supervising the implementation; formulating, issuing, implementing, and regularly updating data and cybersecurity protection policies and related protocols. In addition, we also require the persons in charge of each department, as the primary responsible person for data and cyber security in his or her department, to promote data and cybersecurity management within the department in accordance with the above-mentioned policies and supervise the internal personnel under his or her supervision to comply with the above-mentioned policies.
- In order to make our employees better understand and comply with the above-mentioned policies, we organise data and cybersecurity training, including orientation training, regular compliance training, internal departmental training, etc. The Legal Department, IT Department and Human Resources Department will be jointly responsible for organising the personnel to participate in the training. The training content is coordinated by the Legal Department and IT Department, which covers relevant national laws and regulations, our internal policies, typical operational mistakes and risk points. The specific training contents shall also be determined in conjunction with the department, position held in our Group and level of the training audience.
- These policies provide disciplinary rules for employees who violate the rules to ensure effective implementation of these policies. For example, according to the Network and Data Security Management Policy, if any employee violates the requirements of the relevant policies, we may, depending on the situation and the damage caused, impose written warnings, notification of violation, cancellation of promotion qualifications,

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termination of labour contracts and other sanctions on the relevant employee; if any losses are caused to us, we have the right to require the relevant employee to pay civil compensations according to law; if any criminal liability may be pursued, we will report to the public security bureau.

- We regularly inspect, test and evaluate the effectiveness and compliance of the above-mentioned policies and measures on whether they are compatible with the risks of cybersecurity and data security, and update such policies and measures in a timely manner according to the results of inspection, testing and evaluation.

At the enterprise level, we established a systematic and universal account authorisation and management mechanism based on which we periodically review the status of accounts and the related authorisation information. We regularly perform security configuration assessment on our databases and servers and implement procedures for system log management.

We have put in place a series of back-up management procedures. We set the frequency and time interval of back-up plans. We require that at least one of our back-up plans, such as local server back-up and offsite back-up, must be followed.

We perform data recovery tests on a regular basis and we retain relevant records. We provide information security training to our employees and conduct ongoing trainings, and we discuss any issues or necessary updates from time to time. We also have an emergency response mechanism to evaluate critical risks, formulate disaster response plans and perform emergency drills on a regular basis.

Our information security department is responsible for ensuring that the usage, maintenance and protection of data are in compliance with our internal rules and the applicable laws and regulations.

In the opinion of our PRC Legal Adviser, we have complied with all applicable cybersecurity and data privacy laws and regulations of the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our internal control team works closely with our business units to (i) perform risk assessments and give advice on risk management strategies, (ii) improve business process efficiency and monitor internal control effectiveness, and (iii) promote risk awareness throughout our Company.

In accordance with our internal procedures, our in-house legal department performs the basic function of reviewing and updating the form of contracts we enter into with our consumers, merchants and relevant third parties. Our legal department examines the contract terms and reviews relevant documents for our business operations, and the necessary underlying due diligence materials, before we enter into any contract or business arrangements. In addition, our quality control teams under each business group are also responsible for reviewing the licences and permits of the relevant counterparties and proposed commercial terms before we enter into any contract or business arrangements.

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Our in-house legal department reviews our services for regulatory compliance before they are made available to the general public. Our in-house legal department and administrative department are responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

Human Resources Risk Management

We provide regular and specialised training tailored to the needs of our employees in different departments. We have a training centre which regularly organises internal training sessions conducted by senior employees or outside consultants on topics of interest that employees can vote on. The training centre schedules regular online and classroom trainings, reviews the content of the trainings, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback.

We have in place an employee handbook and a code of conduct approved by our management and have distributed them to all our employees. The handbook contains internal rules and guidelines regarding work ethics, fraud prevention mechanisms, negligence and corruption. We provide employees with regular training, as well as resources to explain the guidelines contained in the employee handbook. We have in place an anti-bribery and corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conduct and our anti-bribery and corruption measures. We make our internal reporting channel open and available for our staff to report any bribery and corruption acts, and our staff can also make anonymous reports to our anti-fraud department. Our anti-fraud department is responsible for investigating the reported incidents and taking appropriate measures.

Anti-corruption and Bribery Risk Management

As we and our employees deal with a variety of third parties in our operations, we have implemented internal procedures with respect to anti-corruption, anti-bribery, and conflict of interest matters. First, we have adopted a series of internal regulations against corruption, bribery, and fraudulent activities, which include measures against receiving bribes and kickbacks, and misappropriation of company assets. Second, our internal control department carefully evaluates risk events of potential corruption and bribery and conducts investigations when necessary. Third, we have implemented clear and strict policies and guidelines that prohibit the acceptance of gifts, hospitality and other offers by interested third parties. Employees are required to acknowledge and accept our internal code of business conduct and ethics that lists in detail relevant policies and regulations, including, but not limited to, clear definitions of bribery, corruption, and interested parties. Our internal control department conducts internal control inspections regularly.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to monitor the implementation of our risk management policies across our company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Mr. Hongqiang Zhao, Mr. Sam Hanhui Sun and Ms. Rong Shao, all of

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whom are independent non-executive Directors. Mr. Zhao is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see the section headed “Directors and Senior Management” in this document. We also maintain an internal audit department which is responsible for reviewing the effectiveness of internal controls and reporting to the audit committee and senior management on any issues identified. Our internal audit department members hold regular meetings with management to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified are channelled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board, if necessary.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

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

LICENCES AND PERMITS

As of the Latest Practicable Date, we had obtained all requisite licences, approvals and permits from relevant authorities that are material to our operations in China, except as disclosed in this document.

The following table sets out a list of material licences and permits currently held by us:

<u>Licence/Permit</u>	<u>Number of Licence/Permit in each Category Held by the Company</u>	<u>Earliest Expiration Date</u>
Value-Added Telecommunications Business Operating Licence (增值電信業務經營許可證)	4	21 December 2023
Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	7	27 June 2024
Internet Food Transaction Third-Party Platform Filing Certificate (網絡食品交易第三方平臺備案憑證)	1	N/A
Medical Device Internet Transaction and Service Third-Party Platform Filing Certificate (醫療器械網絡交易服務第三方平臺備案憑證)	1	N/A
Pharmaceutical Operation Licence (藥品經營許可證)	22	12 July 2023
Food Operation Licence (食品經營許可證)	19	14 February 2024
Food Operation Filing Certificate (Sales of Prepackaged Food) (僅銷售預包裝食品備案)	5	N/A
Class 2 Medical Devices Operation Filing Certificate (第二類醫療器械經營備案憑證)	23	N/A
Good Supply Practise for Pharmaceutical Products Certificate (藥品經營質量管理規範認證證書)	6	1 November 2023
Medical Devices Operation Licence (醫療器械經營許可證)	19	16 March 2025
Medical Institution Practicing Licence (醫療機構執業許可證)	1	12 January 2027

We have been actively seeking for renewals for our licences and permits. As for the Good Supply Practise for Pharmaceutical Products Certificate (藥品經營質量管理規範認證證書) (the “GSP Certification”), the Announcement on Matters Concerning the Implementation of the Drug Administration Law of the PRC (《關於貫徹實施〈中華人民共和國藥品管理法〉有關事項的公告》), promulgated by the NMPA on 29 November 2019, confirmed that the GSP certification would be cancelled since 1 December 2019. As for the Food Operation Licence (食品經營許可證), pursuant to

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the Food Safety Law of the PRC (《中華人民共和國食品安全法》), promulgated on 28 February 2009 and latest amended on 29 April 2021, and the Announcement on Matters relating to the Record-filing for the Sale of Only Prepackaged Food (《關於僅銷售預包裝食品備案有關事項的公告》), promulgated by SAMR on 29 November 2021, those who engaging merely in the sale of prepackaged food are not required to obtain the food operation licences, but need to file a record with the competent authority, and for those who have obtained food operation licences previously, the record filing procedure is not required until the expiration of such food operation licences. Our PRC Legal Adviser is of the view that our business operations will not be impacted by the cessation of the GSP certification.

AWARDS AND RECOGNITION

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

<u>Award / Recognition</u>	<u>Award Year</u>	<u>Awarding Institution / Authority</u>	<u>Entity /Product / Person being Awarded</u>
China Rising Star (中國明日之星)	2018	Deloitte (德勤中國)	YSB
Guangzhou Rising Star (廣州明日之星)	2018	Deloitte (德勤中國)	YSB
VB100 Future Healthcare Companies (未來醫療100強)	2018	VCBeat (動脈網)	YSB
Guangzhou Future Unicorns (廣州未來獨角獸)	2018	Guangzhou Association for Innovation and Technology Enterprise (廣州市科技創新企業協會), Fast Company (快公司)	YSB
Best Service Platform Enterprise (中國大健康產業最佳企業服務平臺獎) in the China Healthcare Industry Award Ceremony (中國大健康產業頒獎典禮)	2019	EqualOcean (億歐)	YSB
Outstanding Enterprise (中國大健康產業卓越企業獎) in the China Healthcare Industry Award Ceremony (中國大健康產業頒獎典禮)	2019	EqualOcean (億歐)	YSB
Digital Innovation Award (年度數字化創新大獎) in International Sci-Tech Innovation Festival (國際科創節)	2020	syobserve.com (數央網), www.gongyidaily.com (數央公益)	YSB
Top Ten Technological New Retail Pharmacy Platforms (十大藥店新零售技術平臺應用獎) in Massive Health Industry (Chongqing) Expo (大健康產業博覽會)	2021	China Medical Pharmaceutical Material Association (中國醫藥物資協會)	YSB
Global Unicorn Index 2021 (2021全球獨角獸榜)	2021	Hurun Report (胡潤百富)	YSB
Top Ten Digital Pharma Companies (醫藥數字化企業) in the Top 100 China Digital Health Companies (中國數字醫療企業百強榜)	2021	EqualOcean (億歐)	YSB
China Digital Health Unicorn List (中國醫療產業獨角獸)	2021	EqualOcean (億歐)	YSB
The Evergreen Award: Leading Pharmaceutical Commercialization Platform of the Year (常春獎年度卓越醫藥商業化平臺)	2022	jianmian.com (界面新聞)	YSB
Healthcare Consumption Enterprises of the Year (年度醫療大健康消費企業)	2022	TMTPOST (鈦媒體)	YSB
Top Ten Internet Healthcare Companies of the Year (年度互聯網醫療十大典範)	2022	China Times (華夏時報)	YSB