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Application Proof of



**YSB Inc.**

(the “Company”)

*(Incorporated in the Cayman Islands with limited liability)*

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**YSB Inc.**

*(Incorporated in the Cayman Islands with limited liability)*

[REDACTED]

Number of [REDACTED] under the [REDACTED] : [REDACTED] Shares (subject to the [REDACTED])

Number of [REDACTED] : [REDACTED] Shares (subject to [REDACTED])

Number of [REDACTED] : [REDACTED] Shares (subject to [REDACTED] and the [REDACTED])

Maximum [REDACTED] : [REDACTED]

Nominal value : US\$[0.0000025] per Share

Stock code : [REDACTED]

*Sole Sponsor, [REDACTED]*



[REDACTED]

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**IMPORTANT**

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**EXPECTED TIMETABLE**

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**[REDACTED]**

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**EXPECTED TIMETABLE**

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**[REDACTED]**

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## SUMMARY

*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. Moreover, there are risks associated with any [REDACTED]. Some of the particular risks of [REDACTED] in the [REDACTED] are set out in “Risk factors”. You should read the entire document carefully before you decide to [REDACTED] in the [REDACTED].*

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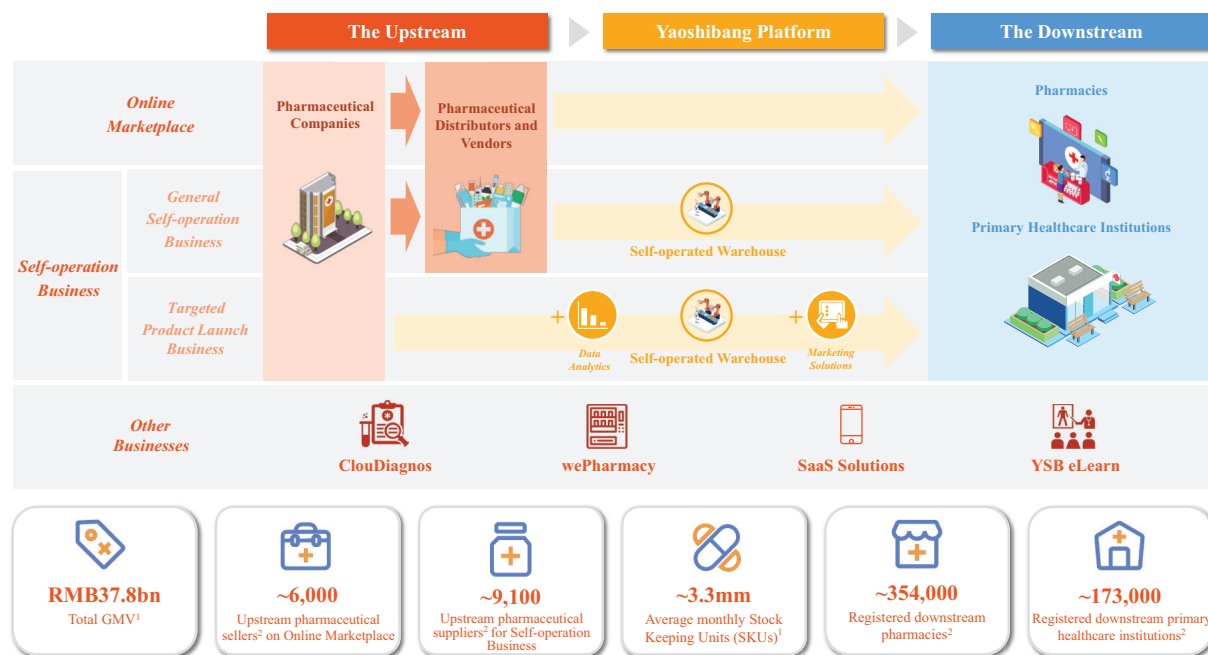
## OUR BUSINESS

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.



## SUMMARY



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 digitalised 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 STRENGTHS

We believe the following strengths have contributed to our success:

- China’s largest and fast-growing digital pharmaceutical platform serving businesses outside of hospitals, benefiting from strong network effects;
- synergetic integration of and dynamic balance between Online Marketplace and Self-operation Business, driving continuous growth of business innovations;
- technologies and digital solutions empowering the participants along the value chain;
- smart supply chain management enhancing user experience and operating efficiency;
- rooted in massive outside-of-hospital pharmaceutical circulation industry with tailored digitally supported business development strategies; and
- visionary management team with internet technology and healthcare service experiences.

## SUMMARY

### OUR STRATEGIES

We plan to achieve our vision, and ultimately our mission, through the following key strategies:

- systematically growing the scale, comprehensiveness and depth of our pharmaceutical circulation business;
- enhance our technology capabilities and digital solutions and continue to innovate;
- growing our other businesses online and offline and improve service quality; and
- pursuing strategic partnerships, investments and acquisitions.

### KEY OPERATING DATA

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
<b>GMV (RMB million)</b>			
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
<b>Total GMV .....</b>	<b>19,691</b>	<b>27,513</b>	<b>37,833</b>
Average Number of Monthly Available SKU (million) <sup>(1)</sup> .....	1.5	2.4	3.3
Registered Number of Buyers (thousand) .....	332	434	527
Average Number of MAB (thousand) .....	202	256	308
Average Number of MPB (thousand) .....	161	223	283
<i>Paying Ratio</i> .....	80%	87%	92%
Average Number of Orders per Paying Buyer per Month <sup>(2)</sup> .....	12.6	21.7	27.3

*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) 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.

See “Business—Our business model and evolution” 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.

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,

## SUMMARY

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 FINANCIAL PERFORMANCE

We have a track record of business growth. Our total revenues grew at 66.4% from RMB6.1 billion in 2020 to RMB10.1 billion in 2021, and further by 41.4% from RMB10.1 billion in 2021 to RMB14.3 billion in 2022. The gross profit margin is 10.0% in 2020, 9.1% in 2021 and 10.1% in 2022. We recorded a loss of RMB571.7 million in 2020, RMB501.6 million in 2021 and RMB1,500.0 million in 2022. The loss recorded in 2020, 2021 and 2022 was primarily attributable to costs and

## SUMMARY

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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. See “—Summary of Historical Financial Information— Summary of consolidated statements of profit or loss and other comprehensive income” for more information on our financial performance.

### **BUSINESS SUSTAINABILITY**

During the Track Record Period, the Company was loss-making and expects to incur net losses and net operating cash outflow in the foreseeable future. It is primarily attributable to selling and marketing activities for business expansion and investment in our other businesses. Our Directors are of the opinion that our business is sustainable because expansion of our business will help us achieve economies of scale and our adjusted net loss margin, a non-IFRS measure, has been improving during the Track Record Period.

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, our Directors believe that we are able to maintain sustainability and growth of our business. Despite the net losses, cash outflow from operating activities, net liabilities and net current liabilities we recorded during the Track Record Period, we were able to maintain sufficient working capital, taking into account of the facts that: (i) our business growth and economies of scale achieved have led to narrowing adjusted net loss margin, a non-IFRS measure; (ii) both our net current liabilities and net liabilities situations were significantly affected by financial liabilities at fair value through profit and loss, which was not directly related to our operations or did not create any immediate contingency impact on our liquidity status; and (iii) the strong liquidity and capital resources we maintained during the Track Record Period. As of 31 December 2022, our total liquidity resources, including the bank balances and cash, time deposits, restricted bank deposits, and financial assets at fair value through profit and loss, amounted to RMB2.2 billion. 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**

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. 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

## SUMMARY

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our digitalised 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. 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 “Business—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. 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.
- We plan to enhance our buyer engagement and foster brand loyalty. We plan to promote our other businesses. 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

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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**

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 monetisation 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 plan to make ClouDiagnos a one-stop solution. 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. 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, creating a virtuous circle that help us enhance brand awareness and increase transaction volume.
- 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.
- We plan to continue to provide useful functions, such as SaaS solutions 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.



## SUMMARY

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### Optimising our overall cost and expense structure and improving our operating margin

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

- We plan to increase the contribution from businesses with higher profitability. We plan to further increase the revenue contribution from other businesses thus to improve our overall gross profit margin.
- We will drive further economies of scale in our sales and offering of products with optimised product portfolio structure. As we continue to scale, we plan to bargain with payment service providers to negotiate a lower transaction processing fee rate going forward.
- 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.

We plan to continue to make improvement in our operating leverage.

- *Selling and marketing expenses.* First, we plan to increase the efficiency of our BD personnel by empowering them with better digitalisation 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. Second, 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 userbase, 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 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. Third, we plan to control our fulfilment expenses, mainly incurred for our self-operated orders, through development of our technology, ramping up and increasing the utilisation of our existing warehouses, and optimising the mapping and logistics network among our warehouses to direct orders more efficiently depending on routes and warehouse utilisation. For example, we will further upgrade our delivery management system to optimise the delivery plan, including the best match of warehouses, generation of optimal routes, and selection of third-party delivery service providers who offer the most cost-effective solutions. We will also manage the use of packaging materials to control packaging-related expenses. In addition, we plan to procure and deploy more advanced machines in our warehouses to improve the utilisation and operating efficiency.
- *General and administrative expenses.* 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.* 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.

## SUMMARY

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### **Improving working capital management**

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

- We will monitor and control inventory turnover with our technology-driven warehousing and logistics systems and make procurement decisions based on sales. Our inventory turnover days in the past two and a half years have stabilised at around 27 days. 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.
- 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.
- 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.

## SUMMARY

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- 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, 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.

See “Business—Business sustainability” for further details.

## OVERLAPPING PRODUCTS

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. Buyers have their own discretion to decide whether to purchase products from sellers on our Online Marketplace or directly from us. We take a series of measures to ensure fair treatment between the sellers of our Online Marketplace and us. See “Business—Products and services—Overlapping products” for further details.

## 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

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## SUMMARY

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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.

## RISK FACTORS

There are certain risks involved in our business and industries, our corporate structure, our business operations in China, [REDACTED] in our Shares, the Listing and the [REDACTED], many of which are beyond our control. For example, these risks include, among others, the following risks related to our business:

- We are subject to extensive and evolving regulatory requirements.
- Any lack of requisite approvals, licences or permits applicable to our business, or any non-compliance with relevant laws and regulations, may have a material and adverse effect on our business, financial condition, results of operations and prospects. For example, the draft Implementation Rules for the Drug Administration Law of the PRC (Draft for Comments) stipulate that an enterprise engaged in drug online sales activities shall be a legally established drug marketing authorisation holder or a licensed drug distributor, and a third-party platform operator shall not directly participate in online drug sales activities. If we fail to fully comply with the requirements of the rules when it is implemented, our business operation, financial condition and results of operation may be adversely affected.
- Our business, financial condition and results of operations may be materially and adversely affected if we are unable to compete effectively in the PRC general healthcare and wellness market, and we may fail to sufficiently and promptly respond to rapid changes in government regulations, treatment of diseases and market demand.
- We are operating with a limited operating history in an emerging and dynamic digital market of out-of-hospital pharmaceutical circulation services, and our historical results of operations and financial performance are not indicative of future performance.

## SUMMARY

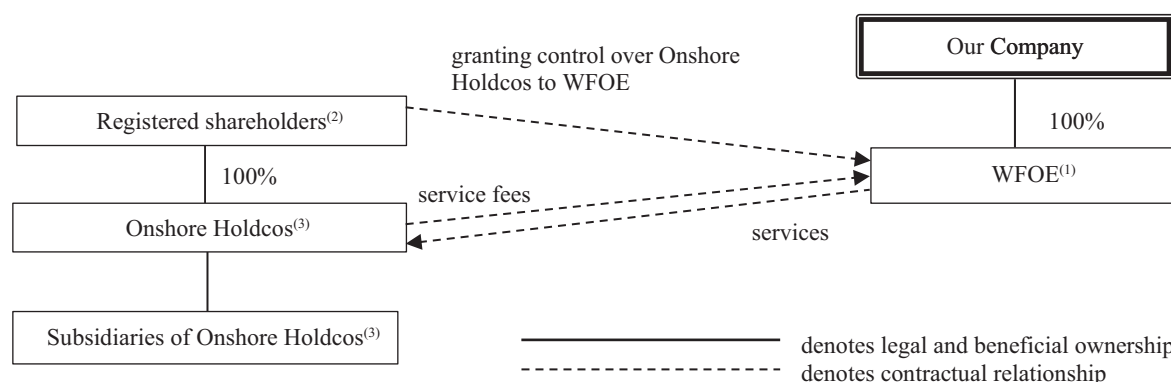
- We have incurred operating losses in the past, and may not be able to achieve or maintain profitability in the future.

See “Risk factors” for further details.

## CONTRACTUAL ARRANGEMENTS

Due to foreign investment restrictions under PRC Laws, our Company is unable to own or hold any direct equity interest in our Consolidated Affiliated Entities conducting foreign-investment prohibited or restricted businesses. Accordingly, we control these entities through Contractual Arrangements, through which we are able to derive the economic benefits enjoyed by the Registered Shareholders of the Onshore Holdcos. See “Contractual Arrangements” for further details on our Contractual Arrangements and “Risk factors—Risks related to our corporate structure” for risks related to our variable interest entity structure.

The following simplified diagram illustrates the key aspects of the Contractual Arrangements:



### Notes:

- WFOE is Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道易信息科技有限公司).
- The registered shareholders of Guangzhou Sudaoyi are Mr. Buzhen Zhang (as to 85.92%), Mr. Jiangwei Wang (as to 3.18%), Mr. Jiahao Shao (as to 0.92%), and Guangzhou Yaodao Information Technology Partnership (Limited Partnership), which is controlled by Mr. Buzhen Zhang (as to 9.98%). The registered shareholder of Guangzhou Yaobang is Mr. Buzhen Zhang.
- The Onshore Holdcos and their subsidiaries are collectively our Consolidated Affiliated Entities. The Onshore Holdcos are Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道易信息科技有限公司, “Guangzhou Sudaoyi”) and Guangzhou Yaobang Information Technology Co., Ltd. (廣州藥幫信息科技有限公司, “Guangzhou Yaobang”). The subsidiary of Guangzhou Sudaoyi is Henan Subiao Information Technology Co., Ltd. (河南速標信息科技有限公司, “Henan Subiao”). The subsidiaries of Guangzhou Yaobang are Guangzhou Yuewei Medical Laboratory Co., Ltd. (廣州閱微醫學檢驗所有限公司, “Guangzhou Yuewei”) and Guangzhou Spectrum Health Technology Co., Ltd. (廣州光譜健康科技有限公司, “Guangzhou Spectrum”). See “History, reorganization and corporate structure—Corporate structure” for further details.

## SHAREHOLDER INFORMATION

We completed Seed to Series E-2 rounds of financing. Details of our share capital structure, including the identities and shareholding percentages of our Pre-[REDACTED] Investors are set out in “History, reorganization and corporate structure”. Details of our substantial shareholders (under the SFO) who are interested in 5% or more of the voting rights in our Company are set out in “Substantial shareholders”.

## SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, derived from the Accountant’s Report set out in Appendix I.

## SUMMARY

The summary consolidated financial data set forth below should be read together with, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

### Summary of consolidated statements of profit or loss and other comprehensive income

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

	For the Year Ended 31 December					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Revenue	6,064,907	100.0	10,093,538	100.0	14,274,810	100.0
Cost of sales	(5,456,118)	(90.0)	(9,179,708)	(90.9)	(12,840,093)	(89.9)
<b>Gross profit</b>	<b>608,789</b>	<b>10.0</b>	<b>913,830</b>	<b>9.1</b>	<b>1,434,717</b>	<b>10.1</b>
Selling and marketing expenses	(726,417)	(12.0)	(1,063,817)	(10.5)	(1,325,640)	(9.3)
Research and development expenses	(24,724)	(0.4)	(56,611)	(0.6)	(79,146)	(0.6)
General and administrative expenses	(156,216)	(2.6)	(207,005)	(2.1)	(286,787)	(2.0)
Changes in fair value of financial liabilities at fair value through profit and loss	(294,331)	(4.9)	(128,696)	(1.3)	(1,299,500)	(9.1)
<b>Loss before tax</b>	<b>(576,272)</b>	<b>(9.5)</b>	<b>(503,074)</b>	<b>(5.0)</b>	<b>(1,496,867)</b>	<b>(10.5)</b>
Income tax credit/(expense)	4,561	0.1	1,454	0.0	(3,171)	0.0
Loss for the year	(571,711)	(9.4)	(501,620)	(5.0)	(1,500,038)	(10.5)
<b>Loss and total comprehensive expense for the year</b>	<b>(571,711)</b>	<b>(9.4)</b>	<b>(501,620)</b>	<b>(5.0)</b>	<b>(1,500,038)</b>	<b>(10.5)</b>
Loss and total comprehensive expense for the year attributable to:						
Owners of the Company	(571,711)	(9.4)	(494,041)	(4.9)	(1,488,688)	(10.4)
Non-controlling interests	—	—	(7,579)	(0.1)	(11,350)	(0.1)

### Non-IFRS financial measure

In evaluating our business, we consider and use adjusted net loss and adjusted net loss margin as supplemental measures to review and assess our operating performance. The presentation of these non-IFRS financial measures is not intended to be considered in isolation or as substitutes for the financial information prepared and presented in accordance with IFRS. We define adjusted net loss as loss for the year adding back (i) changes in fair value of financial liabilities at fair value through profit and loss, (ii) equity-settled share-based payment expenses, and (iii) [REDACTED]. We define adjusted net loss margin as adjusted net loss divided by revenue.

We present these non-IFRS financial measures because they are used by our management to evaluate our operating performance and formulate business plans. Accordingly, we believe that the use of these non-IFRS financial measures provide useful information to [REDACTED] and others in understanding and evaluating our operating results in the same manner as our management and Board.

These non-IFRS financial measures are not defined under IFRS and are not presented in accordance with IFRS. These non-IFRS financial measures have limitations as an analytical tool. Further, these non-IFRS measures may differ from the non-IFRS information used by other companies, including peer companies, and therefore its comparability may be limited.

These non-IFRS financial measures should not be considered in isolation or construed as alternatives to profit/(loss) or any other measure of performance. [REDACTED] are encouraged to review our historical non-IFRS financial measures in light of the most directly comparable IFRS measures,

as

## SUMMARY

shown below. The non-IFRS financial measures presented here may not be comparable to similarly titled measure presented by other companies. Other companies may calculate similarly titled measures differently, limiting the usefulness of such measures when analysing our data comparatively. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

The following table (i) reconciles adjusted net loss for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the year, and (ii) presents adjusted net loss margin for the years presented:

	For the Year Ended 31 December		
	2020	2021	2022
	(RMB in thousands, except for percentages)		
<b>Loss for the year</b> .....	<b>(571,711)</b>	<b>(501,620)</b>	<b>(1,500,038)</b>
<b>Add back:</b>			
Changes in fair value of financial liabilities at fair value through profit and loss .....	294,331	128,696	1,299,500
Equity-settled share-based payment expenses .....	—	24,362	38,817
<b>[REDACTED]</b> .....	—	4,354	36,865
<b>Adjusted net loss, a non-IFRS measure</b> .....	<b>(277,380)</b>	<b>(344,208)</b>	<b>(124,856)</b>
<b>Adjusted net loss margin, a non-IFRS measure</b> .....	<b>(4.6)%</b>	<b>(3.4)%</b>	<b>(0.9)%</b>

Changes in fair value of financial liabilities at fair value through profit and loss are related to preferred shares issued to **[REDACTED]**. Upon the completion of the Listing, this line item will no longer be recorded in our consolidated financial statements. Equity-settled share-based payment expenses are non-cash employee related expenses arising from grant of share incentive awards. **[REDACTED]**.

We had adjusted net loss during the Track Record Period mainly because we incurred a large amount of selling and marketing expenses as we were still at the stage of rapid business expansion. The increase in adjusted net loss from 2020 to 2021 was mainly due to a higher amount of selling and marketing expenses we incurred in 2021. The decrease in adjusted net loss in 2022 compared to that in 2021 was mainly due to an increase in our gross profit. See “Financial Information—Period-to-period comparison of results of operations” for more details.

### ***Revenue, gross profit and gross profit margin***

The following table sets forth a breakdown of revenue, gross profit and gross profit margin by business model for the periods indicated:

	For the Year Ended 31 December								
	2020			2021			2022		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	(RMB in thousands, except for percentages)								
Self-operation Business .....	5,691,414	290,648	5.1	9,589,512	496,761	5.2	13,519,017	839,540	6.2
Online Marketplace .....	372,716	317,701	85.2	489,247	409,534	83.7	694,204	570,148	82.1
Other businesses .....	777	440	56.6	14,779	7,535	51.0	61,589	25,029	40.6
<b>Total</b> .....	<b>6,064,907</b>	<b>608,789</b>	<b>10.0</b>	<b>10,093,538</b>	<b>913,830</b>	<b>9.1</b>	<b>14,274,810</b>	<b>1,434,717</b>	<b>10.1</b>

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## SUMMARY

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During the Track Record Period, we realised significant growth of revenue and gross profit primarily due to the rapid expansion of our three businesses. Our revenue increased consistently from RMB6.1 billion in 2020 to RMB14.3 billion in 2022, representing a CAGR of 53.4% from 2020 to 2022. Our gross profit increased consistently from RMB608.8 million in 2020 to RMB1,434.7 million in 2022, representing a CAGR of 53.5% from 2020 to 2022.

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. 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.

Gross profit margin for our Self-operation Business increased from 5.2% in 2021 to 6.2% in 2022, primarily due to our increasing bargaining power in procurement as the operations of our Self-operation Business became more mature and our optimization of procurement channels. Gross profit margin for our Self-operation Business remained relatively stable, from 5.1% in 2020 to 5.2% in 2021, as we were still at the expansion stage of our Self-operating Business and we balanced the growth of profitability with the growth of business scale.

Gross profit margin for our Online Marketplace declined from 85.2% in 2020 to 83.7% in 2021 and further to 82.1% in 2022. With the expansion of our Self-operation Business, our Online Marketplace generated more commissions from our own stores on Online Marketplace, which were eliminated when reporting the revenue from Online Marketplace on a consolidated basis. Meanwhile, the transaction processing fees corresponding to the transactions conducted by our own stores on Online Marketplace were recorded as the costs of sales of Online Marketplace. As such, the reported gross profit margin decreased during the Track Record Period. In addition, higher average overall transaction processing fee rate in 2022 also contributed to the decline of gross profit margin. See “Financial Information—Major Components of Our Results of Operations—Cost of Sales” for more information regarding higher average overall transaction processing fee rate.

Gross profit margin of our other businesses declined from 56.6% in 2020 to 51.0% in 2021, primarily because we started to operate ClouDiagnos services in 2021. Gross profit margin for our other businesses declined from 51.0% in 2021 to 40.6% in 2022, primarily because we started to generate profit from wePharmacy, which generally has a lower gross profit margin than SaaS Solutions and ClouDiagnos services. Gross profit margin for SaaS Solutions increased from 94.9% in 2021 to 99.1% in 2022, primarily because we incurred more costs in 2021 for purchasing hardware in the early stage of development of such business.

### *Selling and marketing expenses*

Our selling and marketing expenses increased by 24.6% from RMB1.1 billion in 2021 to RMB1.3 billion in 2022, primarily attributable to (i) an increase in salary and welfare expenses as we hired additional selling and marketing employees to promote our platform and our other businesses to more pharmacies and primary healthcare institutions, and (ii) an increase in fulfillment expenses along with the growth of our Self-operation Business.

Our selling and marketing expenses increased by 46.4% from RMB726.4 million in 2020 to RMB1,063.8 million in 2021, primarily attributable to (i) an increase in salary and welfare expenses as



## SUMMARY

we hired additional selling and marketing employees to promote our business, and (ii) an increase in fulfilment expenses along with the growth of our Self-operation Business.

We recorded net loss of RMB571.7 million, RMB501.6 million and RMB1,500.0 million in 2020, 2021 and 2022, respectively, mainly because we recorded fair value changes of financial liabilities at fair value through profit and loss in connection with our preferred shares and incurred a large amount of selling and marketing expenses along with our rapid business expansion. The increases in net loss during the Track Record Period were also mainly caused by fluctuations in fair value changes of financial liabilities at fair value through profit and loss and increases in selling and marketing expenses. See “Financial Information—Period-to-period comparison of results of operations” for more details on fluctuations in fair value changes of financial liabilities at fair value through profit and loss and selling and marketing expenses.

### Summary of consolidated statements of financial position

The following table sets forth a summary of consolidated statements of financial position as of the dates indicated:

	As of 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Non-current assets . . . . .	797,876	863,865	423,749
Current assets . . . . .	1,792,858	2,572,700	3,684,991
Current liabilities . . . . .	(4,947,815)	(6,225,525)	(8,375,732)
Net current liabilities . . . . .	(3,154,957)	(3,652,825)	(4,690,741)
Non-current liabilities . . . . .	(105,075)	(119,529)	(102,718)
Net liabilities . . . . .	(2,462,156)	(2,908,489)	(4,369,710)
Deficits attributable to non-controlling interests . . . . .	—	(7,579)	(18,929)

### *Net current liabilities*

Our net current liabilities increased from RMB3,155.0 million as of 31 December 2020 to RMB3,652.8 million as of 31 December 2021, primarily due to an increase in financial liabilities at fair value through profit and loss. See “Financial Information—Discussion of certain key items of consolidated statements of financial position—Financial Liabilities at Fair Value through Profit and Loss” for reasons of the increase.

Our net current liabilities increased by 28.4% from RMB3,652.8 million as of 31 December 2021 to RMB4,690.7 million as of 31 December 2022, primarily due to an increase in financial liabilities at fair value through profit and loss. See “Financial Information—Discussion of certain key items of consolidated statements of financial position—Financial Liabilities at Fair Value through Profit and Loss” for reasons of the increase. Such increase was partially offset by an overall increase in time deposits, bank balances and cash, restricted bank deposits and financial assets at fair value through profit and loss mainly due to (i) our receipt of proceeds of US\$55.0 million from Series E-2 financing, and (ii) an increase in our cash position resulted from enhanced management on working capital.

### *Net liabilities*

Our net liabilities increased from RMB2,462.2 million as of 31 December 2020 to RMB2,908.5 million as of 31 December 2021 as we generated loss and total comprehensive expense of

## SUMMARY

RMB501.6 million in 2021, which were partially offset by a deemed contribution from a shareholder of RMB30.9 million and the recognition of equity-settled share-based payments of RMB24.4 million.

Our net liabilities increased from RMB2,908.5 million as of 31 December 2021 to RMB4,369.7 million as of 31 December 2022 as we generated loss and total comprehensive expense of RMB1,500.0 million in 2022, which was partially offset by the recognition of equity-settled share-based payments of RMB38.8 million.

Our net liabilities position and net current liabilities position are significantly affected by financial liabilities at fair value through profit and loss, which is related to preferred shares we issued to pre-[REDACTED] investors. Upon the completion of the Listing, all of the preferred shares will be automatically converted into ordinary shares and financial liabilities at fair value through profit and loss will no longer be recorded on our balance sheet as liabilities, as a result of which our current net liabilities position would turn into current net assets and our net liabilities would turn into net assets.

### Summary of consolidated statements of cash flows

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

	For the Year 31 December		
	2020	2021	2022
	(RMB in thousands)		
Net cash (used in)/generated from operating activities	(124,388)	(487,087)	98,200
Net cash (used in)/generated from investing activities	(323,673)	(352,804)	41,070
Net cash from financing activities	158,219	1,124,847	261,927
Net (decrease)/increase in cash and cash equivalents	(289,842)	284,956	401,197
Cash and cash equivalents at the beginning of the year	420,368	130,526	415,482
Effect of foreign exchange rate changes	—	—	18,715
Cash and cash equivalents at the end of the year	130,526	415,482	835,394

### *Net cash generated from/used in operating activities*

In 2022, net cash generated from operating activities was RMB98.2 million, which was primarily attributable to our loss before tax of RMB1,496.9 million, as adjusted by (i) non-cash items, which primarily comprised changes in fair value of financial liabilities at fair value through profit and loss of RMB1,299.5 million mainly as a result of change of valuation of our preferred shares; and (ii) changes in working capital, which primarily resulted from an increase in trade and other payables of RMB472.3 million mainly as a result of an increase in the amount of procurement and an increase in deposits received from third-party sellers on our Online Marketplace, partially offset by an increase in inventories of RMB169.9 million mainly as a result of more pharmaceutical and healthcare products in stock along with the expansion of our Self-operation Business, and an increase in trade and other receivables of RMB127.2 million primarily due to 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 an increase in trade receivables primarily as a result of the increase in commissions charged to third-party sellers on our Online Marketplace.

In 2021, net cash used in operating activities was RMB487.1 million, which was primarily attributable to our loss before tax of RMB503.1 million, as adjusted by (i) non-cash items, which

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## SUMMARY

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primarily comprised changes in fair value of financial liabilities at fair value through profit and loss of RMB128.7 million mainly as a result of change of valuation of our preferred shares; and (ii) changes in working capital, which primarily resulted from an increase in inventories of RMB331.4 million mainly because we had more pharmaceutical and healthcare products in stock along with the expansion of our Self-operation Business, partially offset by an increase in trade and other payables of RMB97.2 million primarily due to an increase in the amount of procurement.

In 2020, net cash used in operating activities was RMB124.4 million, which was primarily attributable to our loss before tax of RMB576.3 million, as adjusted by (i) non-cash items, which primarily comprised changes in fair value of financial liabilities at fair value through profit and loss of RMB294.3 million mainly as a result of change of valuation of our preferred shares; and (ii) changes in working capital, which primarily resulted from an increase in trade and other payables of RMB584.9 million mainly as a result of increases in trade and note payables related to our procurement of pharmaceutical products and an increase in deposits received representing sales proceeds received on behalf of sellers on our Online Marketplace, partially offset by an increase in trade and other receivables of RMB250.5 million primarily due to the growth of our Online Marketplace and more payments made by our offline business customers to us through bank acceptance bills, and an increase in inventories of RMB224.7 million mainly because we had more pharmaceutical and healthcare products in stock as we expanded our Self-operation Business.

## RECENT DEVELOPMENTS

### Recent Regulatory Development

#### *Pharmaceutical operation*

On 9 May 2022, the NMPA published the draft Implementation Rules for the Drug Administration Law of the PRC (Draft for Comments) 《中華人民共和國藥品管理法實施條例(修訂草案徵求意見稿)》, or the Consultation Paper, for public comments. Pursuant to such draft rules, an enterprise engaged in drug online sales activities shall be a legally established drug marketing authorisation holder or a licensed drug distributor, and a third-party platform operator shall not directly participate in online drug sales activities.

We currently have different corporate entities within the Group to conduct our Online Marketplace and Self-operation Business separately (the “**Separate Operation Arrangement**”). Upon the strictest interpretation of the Consultation Paper, we might only be able to conduct Online Marketplace or Self-operation Business, but not both, resulting in cessation of one of our businesses. In the worst-case scenario that the Separation Operation Arrangement would not comply with the Consultation Paper when it would be formally adopted, we may discontinue one of our businesses. However, we believe the worst-case scenario is quite remote. As advised by our PRC Legal Adviser, the Consultation Paper has no express prohibition on the Separate Operation Arrangement and the main purpose of the above-mentioned rule under the Consultation Paper is to reiterate that third-party platform shall not directly participate in online drug sales activities while providing the platform services, for the following reasons:

- First, Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (《互聯網藥品交易服務審批暫行規定》) (the “**Interim Provisions**”) which was promulgated by the State Food and Drug Administration in September 2005 and became effective in December 2005 provides a similar requirement that any enterprise providing services for internet drug trading among drug manufacturers, drug operation enterprises

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## SUMMARY

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and medical institutions shall not participate in drug production and operation, and shall not have any relationship of subordination, property right or other economic interest with administrative authorities, medical institutions, drug manufacturers and drug operation enterprises. Compared with the Interim Provisions, (i) the Consultation Paper does not specify that such restrictions apply to “drug production” activities and further limit the restricted business by the platform provider from “drug operation” to “online drug sales”; (ii) the Consultation Paper adds a qualifier “directly” to the restrictions; (iii) the Consultation Paper deletes the broad restriction requirement of “enterprises providing services for internet drug trade shall not have any relationship of subordination, property right or other economic interest with drug distributors”, which is in consistent with the qualifier of “directly” being added as mentioned above. Considering the above expressions, similar restrictions in the Consultation Paper are less stringent than the Interim Provisions.

- Second, the Consultation Paper also expressly provides that an enterprise engaged in online drug sales activities shall be a licensed drug distributor. Therefore, as far as the Self-operation Business is concerned, the main concern of the regulatory authority is whether the relevant group companies conducting online drug operations have obtained requisite licences, including without limitation, the Pharmaceutical Operation License (藥品經營許可證). As of the date of this document, we have obtained all requisite licences according to current laws and regulations, including without limitation, the Pharmaceutical Operation License (藥品經營許可證) for entity engaging in self-operation business, and Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書) for entity engaging in platform business, which is accordingly permitted by the relevant authorities to conduct self-operation business and platform business in different entities.
- Third, on 12 August 2022, our PRC Legal Adviser consulted with Guangdong Medical Products Administration (“GDMPA”) on named basis and was informed that the Separate Operation Arrangement is common within the industry and does not directly violate the restrictions under Interim Provisions and Consultation Paper. Given that the entity operating platform services business in our Group is located in Guangzhou of Guangdong Province, the abovementioned consultation was conducted with the officer of Guangzhou Drug Inspection Office of GDMPA, and such department, as a constituent department of GDMPA, is authorised by GDMPA for the relevant supervision and administration of enterprises engaging business in relation to drugs and third-party platforms of pharmaceutical online trading. In addition, according to the Provisions on the Functions, Structure and Staffing of the National Medical Products Administration (《國家藥品監督管理局職能配置、內設機構和人員編制規定》) issued by the General Office of the Central Committee of the Communist Party of China and General Office of the State Council on 27 July 2018, provincial drug supervision and administration departments shall be responsible for the licensing, inspection and punishment in the process of manufacturing of drugs, medical devices and cosmetics, and the recordation, inspection and punishment of third-party platforms. Based on this and the consultation responses, our PRC Legal Adviser is of the view that such department of GDMPA is competent to provide the above confirmation.
- Fourth, on 27 October 2022 and 28 October 2022, our PRC Legal Adviser made verbal consultations on named basis with the Department of Policies and Regulations (政策法規司) and the Department of Drug Supervision and Administration (藥品監督管理司) of

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NMPA and was informed that: (i) the Consultation Paper was released for public comments only and has not yet come into force. The final operative provisions and the anticipated effective date of such draft regulations may be subject to changes with substantial uncertainty, and the NMPA expressly refuses to give any interpretation to the Consultation Paper which is not in effect and is in the view that it is unnecessary to over-interpret the Consultation Paper; (ii) the Separate Operation Arrangement does not violate the current effective PRC laws and regulations (including the Interim Provisions which is still in effect); (iii) the NMPA is of the view that the online drug sales and the corresponding platform service shall be subject to the Supervision and Administration Measures of Online Pharmaceuticals Sales (《藥品網絡銷售監督管理辦法》) (the “Measures for Online Pharmaceuticals Sales”), officially published on 1 September 2022 and became effective on 1 December 2022, which does not prohibit the Group from conducting the Separate Operation Arrangement and does not stipulate similar restrictions on third-party platform providers and other entities within the Group engaging in drug operation or online drug sales as stipulated in the Interim Provision and the Consultation Paper as mentioned above. The NMPA is of the view that (a) the different subsidiaries within a same Group are independent legal entities, and therefore, any subsidiary engaged in online drug sales, is independent of a different subsidiary within the Group operating the platform; and (b) after the Measures for Online Pharmaceuticals Sales comes into effect, subject to the compliance with the relevant requirements under the Measures for Online Pharmaceuticals Sales, the relevant subsidiary, as an independent legal entity, may carry out online drug sales business on the platform operated by another subsidiary within the Group; and (iv) the provincial MPA shall be responsible for the supervision of third-party platforms for online drug sales (including the Yaoshibang platform). The responsibilities of the Department of Policies and Regulations of NMPA include studying major policies on the supervision and administration of pharmaceutical products, organising the drafting of laws, regulations and administration rules, and conducting the supervision of law enforcement. The responsibilities of Department of Drug Supervision and Administration include organising the drafting of and guiding the implementation of the rules for the operation and administration of pharmaceuticals, and organising the investigation into and punishment of the major illegal acts. Based on this and the consultation responses, our PRC Legal Adviser is of the view that such departments are competent to provide the above confirmation.

In addition, to the best knowledge of the Company, as of the date of this documents, the Company is not aware of any precedent in which an enterprise has been subject to any administrative penalty as a result of adopting the Separate Operation Arrangement. Taking into account the above, assuming that the Consultation Paper comes into effect in its current form, and based on the views of GDMPA and NMPA in the above consultations, our Directors and our PRC Legal Adviser are of the view that the risk of cessation of either Online Marketplace or Self-operation Business under the Consultation Paper is remote, and our Directors are of the view that the Consultation Paper will not have material adverse effect on the Separate Operation Arrangement, our business operation or financial conditions. Taking into account the above, as well as based on the independent due diligence conducted by the Sole Sponsor, including discussion with the PRC Legal Advisers of the Company and the Sole Sponsor regarding their interpretation of the Consultation Paper and their consultation results with the relevant medical products administration authorities, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the Directors’ view.

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## SUMMARY

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### *Internet pharmaceutical transaction services*

On 1 September 2022, SAMR published the Supervision and Administration Measures of Online Pharmaceuticals Sales (《藥品網絡銷售監督管理辦法》) (the “**Measures for Online Pharmaceuticals Sales**”), which took effect on 1 December 2022, aiming to enhance the supervision of online pharmaceutical sales and related third-party platform services. See “Regulations—PRC Regulations—Regulations relating to internet pharmaceutical transaction services”. Our Directors are of the view that the Measures for Online Pharmaceuticals Sales has no material impact on our business operation and there are no material impediments for us to comply with the regulations.

As advised by our PRC Legal Adviser, the Measures for Online Pharmaceuticals Sales provide that, among others, each online drug seller shall (i) operate its business within the approved business mode and business scope, (ii) file with the local MPA for its information, including company name, website name, APP name, IP address, network domain name and the information of Pharmaceutical Operation License or Pharmaceutical Manufacture License, and report any changes in the filed information to the local MPA within ten working days, (iii) display its Pharmaceutical Operation License or Pharmaceutical Manufacture License on visible place of its homepage, (iv) retain the qualification documents of its suppliers and electronic transaction records of its online pharmaceuticals sales, and (v) take corresponding control and handling measures in accordance with the national regulations in respect of emergency response, in the event of any public health emergencies or any other emergency that seriously threatens the public health.

As advised by our PRC Legal Adviser, the Measures for Online Pharmaceuticals Sales also specify the filing requirements for the platform provider and imposes certain obligations on the platform provider, including, among others, that each Platform Provider shall (i) establish drug quality and safety management institutions, and equip pharmaceutical technicians to undertake drug quality and safety management, (ii) enhance the scrutiny on the required licenses and permits of online pharmaceutical merchants for online pharmaceuticals sales, (iii) file with the provincial MPA for its information including company name, legal representative, unified social credit code, website name and network domain name, (iv) enter into agreements with online pharmaceutical merchants to specify responsibilities for quality and safety of drugs, (v) establish the examination and inspection system for online pharmaceuticals sales activities, and stop the discovered online pharmaceutical merchants’ illegal acts without delay and immediately report such illegal acts to competent governmental authorities, and (vi) take corresponding control and handling measures in accordance with the national regulations in respect of emergency response, in the event of any public health emergencies or any other emergency that seriously threatens the public health. We had completed the filing of the information of the Platform Provider of Yaoshibang platform to the MPA of Guangdong Province and obtained the filing certificate for third-party platform provider for internet drug transaction (藥品網絡交易服務第三方平臺備案憑證) on January 7, 2023. Besides, as of the date of this document, most of our PRC subsidiaries engaging in online drug sales had completed the reporting procedures as online drug sellers, and only three PRC subsidiaries located in Henan, Jiangxi and Zhejiang provinces had not completed the reporting procedures for online drug sales due to lack of provincial implementation rules or requirements on the reporting procedures for online drug sellers.

As advised by our PRC Legal Adviser, the specific procedures and time limit requirement for the reporting as online drug sellers are not specified in the Measures for Online Pharmaceuticals Sales. Provincial MPAs are responsible for formulating the specific local reporting procedures for online drug sellers. If the relevant provincial MPAs have not formulated the local reporting procedures or opened up

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reporting channels for online drug sellers in such provinces to complete the reporting procedures, online drug sellers in those provinces, such as our relevant PRC subsidiaries, cannot complete the reporting procedures accordingly. We were not aware of any rectification request by the competent authorities in respect of the aforesaid reporting requirements as of the date of this document, and if the relevant provincial MPAs formulate the specific reporting procedures and open up reporting channels for online drug sellers to complete the reporting procedures, we will carry out the reporting procedures in accordance with the laws and regulations in a timely manner. Having carefully discussed with our PRC Legal Advisor and based on aforementioned analysis, our Directors are of the view that the Group would be able to fully comply with the requirements set out in the Measures for Online Pharmaceuticals Sales without any material impediments, as both a platform provider and an online drug seller by taking the following actions: (i) continuously implementing the relevant measures required by the Measures for Online Pharmaceuticals Sales. As for the Group Companies conducting online drug sales business, such measures include but are not limited to displaying the information of Pharmaceutical Operation License on the homepage of online stores, and retaining qualification documents of suppliers and electronic transaction records for five years and no less than one year after the expiration date of the drugs. As for the Group Company providing platform services, the relevant measures contains, including without limitation, maintaining a drug quality and safety management institution with the pharmaceutical technicians taking charge of the management, examining the qualification and capability of the online drug sellers and entering into agreement with such sellers; (ii) procuring relevant subsidiaries to complete the reporting procedures as an online drug seller once requested by the local competent authorities, (iii) taking corresponding control and handling measures in accordance with the applicable regulations, and (iv) closely monitoring the law enforcement practice by the authorities with regard to Measures for Online Pharmaceuticals Sales. Having carefully discussed with our PRC Legal Adviser, our Directors have confirmed the effectiveness of the above measures. Based on the independent due diligence conducted by the Sole Sponsor, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the Directors’ view.

For the purpose of the implementation of the Drug Administration Law of the People’s Republic of China (《中華人民共和國藥品管理法》) and the Measures for Online Pharmaceuticals Sales, and the safety use of drugs by the public, on 30 November 2022, NMPA published the first version of Prohibited List of Online Drug Sales (《藥品網絡銷售禁止清單(第一版)》) (the “Prohibited List”). The Prohibited List specifies the detailed categories of the drugs prohibited from selling online (the “Prohibited Pharmaceuticals”), including the following two main categories: (i) drugs that are prohibited from selling by laws and regulations, including vaccines, blood products, anaesthetics, psychotropic drugs, toxic drugs for medical use, radiopharmaceuticals, pharmaceutical precursor chemicals, medicinal preparations of medical institutions and traditional Chinese medicine granules; and (ii) other drugs that are prohibited from online retailing.

We do not engage in the sales of any Prohibited Pharmaceuticals. Therefore, we believe the Prohibited List will not have any significant impact on our sales and operation. We have also 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 any Prohibited Pharmaceuticals. See “Business—Initiatives and internal control measures for third-party sellers on our Online Marketplace” for further details.

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### *Cybersecurity*

On 10 June 2021, the SCNPC promulgated the Data Security Law of the PRC, which took effect on 1 September 2021. The Data Security Law provides for a data security review procedure for the data activities that affect or may affect national security. It also imposes data security obligations on persons and entities conducting data processing activities and requires data processors to take necessary measures to protect data security. The Data Security Law also requires protection of Important Data, but the scope of Important Data is still under development and may be further clarified by various PRC governmental authorities by way of issuing ministry-level measures, regulatory guidelines and/or national standards.

On 20 August 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC, which took effect on 1 November 2021. Although it is our policy to only access user information that is necessary for, and relevant to, the services provided and we update our privacy policies and practices in accordance with regulatory developments, we may be required to make further adjustments to our data practices as the Personal Information Protection Law is newly promulgated and the interpretation of many of its specific requirements remain to be clarified by the governmental authorities or is otherwise subject to uncertainty.

On 28 December 2021, the CAC and 12 other PRC governmental authorities published an amendment of the Measures for Cybersecurity Review (《網絡安全審查辦法》) previously released in 2020, or the Measures for Cybersecurity Review 2022, which took effect on 15 February 2022. The Measures for Cybersecurity Review 2022 provides that the relevant operators shall apply with the Cybersecurity Review Office of the CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals’ personal information aiming for foreign listing; (ii) operators of “critical information infrastructure” purchasing internet products and services that affects or may affect national security; and (iii) internet platform operators carrying out data processing that affects or may affect national security. However, there is not any further explanation or interpretation for “foreign listing” or “affect or may affect national security” under the Measures for Cybersecurity Review 2022. We understand that our proposed listing in Hong Kong is not likely to fall into the scope of “foreign listing”. However, in light of the Measures for Cybersecurity Review 2022, there can be no assurance that our data processing activities will not be found by relevant PRC governmental authorities as “affecting national security” and the PRC governmental authorities may have wide discretion in the interpretation and enforcement of the laws and regulations. Furthermore, on 30 July 2021, the PRC State Council published the Regulations on Security and Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), which took effect on 1 September 2021. According to the Regulations on Security and Protection of Critical Information Infrastructure, the competent PRC governmental authorities of important industries and sectors are responsible for identifying critical information infrastructures in their own industries and sectors based on the identification rules and informing the operator of the critical information infrastructure if such infrastructure is identified and designated as critical information infrastructure in a timely manner. However, as of the Latest Practicable Date, we have not yet been informed, approached or designated as a critical information infrastructure operator under the applicable PRC laws and regulations by any PRC governmental authorities. We have not received any inquiry, notice, warning or sanction regarding cybersecurity from any PRC governmental authorities nor been involved in any investigations on cybersecurity review made by any PRC governmental authorities.



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On 14 November 2021, the CAC published a draft of the Administrative Regulations for Internet Data Security (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Internet Data Security Regulations, for public comments. The Draft Internet Data Security Regulations provide that data processors conducting certain activities must apply for cybersecurity review. See “Regulations—PRC regulations—Regulations relating to cybersecurity and information security” for more details. Substantial uncertainties exist with respect to the enactment timetable, final content, interpretation, and implementation of the measures, including the standards for determining whether a listing in Hong Kong “affects or may affect national security”. Under applicable cybersecurity and data privacy laws and regulations in the PRC, it is not a mandatory requirement to confirm with or consult with the CAC in relation to whether we need to apply for a cybersecurity review for our proposed listing in Hong Kong. However, our PRC Legal Adviser had a real-name consultation on 24 November 2022 with China Cybersecurity Review Technology and Certification Center (“CCRC”), which is authorized by the CAC for receiving and accepting the submission of cybersecurity reviews and answering public inquiry relating to the cybersecurity review. We respectfully submit that the CCRC confirmed that as the proposed listing in Hong Kong is not a “foreign listing” as provided under Article 7 of the Measures for Cybersecurity Review 2022, we do not need to voluntarily apply for cybersecurity review for the proposed listing in Hong Kong unless explicitly notified by relevant regulators. As for the cybersecurity review for the data processing activities that “affect or may affect the national security” initiated by the Cybersecurity Review Office under the CAC stipulated in Article 16 of the Measures for Cybersecurity Review 2022, it is still uncertain about the meaning of “affect or may affect the national security” and there is still risk that we may be subject to the cybersecurity review in the future. Having said that, according to our PRC Legal Adviser’s real-name consultation with the CCRC, if any competent PRC governmental authorities deem it necessary to conduct a cybersecurity review of a company, it will proactively notify the company concerned. However, as of the Latest Practicable Date, we had not received any notice regarding cybersecurity review from any PRC governmental authorities.

As advised by our PRC Legal Adviser, we are of the view that the Draft Internet Data Security Regulations, if being implemented in its current form, and the Measures for Cybersecurity Review 2022 will not have any material adverse effect on our business operations or the proposed Listing on the basis that:

- (i) we have implemented comprehensive policies and measures to ensure users’ data privacy and security and to comply with applicable cybersecurity and data privacy laws and regulations. See “Business—Risk management and internal control—Information system risk management” for more details. We did not experience any material data loss, leakage or non-compliance with the applicable cybersecurity and data privacy laws and regulations in the PRC during the Track Record Period;
- (ii) as of the Latest Practicable Date, we have not received any warning or sanction regarding cybersecurity from any PRC governmental authorities nor been involved in any investigations on cybersecurity review made by any PRC governmental authorities;
- (iii) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other material penalties due to non-compliance with applicable cybersecurity and data privacy laws and regulations;
- (iv) we are not subject to cybersecurity review in accordance with Article 5 of the Measures for Cybersecurity Review 2022 as we had not yet been informed, approached or designated as an operator of critical information infrastructure under the applicable

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cybersecurity and data privacy laws and regulations by any PRC governmental authorities as of the Latest Practicable Date, and our proposed Listing in Hong Kong does not concern any procurement of network products and services under Article 5 of the Measures for Cybersecurity Review 2022;

- (v) as advised by our PRC Legal Adviser, we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review 2022 during the Track Record Period and up to the Latest Practicable Date;
- (vi) as advised by our PRC Legal Adviser, and subject to any further official guidance and implementation rules relating to the Measures for Cybersecurity Review 2022, Article 7 of the Measures for Cybersecurity Review 2022 requires a cybersecurity review for internet platform operators possessing personal information of over one million users and pursuing a foreign listing (國外上市); and
- (vii) we will closely monitor and assess further regulatory developments regarding applicable cybersecurity and data privacy laws and regulations, including the development on cybersecurity review, and comply with the latest regulatory requirements.

Taking into account the above, as well as based on the independent due diligence conducted by the Sole Sponsor, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the Directors’ view. See “Risk Factors—Our business generates and processes a large amount of data, and the improper use or disclosure of such data could harm our reputation and have a material adverse effect on our business and prospects” and “Regulations—PRC regulations—Regulations relating to cybersecurity and information security” for more details.

### *Foreign investment and overseas listings*

On 17 February 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”), and relevant five guidelines, which came into effect as of 31 March 2023. According to the Overseas Listing Trial Measures, PRC domestic enterprises that seek to [REDACTED] and list securities in overseas markets, either in direct or indirect means (the “**Overseas [REDACTED] and Listing**”), are required to fulfil the filing procedure with the CSRC and submit filing reports, legal opinions, and other relevant documents. For details, see “Regulations—PRC regulations—Regulations relating to M&A rules and overseas listings”.

According to the Notice on Arrangements for Record Filing Administration of Overseas Offering and Listing of Domestic Enterprises (《關於境內企業境外發行上市備案管理安排的通知》) and the relevant replies by the officials from CSRC which are both promulgated with the Overseas Listing Trial Measures simultaneously, the PRC domestic companies that have already been listed overseas or meet all of the following conditions shall be deemed as existing issuers (存量企業) (the “**Existing Issuers**”): (1) before the effective date of the Overseas Listing Trial Measures (i.e. 31 March 2023), the PRC domestic enterprise’s application for its indirect Overseas [REDACTED] and Listing has been approved by the relevant overseas regulatory authorities or securities exchanges (for example, a listing hearing has been passed by the Stock Exchange), and the PRC domestic enterprise does not need to re-perform the regulatory procedures for [REDACTED] and listing with the overseas regulatory authorities or overseas stock exchanges (for example, a new listing hearing is required by the Stock Exchange); and

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(2) the PRC domestic enterprise completes the Overseas [REDACTED] and Listing on or prior to 30 September 2023. The Existing Issuers are not required to complete the filing procedures immediately, and they shall be required to file with the CSRC when subsequent matters such as refinancing are involved.

Our PRC Legal Advisor is of the view that this Listing shall be deemed as indirect Overseas [REDACTED] and Listing by PRC domestic enterprise. Therefore, if there is no re-hearing required by the Stock Exchange after 31 March 2023 and this Listing can be completed on or prior to 30 September 2023, we will not be required to file with the CSRC with respect to this Listing.

### **Forecast Loss in 2023**

We expect that we will possibly continue to be loss-making in 2023 primarily due to the loss from the fair value change of financial liabilities at fair value through profit or loss.

### **No Material Adverse Change**

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 31 December 2022, which is the end date of the periods reported on in the Accountants’ Report included in Appendix I to this document, and there is no event since 31 December 2022 that would materially affect the information as set out in the and the Accountants’ Report included in Appendix I to this document.

### **IMPACT OF COVID-19 ON OUR OPERATIONS**

The COVID-19 pandemic caused general business disruption in China in the first half of 2020. The warehouse we leased in Wuhan was shut down at the end of January 2020 and thus caused delays and suspensions in the delivery and shipping of pharmaceutical products. The warehouse in Wuhan resumed operations on April 8, 2020. In addition, we also recorded a higher amount of inventory impairment as of 31 December 2020 due to price fluctuations caused by the rapid development of the COVID-19 pandemic. See “Financial Information—Discussion of certain key items of consolidated statements of financial position—Inventories” for more information. After the COVID-19 pandemic was contained in the second half of 2020, different variants of the coronavirus caused regional resurgences of confirmed cases in 2021 and 2022. We have experienced delays in the delivery and shipping of pharmaceutical products due to travel restrictions imposed by governments. Certain stores we operated on our Online Marketplace and certain warehouses also experienced temporary shutdown for a period of a few days to over one month in 2022. In particular, starting from mid-October 2022, we have experienced shutdowns of warehouses, certain employees being quarantined and restrictions on logistics services in several locations, which negatively affected product shipments. The COVID-19 pandemic also resulted in changes in SKUs on our platform. The amount of pandemic control related SKUs experienced fluctuations. Inconvenience or inability to conduct certain business activities offline also promoted online transactions, which led to a positive impact on our business operations. However, such positive impact could be temporary and we cannot assure you that such positive impact would be sustainable or develop into a reliable driver to the growth of our business. Temporary shutdowns or delays in warehousing and logistics services also negatively affected product shipment by certain of our suppliers, which resulted in them generating less

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cash from their operations, and thus caused liquidity issues for certain of our suppliers. In 2020, we recorded impairment of prepayments that were previously made to certain suppliers as we believed that it was more probable than not that we would not be able to receive the corresponding products from the suppliers due to the liquidity issues. See “Financial Information—Period-to-period comparison of results of operations—2021 compared to 2020—Other gains and losses” for more information.

China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December. There were surges of cases in many cities during this time, which caused disruption to our and our suppliers’ operations. Demand for medicines that alleviate COVID symptoms increased significantly in a short period of time, which resulted in supply shortages. Surges of cases also resulted in delays or suspension of warehousing and logistics services, which led to additional difficulties in product supply. Many of our employees also contracted COVID during this time, which also negatively affected our delivery capabilities. As of early January 2023, all of our employees had resumed working from offices and warehousing and logistics services all resumed normal.

There remains uncertainty as to the future impact of the virus, especially in light of this change in policy. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments. Consequently, the COVID 19 pandemic may continue to materially and adversely affect our business, financial condition and results of operations in the current and future years. For risks related to COVID-19 pandemic, see “Risk Factors—Risks related to our Business and Industry—Our business operations and financial performance have been adversely affected by the COVID-19 outbreak, may in the future continue to be affected by the COVID-19 outbreak, and may be affected by other natural disasters, epidemics and other unforeseeable catastrophes.”

[REDACTED]

## DIVIDEND

We are a holding company incorporated under the Laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC Laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles. PRC Laws also require companies to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognised as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate.

## SUMMARY

During the Track Record Period, no dividends were paid or declared by us. As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account. Even if there are accumulated losses, a dividend may be paid out of the share premium account, provided that the memorandum and articles of association do not prohibit such payment. In no circumstances may a dividend be declared or paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

[REDACTED]

## [REDACTED] STATISTICS

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalisation of our Shares <sup>(1)</sup> . . . . .	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company per Share <sup>(2)</sup> . . . . .	HK\$[REDACTED]	HK\$[REDACTED]

*Notes:*

- (1) The calculation of market capitalisation is based on [REDACTED] Shares, consisting of (i) [REDACTED] Shares in issue, assuming the Share Subdivision and the [REDACTED] (subject to Assumptions) had been completed on 31 December 2022 and (ii) the conversion of all preferred shares that were in issue on 31 December 2022 into [REDACTED] Shares (after the effect of Share Subdivision) upon the completion of [REDACTED].
- (2) The unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company per Share as of 31 December 2022 is calculated after making the adjustments referred to in Appendix II to this document and on the basis

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## SUMMARY

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that [REDACTED] Shares are in issue, assuming the Share Subdivision and [REDACTED] had been completed on 31 December 2022 but does not include Shares that may be issued under the [REDACTED], Share Incentive Plans or any Shares that may be issued or repurchased by our Company under the general mandates and repurchase mandates or the conversion of all preferred shares existing on 31 December 2022 into ordinary shares of the Company.

Upon completion of the [REDACTED], all preferred shares existing on 31 December 2022 will be converted into ordinary shares of our Company. Had the conversion been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company as of 31 December 2022 per Share would have been HK\$[REDACTED] (based on an [REDACTED] of HK\$[REDACTED] per Share) and HK\$[REDACTED] (based on an [REDACTED] of HK\$[REDACTED] per Share), respectively. See footnote 5 in Appendix II to this document for details.

[REDACTED]

[REDACTED]

Assuming the [REDACTED] is not exercised, after deducting the [REDACTED] and other estimated [REDACTED] payable by us in connection with the [REDACTED], and assuming an [REDACTED] of HK\$[REDACTED] per Share (being the [REDACTED] of the [REDACTED]), we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] million from the [REDACTED]. We intend to use the [REDACTED] from the [REDACTED] for the following purposes:

1. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for further developing our pharmaceutical circulation business;
2. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for further developing our other businesses;
3. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for research and development; and
4. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for working capital and general corporate purposes.

See “[REDACTED]” for further details.

## DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in “Glossary of technical terms”.

<b>“2019 Share Incentive Plan”</b>	the share incentive plan approved and adopted by our Company and effective since 1 January 2019 (as amended from time to time), the principal terms of which are set out in “Statutory and general information—Share Incentive Plans” in Appendix IV
<b>[“2023 Share Incentive Plan”</b>	the share incentive plan approved and adopted by our Company and effective upon Listing, which constitutes a share scheme under Chapter 17 of the Listing Rules, the principal terms of which are set out in “Statutory and general information—Share Incentive Plans” in Appendix IV]
<b>“affiliate(s)”</b>	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
<b>“AFRC”</b>	the Accounting and Financial Reporting Council of Hong Kong
<b>“Articles” or “Articles of Association”</b>	the memorandum and articles of association conditionally adopted by our Company and taking effect upon Listing, as amended from time to time, a summary of which is set out in “Summary of the constitution of our Company and Cayman Islands company law” in Appendix III
<b>“associate(s)”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Assumptions”</b>	the assumptions that all Preferred Shares are converted to Ordinary Shares on a one-to-one ratio upon Listing, the Share Subdivision is completed (unless the context specifies otherwise), and that no additional Shares are issued under the Share Incentive Plans and between the Latest Practicable Date and Listing other than pursuant to the [REDACTED] (excluding the [REDACTED])
<b>“Board”</b>	the board of Directors
<b>“business day”</b>	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
<b>“BVI”</b>	the British Virgin Islands

## DEFINITIONS

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“CAC”	Cyberspace Administration of China (中華人民共和國國家互聯網信息辦公室)
“[REDACTED]”	the [REDACTED] as named in “Directors and parties involved in the [REDACTED]”
“Cayman Companies Act”	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
	[REDACTED]
“China” or “the PRC”	the People’s Republic of China, and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan



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## DEFINITIONS

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“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, or “the Company”	YSB Inc. (藥師幫股份有限公司) (formerly known as YSB Capital Limited), a limited liability company incorporated under the Laws of the Cayman Islands on 27 August 2018.
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	refers to the entities that are controlled by our Company and consolidated into our Group through the Contractual Arrangements, as amended or supplemented to from time to time. See “Contractual Arrangements” for further details
“Contractual Arrangements”	the series of contractual arrangements through which we control and derive economic benefits from our Consolidated Affiliated Entities. See “Contractual Arrangements” for further details
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a market research and consulting company, an Independent Third Party
“Frost & Sullivan Report”	the report prepared by Frost & Sullivan

[REDACTED]

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## DEFINITIONS

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**“Group”, “our Group”, “the Group”, “we”, “us”, or “our”**

the Company and its subsidiaries and Consolidated Affiliated Entities from time to time, and where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

**“HK” or “Hong Kong”**

the Hong Kong Special Administrative Region of the PRC

[REDACTED]

**“Hong Kong dollars” or “HK dollars” or “HK\$”**

Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

## DEFINITIONS

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[REDACTED]

**“IFRS”**

International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board

**“Independent Third Party(ies)”**

any entity or person who is not a connected person of our Company or an associate of such person within the meaning ascribed to it under the Listing Rules

[REDACTED]

**“Latest Practicable Date”**

[22 May 2023], being the latest practicable date for ascertaining certain information in this document before its publication

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## DEFINITIONS

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“Laws”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, directives, requests, orders, judgements, decrees, or rulings of any governmental authority (including the Stock Exchange and the SFC) of all relevant jurisdictions
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
	[REDACTED]
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on [●], with effect from the Listing Date, as amended from time to time
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHRSS”	Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)
“Mr. Zhang”	Mr. Buzhen Zhang (張步鎮), the founder, executive Director, Chairman of the Board and Chief Executive Officer of our Group
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NMPA”	National Medical Products Administration of China (國家藥品監督管理局), the successor of the China Food and Drug Administration (國家食品藥品監督管理總局), or the CFDA, the State Food and Drug Administration (國家食品藥品監督管理局), or the SFDA, and the State Drug Administration (國家藥品監督管理局)

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## DEFINITIONS

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“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
	[REDACTED]
“Onshore Holdco(s)”	refers to the two Consolidated Affiliated Entities identified in “Contractual Arrangements”
	[REDACTED]
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC Legal Adviser”	Fangda Partners, our legal adviser on PRC law
“Preferred Share(s)”	the Series Seed Preferred Shares, the Series A Preferred Shares, Series B Preferred Shares, Series C-1 Preferred Shares, Series C-2 Preferred Shares, Series D Preferred Shares, Series E-1 Preferred Shares and the Series E-2 Preferred Shares
“Pre-[REDACTED] Investment(s)”	the investment(s) in our Company undertaken by the Pre-[REDACTED] Investors prior to this [REDACTED], the details of which are set out in “History, reorganization and corporate structure”
“Pre-[REDACTED] Investor(s)”	the investors in our Company prior to our Listing, further details of which are set out in “History, reorganization and corporate structure—Pre-[REDACTED] Investments”

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## DEFINITIONS

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[REDACTED]

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has now been merged into the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAT”	State Taxation Administration (國家稅務總局)
“SCNPC”	Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“Series A Preferred Share(s)”	the series A preferred share(s) of our Company with a par value of US\$0.00001 each
“Series B Preferred Share(s)”	the series B preferred share(s) of our Company with a par value of US\$0.00001 each
“Series C-1 Preferred Share(s)”	the series C-1 preferred share(s) of our Company with a par value of US\$0.00001 each
“Series C-2 Preferred Share(s)”	the series C-2 preferred share(s) of our Company with a par value of US\$0.00001 each

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## DEFINITIONS

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“Series D Preferred Share(s)”	the series D preferred share(s) of our Company with a par value of US\$0.00001 each
“Series E Preferred Share(s)”	the series E preferred share(s) of our Company with a par value of US\$0.00001 each
“Series E-1 Preferred Share(s)”	the series E-1 preferred share(s) of our Company with a par value of US\$0.00001 each
“Series E-2 Preferred Share(s)”	the series E-2 preferred share(s) of our Company with a par value of US\$0.00001 each
“Series Seed Preferred Share(s)”	the series Seed preferred share(s) of our Company with a par value of US\$0.00001 each
“SFC”	Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Incentive Plans”	the 2019 Share Incentive Plan and the 2023 Share Incentive Plan, the details of which are set out in “Statutory and general information—Share Incentive Plans” in Appendix IV
[“Share Subdivision”	the subdivision of the Shares, which shall take effect immediately upon Listing, whereby each Share of par value US\$0.00001 will be divided into four Shares of par value US\$0.0000025 each]
“Share(s)”	share(s) in the share capital our Company currently with a par value of US\$0.00001 each, and following the Share Subdivision, will have a par value of US\$[0.0000025] each
“Shareholder(s)”	holder(s) of our Share(s)
	[REDACTED]
“Sole Sponsor” or “[REDACTED]”	the sole sponsor, and the [REDACTED] as named in “Directors and parties involved in the [REDACTED]”
	[REDACTED]
“State Council”	State Council of the PRC (中華人民共和國國務院)

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## DEFINITIONS

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[REDACTED]

“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	unless otherwise specified, has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	[the years ended 31 December 2020, 2021 and 2022]
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
	[REDACTED]
“US dollars”, “U.S. dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“WFOE” or “Guangzhou Sudaoyi”	Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道易信息科技有限公司), a company established in the PRC on 18 October 2018, and a wholly-owned subsidiary of our Company through which we enter into the Contractual Arrangements
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.



## **DEFINITIONS**

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The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

## GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain technical terms used in this document in connection with us and our business. These may not correspond to standard industry definitions, and may not be comparable to similarly terms adopted by other companies.

<b>“4G”</b>	the fourth generation of broadband cellular network technology
<b>“5G”</b>	the fifth generation of broadband cellular network technology
<b>“AI”</b>	artificial intelligence
<b>“average number of MAB”</b>	average number of monthly active buyers, which refers to the average number of registered buyers who logged into YSB App at least once in a given month during a given period
<b>“average number of MPB”</b>	average number of monthly paying buyers, which refers to the average number of registered buyers who placed at least one order in a given month during a given period
<b>“B2B”</b>	business to business
<b>“B2C”</b>	business to consumer
<b>“BD”</b>	business development
<b>“buyer”</b>	downstream participants to our businesses; our buyers are directly registered with us
<b>“CAGR”</b>	compound annual growth rate
<b>“COVID-19”</b>	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
<b>“ERP”</b>	Enterprise Resource Planning
<b>“GMV”</b>	gross merchandise value
<b>“GSP”</b>	Good Supply Practise Standards for Pharmaceutical Products
<b>“I/O ports”</b>	input/output ports
<b>“ICLs”</b>	independent clinical laboratories
<b>“IT”</b>	information technology
<b>“OCR”</b>	Optical Character Recognition
<b>“OTC”</b>	over-the-counter

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## GLOSSARY OF TECHNICAL TERMS

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“paying ratio”	average number of MPB as a percentage of average number of MAB in a given period
“primary healthcare institution”	downstream pharmaceutical retailer that is not a hospital or a pharmacy, including, but not limited to, a private clinic, township health center, village clinic, and community medical institution
“R&D”	research and development
“seller”	upstream participants to our Online Marketplace
“SKU”	stock keeping unit, offered on our platform. The number of SKUs does not represent the number of distinct products offered through our platform. We may assign different SKUs to the same product if it is offered by different sellers
“supplier”	upstream participants to our Self-operation Business
“WDC”	warehouse data centre
“WMS”	warehouse management systems

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## FORWARD-LOOKING STATEMENTS

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Certain statements in this document are forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events, or performance (often, but not always, through the use of words or phrases such as ‘will’, ‘expect’, ‘anticipate’, ‘estimate’, ‘believe’, ‘going forward’, ‘ought to’, ‘may’, ‘seek’, ‘should’, ‘intend’, ‘plan’, ‘projection’, ‘could’, ‘vision’, ‘goals’, ‘aim’, ‘aspire’, ‘objective’, ‘target’, ‘schedules’, and ‘outlook’) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our ability to control costs and expenses;
- our ability to identify and satisfy user demands and preferences;
- our ability to maintain good relationships with business partners;
- the actions and developments of our competitors;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate;
- all other risks and uncertainties described in “Risk factors”.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution **[REDACTED]** against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of, or references to, our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

## RISK FACTORS

*You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an [REDACTED] in our Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The [REDACTED] of our Shares could significantly decrease due to any of these risks, and you may lose all or part of your [REDACTED]. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which may differ from what prevails in other countries.*

*These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in “Forward-looking statements”.*

### RISKS RELATED TO OUR BUSINESS AND INDUSTRY

***We are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may materially and adversely affect our business and prospects.***

Due to the complex nature of our business, we are subject to legal and regulatory requirements of multiple industries in the PRC. These industries primarily include internet, healthcare, pharmaceutical and out-of-hospital pharmaceutical circulation industries. Various regulatory authorities of the PRC government are empowered to promulgate and implement regulations governing broad aspects of the internet and healthcare industries. In respect of the healthcare industry, in particular, any violation of the relevant laws, rules and regulations may result in harsh penalties and, under certain circumstances, lead to criminal prosecution.

Meanwhile, the regulations of both the internet industry and healthcare industry are evolving, and their interpretation and enforcement involve significant uncertainty. As a result, under certain circumstances, it may be difficult to determine what actions or omissions would be deemed in violation of applicable laws and regulations. These uncertainties entail risks that may materially and adversely affect our business prospects. Due to the uncertainty and complexity of the regulatory environment, we cannot assure you that future laws and regulations would not render our operations non-compliant or that we would always be in full compliance with applicable laws and regulations. Compliance with future laws and regulations may require us to change our business models and practises at an undeterminable and possibly significant financial cost. These additional monetary expenditures may increase future overhead, which may, in turn, have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the introduction of new services and products may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate permits, licences or certificates as well as expending additional resources to monitor developments in the relevant regulatory environment. The failure to adequately comply with these future laws and regulations may delay, or possibly prevent, some of our products or services from being offered to users, which may have a material adverse effect on our business, financial condition and results of operations.

The pharmaceutical circulation industry in China is subject to extensive government regulation and supervision as well as monitoring by various governmental authorities. Certain other laws,

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## RISK FACTORS

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rules and regulations may affect the pricing, demand and distribution of pharmaceutical products, such as those relating to procurement, prescription and dispensing of drugs by hospitals and other medical institutions, retail pharmacy, government funding for private healthcare and medical services, and the inclusion of products in the drugs catalogues for national basic medical insurance, on-the-job injury insurance and maternity insurance promulgated by the Ministry of Human Resources and Social Security of the People’s Republic of China, or the MOHRSS. Any unfavourable regulatory changes in these industries may increase our compliance burden and materially and adversely affect our business, profitability and prospects.

***Any lack of requisite approvals, licences or permits applicable to our business, or any non-compliance with relevant laws and regulations, may have a material and adverse effect on our business, financial condition, results of operations and prospects.***

Our business is subject to governmental supervision and regulation by various PRC governmental authorities, including, but not limited to, the MOFCOM, the MIIT, the National Health and Family Planning Commission of the People’s Republic of China, or the NHFPC, which was restructured and integrated into the National Health Commission of the People’s Republic of China, or the NHC, the NMPA, the SAIC, which was, together with the CFDA, integrated into the SAMR, the CAC, and the corresponding local regulatory authorities. Such governmental authorities promulgate and enforce laws and regulations that cover a variety of business activities that our operations concern, such as provision of internet information, sales and online operation of pharmaceutical products, sales of food, diagnostic testing services, online training to pharmaceutical professionals, online content moderation assessment and filing, internet advertisement, payment and settlement, and equipment with licensed pharmacists, among other things. These regulations in general regulate the entry into, the permitted scope of, as well as approvals, licences and permits for, the relevant business activities.

In addition to obtaining necessary approvals, licences and permits for conducting our business, we must comply with relevant laws and regulations. Our businesses, such as Online Marketplace and Self-operation Business, are subject to various and complex laws and regulations, extensive government regulations and supervision. For example, the E-Commerce Law of the PRC (《中華人民共和國電子商務法》), which became effective on January 1, 2019, imposes a number of new requirements and obligations on e-commerce platform operators like us, including to display the noticeable labels regarding the self-operation products and take liabilities for such products and services. In addition, in compliance with the Administrative Standard of Pharmaceutical Operating Quality (《藥品經營質量管理規範》), promulgated on 13 July 2016 by the CFDA, we have hired full-time licensed pharmacists for Self-operation Business to be responsible for the review of prescriptions and guidance of the use of drugs. Besides, our ClouDiagnos business is subject to laws and regulations in relation to medical examination. For example, if the test results of our ClouDiagnos are found to be defect, we may be given a disciplinary warning and/or imposed a fine of no more than RMB1,000 according to the Interim Administrative Measures for Medical Examination Laboratories (《醫學檢驗實驗室管理暫行辦法》) issued by the Medical Treatment Team of the Joint Prevention and Control Mechanism of the State Council for COVID-19 Epidemic on 1 August 2020, and the Regulations on Medical Institutions. However, we may be in violation or non-compliance with such laws and regulations and may not be fully informed of all and new requirements under relevant laws and regulations in a timely manner, and even if we become aware of new requirements, due to uncertainties in their interpretations and implementation, it will be difficult for us to determine what actions or omissions would be deemed as violations of applicable laws and regulations. We may also not be able to respond to evolving laws and regulations and take appropriate action in time to adjust our business

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## RISK FACTORS

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model. For example, we are subject to the rules, regulations and guidelines governing settlement and payment services published by PBOC or other governmental authorities from time to time. 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. We had never been subject to any administrative actions, sanctions or penalties from any PRC regulatory authorities before these measures were taken and although we and the commercial bank we cooperate with proactively take measures to satisfy the relevant PRC laws and regulations, there is no assurance that we can timely react to the evolving requirements in this area and ensure full compliance at all times. Besides, we are subject to scheduled or unscheduled periodic inspections conducted by relevant regulatory authorities of our facilities to monitor our regulatory compliance. Although we did not encounter any material issues in passing relevant inspections, we cannot assure you that we will be able to continue to do so going forward.

In September 1984, the SCNPC promulgated the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), which was amended in 2001, 2013, 2015 and 2019 respectively to regulate all entities or individuals engaging in research, manufacture, operation, use, supervision and management of drugs within the PRC. According to the Drug Administration Law, no pharmaceutical operation, including pharmaceutical wholesale and pharmaceutical retail business, is permitted without obtaining the Pharmaceutical Operation Licence. The Implementation Rules for the Drug Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》), was promulgated by the State Council in August 2002 and amended in 2016 and 2019, which emphasised the detailed implementation rules of drugs administration. The SFDA promulgated the Measures for the Administration of Pharmaceutical Operation Licence (《藥品經營許可證管理辦法》) in February 2004 as amended in 2017, which stipulate the procedures for applying the Pharmaceutical Operation Licence and the requirements and qualifications for pharmaceutical wholesalers or pharmaceutical retailers with respect to their management system, personnel, facilities and etc. The valid term of the Pharmaceutical Operation Licence is five years and shall be renewed six months prior to its expiration date. According to the Measures on Prescription Drugs and OTC Drugs Classification Management (Trial) (《處方藥與非處方藥分類管理辦法(試行)》) and the Interim Provisions on the Circulation of Prescription and OTC Drugs (《處方藥與非處方藥流通管理暫行規定》), which were both promulgated by the State Drug Administration, which was restructured and integrated into the SFDA, in 1999 and became effective in January 2000, drugs are divided into prescription drugs and over-the-counter drugs, or OTC drugs. For prescription drugs, the dispensing, purchase and use can only be based on the prescription issued by the certified medical practitioner or certified medical assistant practitioner. In addition, the prescription drugs can only be advertised and promoted in professional medical magazines. OTC drugs, on the other hand, are further divided into Class A and Class B and they both can be purchased and used without a prescription and promoted in public upon approval by the relevant governmental authorities. The pharmaceutical wholesale enterprises distributing prescription drugs and/or OTC drugs, as well as pharmaceutical retail enterprises selling prescription drugs and/or Class A OTC drugs are required to obtain the Pharmaceutical Operation Licence. On 9 May 2022, the NMPA published the draft Implementation Rules for the Drug Administration Law of the PRC (Draft for Comments) (《中華人民共和國藥品管理法實施條例(修訂草案徵求意見稿)》) for public comments. Pursuant to such draft rules, an enterprise engaged in drug online sales activities shall be a legally established drug marketing authorisation holder or a licensed drug distributor, and a third-party platform operator shall not directly participate in online drug sales activities. Upon the strictest interpretation of the draft rules, we might only be able to conduct Online Marketplace or Self-operation

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Business, but not both, resulting in cessation of one of our businesses. However, we believe the worst-case scenario is quite remote. As of the Latest Practicable Date, there have been no further clarifications from the PRC governmental authorities as to the standards for determining or interpreting the direct participation of third-party platforms in online drug sales activities. It is still uncertain when the final version of such draft rules will be issued and take effect, how they will be enacted, interpreted or implemented, and whether they will affect us at that time. If we fail to fully comply with the requirements of the rules when it is implemented, our business operation, financial condition and results of operation may be adversely affected. See “Summary—Recent developments—Recent regulatory developments—Pharmaceutic operations” for further details.

Besides, we provide online courses for the preparation of the pharmacist qualification examinations, which may be deemed as online education activities. We might be required to obtain the School Operation Licence (辦學許可證), subject to further official guidance and implementation rules on the requirement for the School Operation Licence. As of the Latest Practicable Date, we had not been subject to any regulatory notices, fines, penalties or enforcement actions in relation to the potential licencing requirements for the School Operation Licence. Nevertheless, we cannot guarantee that the regulatory authorities will not impose any penalties on us or forbid us from performing the relevant business activities.

We collaborate with a third-party netcasting services provider to provide livestreaming service, which mainly allows users to introduce sales policies of the medical products to other enterprise users. On 15 November 2018, the CAC and the Ministry of Public Security published the Provisions on the Security Assessment for Internet Information Services with Characteristics of Public Opinions or Capable of Social Mobilisation (《具有輿論屬性或社會動員能力的互聯網信息服務安全評估規定》), or the Provisions on the Security Assessment for Internet Information Services, which took effect on 30 November 2018. According to the Provisions on the Security Assessment for Internet Information Services, the provision of livestreaming services is considered as “Internet information services with characteristics of public opinions or capable of social mobilisation” and the relevant service provider shall carry out security assessment and submit the report through the “National Internet Security Management Service Platform” to the local office of the CAC and public security organs to complete the assessment. As of the date of this document, we have completed the assessment with applicable PRC governmental authorities in accordance with the rules. If we fail to maintain the relevant assessment or meet the relevant requirements of the PRC governmental authorities from time to time, the livestreaming services may be ceased and this will affect our business operations and profitability.

Due to the uncertainties in the regulatory environment of the industries in which we operate, there can be no assurance that we have obtained or applied for all the approvals, permits and licences required for conducting our business and all activities in the PRC, or that we would be able to maintain our existing approvals, permits and licences or obtain any new approvals, permits and licences if required by any future laws or regulations. If we fail to obtain and maintain approvals, licences or permits required for our business, or to comply with relevant laws and regulations, we could be subject to liabilities, fines, administrative penalties and operational disruptions, or we could be required to modify our business model, which could materially and adversely affect our business, financial condition and results of operations.



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***Our business, financial condition and results of operations may be materially and adversely affected if we are unable to compete effectively in the PRC general healthcare and wellness market, and we may fail to sufficiently and promptly respond to rapid changes in government regulations, treatment of diseases and market demand.***

The PRC general healthcare and wellness market is highly competitive. Our key competitors include B2B platforms and traditional pharmaceutical distributors. These companies may have substantially greater financial, technical, research and development, marketing, distribution and other resources than we do. They may also have longer operating histories, a larger customer base or broader and deeper market coverage. Furthermore, when we expand into other markets, we will face competition from new competitors, domestic or foreign, who may also enter markets where we currently operate.

In addition, many operators in the healthcare industry have consolidated in recent years to create larger healthcare enterprises with greater bargaining power, which has resulted in greater pricing pressures. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further competitive pressure. New partnerships and strategic alliances in the healthcare industry also can alter market dynamics and adversely impact our businesses and competitive positioning.

The technologies that we and our competitors employ are evolving rapidly, and new developments frequently result in price competition, product obsolescence and altered market landscape. Any significant increase in competition may have a material adverse effect on our revenue and profitability as well as on our business and prospects. We cannot assure you that we will be able to continually distinguish our products and services from our competitors', preserve and improve our relationships with various participants in the healthcare value chain, or increase or even maintain our existing market share. We may lose market share, and our financial condition and results of operations may deteriorate significantly if we fail to compete effectively.

***We are operating with a limited operating history in an emerging and dynamic digital market of outside-of-hospital pharmaceutical circulation services, and our historical results of operations and financial performance are not indicative of future performance.***

We operate in the emerging and dynamic digital market of outside-of-hospital pharmaceutical circulation services in China. The industry is relatively new and it is uncertain whether such industry would achieve and sustain high levels of demand and market acceptance. We have experienced significant growth during the Track Record Period. Our revenues increased from RMB6,064.9 million in 2020 by 66.4% to RMB10,093.5 million in 2021 and further increased by 41.4% from RMB10,093.5 million in 2021 to RMB14,274.8 million in 2022. We recorded gross profit of RMB608.8 million in 2020, RMB913.8 million in 2021 and RMB1,434.7 million in 2022.

Although our business has grown rapidly during the Track Record Period, due to our limited operating history, our historical growth and past revenues may not be indicative of our future performance. In addition, we cannot assure you that we can successfully continue to implement our business model. As the market and our business develop, we may modify our products and services. These changes may not achieve expected results and may have a material and adverse impact on our results of operations and financial condition. We cannot assure you that we will be able to achieve similar results or grow at the same rate as we had in the past or at all. Rather than relying on our historical operating and financial results to evaluate us, you should consider our business prospects in

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light of the risks and difficulties we may encounter, including, among other things, our ability to attract and retain industry participants, our ability to create value for industry participants and increase monetization, our ability to navigate an evolving regulatory environment, our ability to provide high-quality products and satisfactory services, build up our reputation and promote our brand, and our ability to anticipate and adapt to changing market conditions. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, results of operations and financial condition.

***We have incurred operating losses in the past, and may not be able to achieve or maintain profitability in the future.***

During the Track Record Period, our revenues increased by 66.4% from RMB6,064.9 million in 2020 to RMB10,093.5 million in 2021, and our revenues also increased by 41.4% from RMB10,093.5 million in 2021 to RMB14,274.8 million in 2022. We recorded gross profit of RMB608.8 million in 2020, RMB913.8 million in 2021 and RMB1,434.7 million in 2022. Our loss and total comprehensive expense for the year was RMB571.7 million in 2020, RMB501.6 million in 2021 and RMB1,500.0 million in 2022. We expect our operating costs and expenses to increase in the future in absolute terms as we expand our operations. We may also incur additional legal, accounting, and other expenses as a public company. If our revenue does not grow at a greater rate than our expenses, we will not be able to achieve and maintain profitability. We may incur significant losses in the future for various reasons, many of which may be beyond our control. Additionally, we may encounter unforeseen expenses, operating delays, or other unknown factors that may result in losses in the future. If our cost of sales and expenses continuously exceed our revenue, our business may be materially and adversely affected and we may not be able to achieve or maintain profitability.

***We recorded accumulated losses and total deficits during the Track Record Period. We cannot assure you that we will not record a total deficit in the future.***

As of December 31, 2020, 2021, and 2022, we recorded accumulated losses of RMB2,471.1 million, RMB2,964.8 million and RMB4,449.8 million, respectively, and total deficits of RMB2,462.2 million, RMB2,908.5 million and RMB4,369.7 million, respectively.

However, we cannot assure you that we will not have a total deficit position in the future, which may limit our working capital for the purpose of operations or capital for our expansion plans and materially and adversely affect our business, financial condition and results of operations.

***We recorded net cash used in operating activities during the Track Record Period. If we record net cash outflow from operating activities in the future, our liquidity and financial condition may be materially and adversely affected.***

We recorded net cash used in operating activities of approximately RMB124.4 million and RMB487.1 million in 2020 and 2021, respectively. See “Financial Information—Liquidity and capital resources” for further details.

In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition may be materially and adversely affected. We can give no assurance that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

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***We recorded net current liabilities as of 31 December 2020, 2021 and 2022, respectively, and may record net current liabilities in the future.***

Our net current liabilities increased by 15.8% from RMB3,155.0 million as of 31 December 2020 to RMB3,652.8 million as of 31 December 2021 and increased by 28.4% from RMB3,652.8 million as of 31 December 2021 to RMB4,690.7 million as of 31 December 2022. Such change was primarily due to an increase in financial liabilities at fair value through profit and loss. See “Financial information—Discussion of certain key items of consolidated statements of financial position” for further details. We cannot assure you that we will not record net current liabilities in the future. Net current liabilities expose us to liquidity risks and constrain our operational flexibility. Our future liquidity, the payment of trade and other payables and repayment of borrowings as and when they become due will primarily depend on our ability to generate adequate cash inflows from our operating activities. If we experience a shortage in cash flow generated from operations, our liquidity position may be materially and adversely affected, which, in turn, may adversely affect our results of operations and financial position.

***We may not be able to manage the growth of our business and our expansion plans and operations or implement our business strategies on schedule or within our budget, or at all.***

Our business has become increasingly complex in terms of both the type and scale of our operations. Any expansion may increase the complexity of our operations and place a significant strain on our managerial, technological, operational, financial and human resources. Leveraging on our industry know-how, operational experience and technology capabilities, we launched Targeted Product Launch Business, ClouDiagnos, wePharmacy, CloudComm and various other services, in addition to our Online Marketplace and Self-operation Business. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations and new initiatives. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully. If we are not able to manage our growth effectively, our business and prospects may be materially and adversely affected.

We are also continually executing a number of growth initiatives, strategies and operating plans designed to enhance our business, including growing the scale, comprehensiveness and depth of our pharmaceutical circulation business, and investing in research and development in building digitalised infrastructure. The anticipated benefits from these efforts are based on assumptions that may prove to be inaccurate. Moreover, we may not be able to successfully complete these growth initiatives, strategies and operating plans and realise all of the benefits that we expect to achieve or it may be costlier to do so than we anticipate. If, for any reason, the benefits we realise are less than our estimates or the implementation of these growth initiatives, strategies and operating plans adversely affect our operations or cost more or take longer to effectuate than we expect, or if our assumptions prove inaccurate, our business, financial condition and results of operations may be materially and adversely affected.

In addition, we may pursue strategic partnerships, investments and acquisitions to explore synergistic effects, and we may face similar risks and uncertainties as listed above. Failure to properly address these risks and uncertainties may materially and adversely affect our ability to carry out acquisitions and other expansion plans, integrate and consolidate newly acquired or newly formed businesses, and realise all or any of the anticipated benefits of such expansion, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

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***If we are unable to maintain our user base and attract new users, our business, financial condition and results of operations may be materially and adversely affected.***

Our future growth depends on our ability to maintain our existing user base and attract new users, including upstream pharmaceutical companies and distributors and downstream pharmacies and primary healthcare institutions, to our platform.

Given the easy accessibility, wide variety of SKUs, and reliable fulfilment capability, we have attracted thousands of upstream pharmaceutical companies and distributors and downstream pharmacies and primary healthcare institutions to our platform. In order to retain and expand our user base, we also offer a set of comprehensive value added services such as diagnostic testing services, pharmacist training and advanced unmanned pharmaceutical booth to industry participants.

However, we cannot assure you we will be successful in maintaining our existing user base and attracting new users. Downstream pharmacies and primary healthcare institutions may still prefer off-line face-to-face transactions and not be willing to procure products online for various reasons. As a result, we may not be able to effectively maintain and grow our user base, which would result in a lower volume of transactions on our platform and thus negatively and adversely affect our business, financial condition and results of operations. Furthermore, public perception that pharmaceutical products sold on our platform may be counterfeit or substandard, even if factually incorrect or based on isolated incidents, could damage our reputation and have a negative impact on our ability to attract new customers or retain existing customers. If we are unable to maintain or increase positive awareness of our platform and our services, it may be difficult for us to maintain and grow our user base, and our business, growth prospects, results of operations and financial condition may be materially and adversely affected.

***If we fail to provide satisfactory experience for industry participants and continue to increase our user base, our business may be materially and adversely affected.***

Our business is highly dependent on the receptiveness of industry participants, including both upstream pharmaceutical companies and distributors and downstream pharmacies and primary healthcare institutions, to our services and products as well as their willingness to use, and to increase the frequency and extent of their utilisation of, our services. Their degree of receptiveness to our services and products depends on a number of factors, including the efficacy of our offerings compared to those of others, turnaround time, cost-effectiveness, convenience and marketing support. In addition, negative publicity concerning our solution or the internet healthcare market as a whole could limit market acceptance of our services. Meanwhile, there can be no assurance that our efforts and ability to demonstrate the value of our services and the relative benefits of our services and products over those of our competitors to the industry participants would be successful. If we fail to achieve an adequate level of acceptance by the industry participants of our services and products, or if our solution does not drive their engagement, then our business may not develop as expected, or at all, and our business, financial condition or results of operations may be materially and adversely affected.

We also started to partner with local primary healthcare institutions to provide or facilitate the end users with diagnostic testing services. Thus, the success of our business also hinges on our ability to provide satisfactory customer experience to those end users, which depends on our ability to maintain the quality of our services and products, to source services and products that are responsive to customer demands. Our failure to provide a high-quality customer experience to the end users may

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adversely affect our local primary healthcare institutions’ receptiveness of, and willingness to utilise our solution, which may damage our reputation and cause us to lose customers.

***Our businesses rely on the buyers on our platform, which mainly consist of small and medium-sized pharmacies and primary healthcare institutions. A material change in the market demand and purchasing power of the end customers they serve may materially and adversely affect our business, financial condition and results of operations.***

We served around 354,000 downstream pharmacies and around 173,000 primary healthcare institutions as of 31 December 2022. The level of market demand and purchasing power of the end customers in China may affect the business of those downstream pharmacies and primary healthcare institutions, which may in turn affect our own business, financial condition and results of operations. A number of factors beyond our control may affect the level of market demand and purchasing power of the end customers, including, among other things:

- general economic and industry conditions;
- disposable income of end customers;
- unemployment levels;
- minimum wages and personal debt levels of end customers;
- outbreak of viruses or widespread illness, including COVID-19 caused by the novel coronavirus;
- negative reports and publicity about the healthcare and pharmaceutical industry;
- fluctuations in the financial markets; and
- natural disasters, war, terrorism and other hostilities.

***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.***

Under our Online Marketplace, many of the sellers use third-party or their own facilities to store their products and utilise their own or third-party delivery systems to deliver their products to the downstream pharmacies and primary healthcare institutions, which makes it difficult for us to ensure that the downstream pharmacies and primary healthcare institutions would get consistent quality products and services for all products sold through our platform.

If any seller does not adequately control the quality of the products that it sells or provides on our Online Marketplace, fails to timely deliver its products to buyers, delivers products that are faulty or materially different from description, sells products that are counterfeit, sells products without licences or permits as required by the relevant laws and regulations, sells products that infringe upon the intellectual property rights of a third party, sells products that lead to serious physical harm or property damage, or sells substandard products, the reputation of our Online Marketplace and our brand may be materially and adversely affected. In addition, we could face claims and lawsuits for the losses, and may also be subject to administrative inquiries, inspections, investigations and proceedings by relevant regulatory and other governmental agencies for misconduct by any of the sellers. Actions brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our business, financial condition, results of operations and reputation. Even if we are successful in defending ourselves against these actions, the costs of such defence may be significant to us.

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***Our revenue from Online Marketplace might be adversely impacted if the commission level we charge declines.***

We earn revenues from Online Marketplace by charging the sellers on our Online Marketplace a commission. Maintaining and growing the commission level depends on a number of factors, including:

- our ability to deliver superior services;
- our ability to attract downstream pharmacies and primary healthcare institutions, and other participants in the value chain;
- our ability to implement effective promotion and marketing strategies in response to market competition;
- our ability to respond to changes in demand and preferences of our users in a timely manner; and
- the reliability, security and functionality of our platform.

Any failure to adequately and promptly address any of these risks and uncertainties would materially and adversely affect the commission level we charge, and our business and results of operations in the end.

***We source our pharmaceutical and healthcare products from pharmaceutical companies and distributors under our Self-operation Business. Our collaboration with these pharmaceutical companies and distributors are subject to a variety of risks.***

Under Self-operation Business, we procure pharmaceutical and healthcare products from pharmaceutical companies and distributors, and sell to pharmacies and primary healthcare institutions on the platform. Our business, results of operations, financial condition and prospects could be materially and adversely impacted if (i) we are unable to continue sourcing sufficient volumes of quality pharmaceutical and healthcare products from our current suppliers or (ii) our suppliers fail to supply sufficient quantities of pharmaceutical and healthcare products on time or supply products that do not meet the relevant quality standards. If we cannot transfer such liabilities to relevant suppliers, we may be subject to product liabilities and suffer from reputation damages. In addition, as the scale of our business continues to grow, there can be no assurance that we will be able to expand our sourcing network to include new suppliers on reasonable terms and prices.

We typically enter into supply framework agreement with our suppliers, some of which allows pricing and other terms to be adjusted for changing market conditions. We cannot assure you that we will be able to maintain our existing relationships with these suppliers and continue to be able to source pharmaceutical and healthcare products in stable quantities and at reasonable prices or at all. A termination or modification to any of these relationships could adversely affect our product supply and have a material adverse effect on our businesses, operating results and financial condition. Moreover, products sold by us may be manufactured with ingredients that are susceptible to supply shortages. In some cases, we depend upon a single source of supply. Any such supply shortages or loss of any such single source of supply could adversely affect our reputation, results of our operations and financial condition.

Some of the pharmaceutical and healthcare products that we sell under our Self-operation Business are manufactured in whole or in substantial part outside of China. In most cases, the products

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or merchandise are imported by our suppliers and sold to us. As a result, significant changes in tax or trade policies, tariffs or trade relations between China and other countries or any changes in their local policies could result in increases in our costs, and have a material adverse effect on our businesses, operating results and cash flows.

Additionally, our suppliers are primarily Independent Third Parties that are subject to their own operational and financial risks that are outside our control. If the supply of pharmaceutical and healthcare products is interrupted for whatever reason, including, but not limited to, supply shortages, quality issues, production disruption, or closing or bankruptcies of our suppliers, our business, financial condition, results of operations and prospects may be materially and adversely affected. Changes in business conditions, force majeure, governmental changes and other factors beyond our control or that we do not presently anticipate could also affect our suppliers' ability to deliver pharmaceutical and healthcare products to us on a timely basis. Any of the foregoing could materially and adversely affect our business, results of operations, financial condition and prospects.

***Failure to maintain optimal inventory levels and assortment of products could increase our operating costs or lead to unfulfilled orders, either of which could have a material and adverse effect on our business, financial condition, results of operations and prospects.***

We started the Self-operation Business in January 2019. Built on the buyer base brought by the Online Marketplace and supported by digitalised management, our Self-operation Business covers the entire supply chain from procurement, warehousing, processing orders, invoicing, payment collection, to the delivery to downstream pharmacies and primary healthcare institutions. We need to maintain optimal inventory levels in order to operate our Self-operation Business successfully and to meet the demands of buyers. We are exposed to inventory risk as a result of rapid changes in product life cycles, changing consumer preferences, uncertainty of product developments and launches, manufacturer back orders and other vendor-related problems, as well as the volatile economic environment in China. We cannot assure you that we will accurately predict these trends and events and avoid over-stocking or under-stocking of products. Furthermore, demand for products could change significantly between the time when the products are ordered and the time when they are ready for delivery. When we begin to sell a new product, it is particularly difficult to forecast product demand accurately.

As our Self-operation Business carry a wide range of products and maintain significant inventory levels for a substantial portion of our merchandise, we may be unable to sell such inventory in sufficient quantities or during the relevant sales seasons. Inventory levels in excess of customer demand may result in inventory write-downs, expiration of products or an increase in inventory holding costs and a potential negative effect on our liquidity. For example, we had net write-downs of our inventories to their net realisable value of RMB10.0 million and RMB1.6 million in 2020 and 2022, respectively.

Conversely, if we underestimate customer demand, or if our suppliers fail to provide products to us in a timely manner, we may experience inventory shortages, which may, in turn, result in unfulfilled orders, leading to a negative impact on our customer relationships. We cannot assure you that we will be able to maintain proper inventory levels for our Self-operation Business, and any such failure may have a material and adverse effect on our business, financial condition, results of operations and prospects.

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***Some pharmaceutical products offered by us through our Self-operation Business are subject to and may continue to be subject to price restrictions, price competition and regulations in China, which could adversely affect our profitability and results of operations.***

Historically, pharmaceutical products sold in China were subject to government price controls in the form of fixed retail prices or retail price ceilings and periodic downward adjustments imposed by the NDRC, and other authorities. Pursuant to the Notice Regarding the Opinion on Facilitating the Pharmaceutical Pricing Reform (《關於印發推進藥品價格改革意見的通知》) jointly issued by the NDRC, the National Health and Family Planning Commission of the People’s Republic of China and five other PRC government agencies in May 2015, the price ceilings imposed by the PRC government on pharmaceutical products other than narcotic and Class I psychotropic drugs were lifted on 1 June 2015, and these products would be subject to a more market-based pricing system adopted by medical insurance bureaus and relevant authorities.

Even prior to the lifting of government price controls on pharmaceutical products, the prices of prescription drugs in China had been determined by the centralised tender process and the prices of OTC drugs in China had been determined by arm’s-length, commercial negotiation and market factors such as brand recognition, market competition and consumer demand. There is no assurance that the application of the more market-based pricing system will result in a higher product pricing compared to the government-controlled pricing, as competition from other distributors, particularly those offering the same products but with lower prices, may force us to lower our sales prices. Consequently, our profitability may suffer, our inventory may be impaired, and our business, financial condition and results of operations may also be materially and adversely affected.

In addition, the State Council and other relevant authorities issued a series of policies on deepening the reform of medical and healthcare system since 2019. According to the Notice on Issuance of the Pilot Plan regarding the Organization of Centralized Procurement and Use of Drugs and the Implementation Opinions on Region Expansion of the Organization of Centralized Procurement and Use of Drugs (《關於印發國家組織藥品集中採購和使用試點方案的通知》), the State Council planned to organise centralised procurement and use of certain types of pilot drugs to lower drug price, reduce the burden on patients of drug costs, and lower the transaction costs of pharmaceutical enterprises. The Guidance on Improving “Internet +” Medical Service Price and Medical Insurance Payment Policies (《關於完善“互聯網+”醫療服務價格和醫保支付政策的指導意見》) issued by the National Healthcare Security Administration proposed to improve project management, optimise the pricing mechanism and clarify the payment policy of “Internet +” medical services. The National Healthcare Security Administration promulgated the Notice on Accelerating the Implementation of Drug Prices and Bid Invitation and Procurement Credit Assessment System (《關於加快落實醫藥價格和招採信用評價制度的通知》), which requires that the provincial medical security bureaus and centralised procurement institutions shall establish the drug prices and bid invitation and procurement credit assessment system before the end of 2020. The General Office of the State Council promulgated the Opinions on Promoting the Systematism and Normalization of Centralized and Target-quantity Procurement of Drug (《關於推動藥品集中帶量採購工作常態化制度化開展的意見》) in January 2021, to guide the regression of drug prices to reasonable level, reduce the burden of using drugs and promote the healthy development of pharmaceutical industry. Although such policies may lower the transaction costs of the pharmaceutical enterprises and increase the amount of drugs purchased, they may also reduce the sales prices of the drugs and increase market competition within the pharmaceutical industry. There are still uncertainties relating to the actual implementation of such policies.



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***We depend on third-party logistics and delivery companies to fulfil and deliver orders placed on our platform. If these logistics and delivery companies fail to provide reliable delivery services, our business and prospects, as well as our financial condition and results of operations, may be materially and adversely affected.***

We leverage our large-scale operations and reputation to enter into contractual arrangements with a number of third-party delivery companies with good reputation to deliver our products to the pharmacies and primary healthcare institutions on our platform. Interruptions to or failures in these third parties’ delivery services could prevent the timely or proper delivery of our products to pharmacies and primary healthcare institutions. These interruptions may be due to events that are beyond our control or the control of these delivery companies, such as inclement weather, natural disasters, transportation disruptions or labour unrest. We may not be able to find alternative delivery companies to provide delivery services in a timely and reliable manner, or at all. If products are not delivered in proper condition or on a timely basis, our business and reputation could suffer.

***We cannot guarantee that our new business initiatives will be successfully implemented or generate sustainable revenue or profit.***

We continue to execute a number of new business initiatives, strategies and operating plans designed to diversify our business and unleash the monetization potential of our leading position in China’s digital market of outside-of-hospital pharmaceutical circulation services.

For example, we introduced ClouDiagnos in 2021 to offer one-stop testing solution to downstream primary healthcare institutions. In 2021, we also introduced wePharmacy, the first 24-hour access smart unmanned pharmaceutical booth that connects real-time pharmacist services in the industry. We also plan to launch auxiliary medical consultation in the near future to help medical and pharmaceutical professionals provide more informed advice to patients. These business initiatives are new and evolving, some of which are still at the inception or trial stage and may prove unsuccessful. In addition, we may not have sufficient experience in executing these new business initiatives effectively. Our ability to predict the preferences and needs of industry participants and to customise our services to them may be limited. Further, we may incur increasing research and development spending, sales and marketing expenditures, personnel expenses and compliance costs as more efforts on product and service development, brand and service promotion, general administration and legal compliance are required for our businesses newly launched or to be launched, and no guarantee on the effectiveness of our efforts can be given. As a result, we cannot assure you that any of these business initiatives will achieve wide market acceptance, increase the penetration of our addressable market or generate revenues or profit. If our efforts fail to enhance our monetization abilities, we may not be able to maintain or increase our revenues or recover any associated costs, and our business and results of operations may be materially and adversely impacted.

***If we fail to adopt new technologies or adapt our platform to changing user requirements or emerging industry standards, or if our efforts to invest in the development of new technologies are unsuccessful or ineffective, our business may be materially and adversely affected.***

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our platform. The industries we operate in are characterised by rapid technological evolution, changes in user requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practises, any of which could render our existing technologies and systems obsolete. Our success will

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depend, in part, on our ability to identify, develop, acquire or licence leading technologies useful in our business, and respond to technological advances and emerging industry standards and practises, such as mobile internet, in a cost-effective and timely way. In recent years, we invested in the development of many new technologies and business initiatives, such as AI, big data and cloud. The development of websites, mobile apps and other proprietary technologies entails significant technical and business risks. We cannot assure you that we will be able to successfully develop or effectively use new technologies, recoup the costs of developing new technologies or adapt the websites and mobile apps that we operate, and our proprietary technologies and systems to meet user requirements or emerging industry standards. If we are unable to develop technologies successfully or adapt in a cost-effective and timely manner in response to changing market conditions or user requirements, whether for technical, legal, financial or other reasons, our business, prospects, financial condition and results of operations may be materially and adversely affected.

***The proper functioning of our technology is essential to our business. Any failure to maintain the satisfactory performance of our technologies and solutions could materially and adversely affect our business and reputation.***

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. However, technology development is time-consuming, expensive and complex, and may involve unforeseen difficulties. We may encounter technical obstacles, and it is possible that we may discover additional problems that prevent our technologies from operating properly and consequently adversely affect our information infrastructure and other aspects of our business where our technologies are applied. If our solution does not function reliably in terms of performance, we may lose existing, or fail to attract new participants to our platform, which may damage our reputation and adversely affect our business.

Moreover, data services, supply chain management systems, and other proprietary technologies we provide to the industry participants are complex and those we offer may develop or contain undetected defects or errors. Material performance problems, defects or errors in our existing or new software and applications and services may arise in the future and may result from interface issues between our systems and data that we did not develop and the function of which is beyond our control or undetected in our testing. These defects and errors, and any failure by us to identify and address them, could result in diversion of development resources, harm to our reputation and increased service and maintenance costs. Defects or errors may discourage existing or potential customers from utilising our solutions. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors may be substantial and could have a material adverse effect on our business, financial condition and results of operations. Defects or errors may also affect the pharmacies and primary healthcare institutions, the pharmaceutical companies and other distributors who rely on our self-developed technologies in the operation of their businesses, which may have a material adverse effect on our reputation, business, results of operations and prospects.

***Our results of operations could be negatively affected by fair value changes of financial assets measured at fair value through profit or loss.***

As of 31 December 2020, 2021 and 2022, we recorded financial assets at FVTPL of RMB344.6 million, RMB512.9 million and RMB711.1 million, respectively. Our financial assets at FVTPL represented structured deposits, which were non-principal protected deposits placed in banks in China.

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The return of the structured deposits was determined by reference to the return of their underlying investments. The structured deposit as of 31 December 2020, 2021 and 2022 have no fixed contractual period, they can be redeemed any time at our discretion. The fair value of these financial products are measured by our management regularly and we record profit or loss to reflect the fair value changes. See notes 21 and 34 to Accountants’ Report in Appendix IA to this document for more detailed information. We recorded investment income from financial assets at FVTPL of RMB11.4 million, RMB17.9 million and RMB20.0 million in 2020, 2021 and 2022, respectively. We expect to continue to record such investment income and fair value changes, which would affect our results of operations in the future.

***Our results of operations, financial condition and prospects have been adversely affected by fair value changes of financial liabilities at fair value through profit or loss, in particular, by fair value changes in our preferred shares. Changes in unobservable inputs and other estimates and judgements could also materially affect the fair value of our shares with preferred rights, which in turn may adversely affect our results of operations.***

We issued a series of preferred shares prior to and during the Track Record Period. We recorded these financial instruments as financial liabilities at FVTPL for which no quoted prices in an active market exist. As of 31 December 2020, 2021, and 2022 our preferred shares had a fair value of RMB2,931.0 million, RMB4,222.4 million and RMB5,872.0 million, respectively. For further information regarding the shares with preferred rights, see Note 29 to the Accountants’ Report in Appendix I to this document. During the Track Record Period, our fair value change on financial liabilities at FVTPL was RMB294.3 million in 2020, RMB128.7 million in 2021, and RMB1,299.5 million in 2022.

The fair value of the financial instruments is established by using valuation techniques, which include discounted cash flow and back-solve method involving various parameters and inputs. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. However, it should be noted that some inputs require management estimates and are inherently uncertain. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Changes in these unobservable inputs and other estimates and judgements could materially affect the fair value of our shares with preferred rights, which in turn may adversely affect our results of operations. We expect continued fluctuation of the fair value of our preferred shares till the [REDACTED], upon which all the preferred shares will automatically convert into ordinary Shares.

***We have a balance of intangible assets and we may incur impairment losses which could materially impact our financial position.***

Our intangible assets primarily consist of licenses and franchises, business relationship, and office software. Our intangible assets amounted to RMB62.7 million, RMB112.6 million and RMB98.9 million as of 31 December 2020, 2021 and 2022, respectively. At the end of each reporting period, we review the carrying amount of intangible assets to determine whether there is any indication that the assets have suffered an impairment loss. In determine whether an asset is impaired, our management has to exercise judgment and make assumptions. Change of the underlying assumptions and key inputs could materially affect the estimation. While we did not recognize substantial impairment loss for intangible assets during the Track Record Period, we cannot assure you that there will be no such charges in the future. In particular, the failure to generate financial results

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commensurate with our intangible assets estimates may adversely affect the recoverability of such intangible assets, and in turn result in impairment losses. As we carry a balance of intangible assets, any significant impairment losses charged against our intangible assets could have a material adverse effect on our financial position.

***If we determine our goodwill to be impaired, our results of operations and financial condition would be adversely affected.***

We recorded goodwill of RMB9.3 million in aggregate in connection with the acquisition of Guangdong Dihao Pharmaceutical Co., Ltd. and Guangdong Dongjian Pharmaceutical Co., Ltd. The value of goodwill is based on forecasts, which are in turn based on a number of assumptions. If any of the assumptions does not materialise, or if the performance of our business is not consistent with such assumptions, we may be required to have a significant write-off of our goodwill and record an impairment loss, which could in turn adversely affect our results of operations. We will determine whether goodwill is impaired at least on an annual basis. However, there are inherent uncertainties relating to these factors and to our management’s judgment in applying these factors to the impairment assessment. We could be required to evaluate the impairment prior to the annual assessment if there are any impairment indicators, including disruptions to business operations and unexpected significant declines in operating results or a decline in our market capitalisation. While we did not recognise impairment loss for goodwill during the Track Record Period, we cannot assure you that there will be no such charges in the future. In addition, our ability to generate cash flow from our acquired assets will depend on our ability to realise the intended objectives, potential benefits or other revenue-enhancing opportunities that motivated our acquisitions, as well as our ability to effectively integrate their business operations with our own. In the event that we are unsuccessful in achieving the aforementioned, we may have to record impairment losses to our goodwill, which may in turn result in an adverse effect on our financial position.

***We are exposed to credit risk on our trade and other receivables. If we fail to collect trade and other receivables from the sellers on our Online Marketplace and our customers in a timely manner, our business operations and financial condition may be materially and adversely affected.***

We generally require sellers on our Online Marketplace to make payments to us on or before 15th day of each month for commissions arising from transactions made in the immediately preceding month. On average, the credit term we grant to sellers is approximately 30 days. With respect to offline allocation channels business, we generally allow a credit term of 30 to 90 days. Therefore, our financial position and profitability are dependent on the creditworthiness of the sellers on our Online Marketplace and our customers. We recorded trade and other receivables of RMB528.4 million, RMB375.1 million and RMB503.5 million as of 31 December 2020, 2021 and 2022, respectively. In 2020, 2021 and 2022, we recognised credit losses allowance of approximately RMB3.2 million, RMB1.8 million and RMB2.3 million for trade receivables, respectively. In 2020, 2021 and 2022, our trade receivables turnover days were 7.0 days, 3.9 days and 3.1 days, respectively. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each of the sellers and customers before entering into agreements or extending credit terms, neither can we guarantee that each of these sellers and customers will be able to strictly follow and enforce the payment schedules provided in the agreements. Any inability of the sellers on our Online Marketplace and our customers to pay us in a timely manner may result in bad debt and adversely affect our liquidity and cash flows, which in turn has a material adverse effect on our business operations and financial condition.

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***We may not be able to fulfil our obligations in respect of contract liabilities which may in turn impact our results of operation, liquidity and financial position.***

We generally require advance payments from certain of our customers before delivery of goods or rendering of services. This will give rise to a contract liability at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received. Our contract liabilities amounted to RMB40.0 million, RMB9.4 million and RMB24.4 million as of 31 December 2020, 2021, and 2022, respectively. If we fail to fulfil our obligations or if our customers dispute the products or services we provided, we may not be able to reclassify the full amount of contract liabilities as revenue, and we will have to refund all or a portion of the payments made by our customers, which will adversely affect our results of operations, liquidity and financial position.

***We may be subject to allegations, lawsuits and administrative penalties relating to the sale, distribution, marketing and advertising of counterfeit or substandard products under our Self-operation Business, which may damage our brand and reputation and have a material adverse effect on our business, financial condition, results of operations and business prospects.***

Certain products distributed or sold in the pharmaceutical markets in China may be manufactured without proper licences or approvals and/or fraudulently mislabelled with respect to their content and/or manufacturer. These products are generally referred to as counterfeit or substandard pharmaceutical products. The current counterfeit and substandard product regulation control and enforcement system in China is not sufficiently mature to completely eliminate the manufacturing and sales of counterfeit pharmaceutical products. Counterfeit and substandard pharmaceutical products are generally sold at lower prices than authentic pharmaceutical products, and, in some cases, are very similar in appearance to the authentic pharmaceutical products. Therefore, the presence of counterfeit products of pharmaceuticals distributed or sold by us can quickly erode our sales volumes and revenue for the relevant products.

Furthermore, counterfeit or substandard products may or may not have the same chemical composition as the authentic counterparts, which may make them less effective than the authentic ones, entirely ineffective, or more likely to cause severe adverse side effects. We may not be able to identify those counterfeit or substandard products we source from our suppliers. Any unintentional and unknowing sales of counterfeit or substandard products under our Self-operation Business, or sales of counterfeit and substandard products by third parties illegally using our brand names, may subject us to negative publicity, fines and other administrative penalties, or even result in litigation relating to the sale, marketing and advertising of those products. We were subject to litigation and administrative penalties in relation to sales of counterfeit or substandard products during the Track Record Period. We cannot assure you that we will be able to timely and accurately identify counterfeit or substandard products we source from our suppliers in the future, nor can we assure you that we will not be subject to litigation or administrative penalties in relation to sales of counterfeit or substandard products in the future. Moreover, the continuing presence of counterfeit and substandard products may reinforce the negative image of distributors and retail pharmacies among consumers in general, and may severely harm the reputation and brand names of pharmaceutical companies, including ourselves.

***Our delivery, return and exchange policies may materially and adversely affect our results of operations.***

We have adopted shipping policies that do not necessarily pass the full cost of shipping on to our buyers. We have also adopted policies that permit the return and exchange of our products within

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thirty days in certain circumstances for specified reasons. We may also be required by law to adopt new or amend existing return and exchange policies from time to time. These policies subject us to additional costs and expenses which we may not recoup through increased revenue. Our ability to handle a large volume of returns is unproven. If we revise these policies to reduce our costs and expenses, our buyers may be dissatisfied, which may result in loss of existing buyers or failure to acquire new buyers at a desirable pace, which may materially and adversely affect our results of operations.

***If we are subject to higher product return rates, our business, financial condition and results of operations may be materially and adversely affected.***

We have established a thirty-day product return policy in certain circumstances for specified reasons. Although a majority of our products may not be returned or exchanged under the Administrative Standard of Pharmaceutical Operating Quality (《藥品經營質量管理規範》), prohibiting returns and exchanges of pharmaceutical products except for quality reasons, if our product return rates increase or are higher than expected, our revenues and costs can be negatively impacted. Furthermore, as we cannot return some products to our suppliers pursuant to our contracts with them or if return rates for such products increase significantly, we may experience an increase in our inventory balance, inventory impairment and fulfilment cost, which may materially and adversely affect our working capital. As a result, our business, financial condition and results of operations may be materially and adversely affected.

***Our business generates and processes a large amount of data, and the improper use or disclosure of such data could harm our reputation and have a material adverse effect on our business and prospects.***

Our business generates and processes a large amount of transaction and behavioural data, including medical records and other personal information. We face risks inherent in handling large volumes of data and in securing and protecting such data. In particular, we face a number of data-related challenges related to our business operations, including:

- protecting the data in and hosted on our system, including against attacks on our system by external parties or fraudulent behaviour by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors;
- complying with applicable laws and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and governmental authorities relating to such data; and
- complying with applicable laws and regulations relating to the collection, use, disclosure or security of Important Data if the applicable laws and regulations change to classify the large amount of data that our business generates and processes as Important Data.

Therefore, we are subject to cybersecurity and data privacy laws and regulations in China and other applicable jurisdictions, including, without limitation, the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), the Data Security Law of the PRC (《中華人民共和國數據安全法》), and the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), pursuant to which we are required to maintain the confidentiality, integrity, and availability of the information of our users and customers, which is also essential to maintaining their confidence in our services.

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However, the interpretation and implementation of such laws and regulations in China and elsewhere are often subject to uncertainty. Concerns about the collection, use, disclosure, or security of personal information or other privacy-related matters, with or without merit, or failure to comply with the relevant laws and regulations could subject us to penalties, damage our reputation and brand, cause us to lose users, or result in increased operating cost and expenses, any of which could materially and adversely affect our business and results of operations.

In November 2016, the SCNPC promulgated the Cybersecurity Law of the PRC, which took effect on 1 June 2017, and provides that network operators must meet their cybersecurity obligations and must take technical measures and other necessary measures to protect the safety and stability of their networks. The Cybersecurity Law is subject to interpretation by the PRC governmental authorities. Although we only gain access to user information that is necessary for, and relevant to, the services provided, the data we obtain and use may include information that is deemed as “personal information” under the Cybersecurity Law and related data privacy laws and regulations. See “Regulations—PRC Regulations—Regulations relating to cybersecurity and information security” and “Regulations—PRC Regulations—Regulations relating to personal information protection” for further details.

In addition, on 10 June 2021, the SCNPC promulgated the Data Security Law of the PRC, which took effect on 1 September 2021. The Data Security Law provides for a data security review procedure for the data activities that affect or may affect national security. It also imposes data security obligations on persons and entities conducting data processing activities and requires data processors to take necessary measures to protect data security. The Data Security Law also requires protection of Important Data, but the scope of Important Data is still under development and may be further clarified by various PRC governmental authorities by way of issuing ministry-level measures, regulatory guidelines and/or national standards. As the scope of Important Data may be quite broad and non-exhaustive, there can be no assurance that we do not process any Important Data in future as and when the applicable laws and regulations change. If we were found by relevant PRC governmental authorities as a handler of Important Data, complying with evolving laws and regulations could cause us to incur substantial costs, or require us to change our business practises or affect our growth momentum.

On 20 August 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC, which took effect on 1 November 2021. Although it is our policy to only access user information that is necessary for, and relevant to, the services provided and we update our privacy policies and practises in accordance with regulatory developments, we may be required to make further adjustments to our data practises as the Personal Information Protection Law is newly promulgated and the interpretation of many of its specific requirements remain to be clarified by the governmental authorities or is otherwise subject to uncertainty.

On 28 December 2021, the CAC and 12 other PRC governmental authorities published an amendment of the Measures for Cybersecurity Review (《網絡安全審查辦法》) previously released in 2020, or the Measures for Cybersecurity Review 2022, which took effect on 15 February 2022. The Measures for Cybersecurity Review 2022 provides that the relevant operators shall apply with the Cybersecurity Review Office of the CAC for a cybersecurity review under the following circumstances: (i) internet platform operators holding over one million individuals’ personal information aiming for foreign listing; (ii) operators of “critical information infrastructure” purchasing internet products and services that affects or may affect national security; and (iii) internet platform

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operators carrying out data processing that affects or may affect national security. However, there is not any further explanation or interpretation for “foreign listing” or “affect or may affect national security” under the Measures for Cybersecurity Review 2022. We understand that our proposed listing in Hong Kong is not likely to fall into the scope of “foreign listing”. However, in light of the Measures for Cybersecurity Review 2022, there can be no assurance that our data processing activities will not be found by relevant PRC governmental authorities as “affecting national security” and the PRC governmental authorities may have wide discretion in the interpretation and enforcement of the laws and regulations. Furthermore, on 30 July 2021, the State Council published the Regulations on Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), which took effect on 1 September 2021. According to the Regulations on Security and Protection of Critical Information Infrastructure, the competent PRC governmental authorities of important industries and sectors are responsible for identifying critical information infrastructures in their own industries and sectors based on the identification rules and informing the operator of the critical information infrastructure if such infrastructure is identified and designated as critical information infrastructure in a timely manner. However, as of the Latest Practicable Date, we have not yet been informed, approached or designated as a critical information infrastructure operator under the applicable PRC laws and regulations by any PRC governmental authorities. We have not received any inquiry, notice, warning or sanction regarding cybersecurity from any PRC governmental authorities nor been involved in any investigations on cybersecurity review made by any PRC governmental authorities.

We have implemented comprehensive policies and measures to ensure users’ data privacy and security and to comply with applicable cybersecurity and data privacy laws and regulations. See “Business—Risk management and internal control—Information system risk management” for more details. While we take measures to comply with all applicable cybersecurity and data privacy laws and regulations, we cannot assure the effectiveness of the measures undertaken by us and our business partners. The activities of third parties, such as suppliers, brands, and other business partners are beyond our control. If any of these third parties violate the Cybersecurity Law, the Data Security Law, the Personal Information Protection Law and related laws and regulations, or fail to fully comply with the service agreements with us, or if any of our employees fails to comply with our control measures and misuses the information, we may be subject to regulatory actions, disputes and litigations. Any actual or perceived failure to comply with all applicable cybersecurity and data privacy laws and regulations, or any actual or perceived failure of our business partners to do so, or any actual or perceived failure of our employees to comply with our internal control measures, may result in legal proceedings or regulatory actions against us, and could damage our reputation, discourage current and potential users and business partners from using our services and subject us to claims, fines, and damages, which could materially and adversely affect our business and results of operations.

New laws or regulations concerning cybersecurity and data privacy, or the interpretation and implementation of existing cybersecurity and data privacy laws or regulations may be announced, published for public consultations, issued, or promulgated from time to time. For example, on 14 November 2021, the CAC published a draft of the Administrative Regulations for Internet Data Security (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Internet Data Security Regulations for public comments. The Draft Internet Data Security Regulations provide that data processors conducting the following activities must apply for cybersecurity review: (i) merger, reorganisation, or division of internet platform operators that have acquired a large number of data resources related to national security, economic development, or public interests, which affects or may affect national security; (ii) a listing in a foreign country by a data processor processing over one million users’ personal information; (iii) a listing in Hong Kong which affects or may affect national security; or



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(iv) other data processing activities that affect or may affect national security. There has been no further clarifications from PRC governmental authorities as of the Latest Practicable Date as to the standards for determining such activities that “affects or may affect national security”. The period for which the CAC solicited comments on this draft ended on 13 December 2021, but there is no timetable as to when these measures will be enacted. As such, substantial uncertainties exist with respect to the enactment timetable, final content, interpretation, and implementation of the measures, including the standards for determining whether a listing in Hong Kong “affects or may affect national security”. The Draft Internet Data Security Regulations if enacted as proposed, may materially impact our capital raising activities. If our proposed Listing in Hong Kong is considered as a listing that affects or may affect national security, we may be required to go through cybersecurity review, but there can be no assurance that we are able to obtain approval from the PRC governmental authorities in a timely manner, or at all. Any failure to obtain such approval or clearance from the PRC governmental authorities could materially constrain our liquidity and have a material adverse impact on our business operations and financial results, especially if we need additional capital or financing. Having said that, as the Draft Internet Data Security Regulations have not yet come into force as of the Latest Practicable Date, the requirements under the Draft Internet Data Security Regulations will not have impact on our business operations and our proposed listing in Hong Kong.

The interpretation and application of these PRC cybersecurity and data privacy laws and regulations are still evolving. It hence remains uncertain whether the future regulatory changes would impose additional compliance requirements on companies like us. We cannot predict the impact of the Measures for Cybersecurity Review 2022 or the Draft Internet Data Security Regulations if any, at this stage, and we will closely monitor and follow any development in the promulgation process. It is uncertain when the final measures will be issued and take effect, how they will be enacted, interpreted, or implemented, and whether and how they will affect us. If the Measures for Cybersecurity Review 2022 or the Draft Internet Data Security Regulations mandates clearance of cybersecurity review and other specific actions on companies like us, we face uncertainties as to whether such clearance can be timely obtained, or at all. If we are not able to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, among other penalties, which could materially and adversely affect our business and results of operations. See “Regulations—PRC Regulations—Regulations relating to cybersecurity and information security” for further details.

Complying with evolving laws and regulations could cause us to incur substantial costs or require us to change our business practises in a manner that can materially increase our operating costs and expenses or affect our growth momentum, which could materially and adversely affect our business and results of operations.

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.

***We may become subject to product liability and medical liability claims, which could cause us to incur significant expenses and be liable for significant damages if not covered by insurance.***

We are exposed to risks inherent in marketing, distributing and selling pharmaceutical and other health and wellness products in China. Claims, customer complaints or administrative penalties

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may arise if any of the products we market and distribute are deemed or proven to be unsafe, ineffective or defective, or they are found to contain illicit substances. We may also be subject to allegations of having engaged in practises such as distribution of counterfeit and substandard medicines, or providing inadequate warnings or insufficient or misleading disclosures of side effects.

In addition, in the event that any use or misuse of the products we distribute results in personal injury, suicide or death, product liability claims may be brought against us for damages. If we are unable to defend ourselves against such claims, among other things, we may be subject to civil liabilities for physical injury, death or other losses caused by our products, to criminal liabilities, and to the revocation of our business licences. In addition, we may be required to suspend sales or cease sales of the relevant products.

Any claims made against us that are not fully covered by insurance could be costly to defend against, result in substantial damage awards against us and divert the attention of our management from our operations, which could have a material adverse effect on our business, financial condition, results of operations and reputation.

***Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.***

We lease properties for our offices and warehouses. We may not be able to successfully extend or renew such leases upon expiration of the current term on commercially reasonable terms or at all, and may therefore be forced to relocate our affected operations. This could disrupt our operations and result in significant relocation expenses, which could materially and adversely affect our business, financial condition and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow and failure in relocating our affected operations could materially and adversely affect our business and operations.

***Our use of some leased properties could be challenged by third parties or governmental authorities, which may cause interruptions to our business operations.***

We rely on our warehouses for the continuing operation of our business. Natural disasters or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land underlying these warehouses, could significantly impair our ability to operate our business and destroy any inventory located in these warehouses. In addition, we may not be able to replace these warehouses and equipment in a timely manner, should any of the foregoing occur.

Meanwhile, some of the lessors of our leased properties have not provided us with their property ownership certificates or relevant authorisation documents proving their rights to lease those properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with the owners or the parties who have the right to lease the properties, and the terms of the new leases may be less favourable to us. In addition, a substantial portion of our leasehold interests in leased properties have not been registered with the relevant PRC governmental authorities

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as required by PRC law, which may expose us to potential fines if we fail to remediate after receiving any notice from the relevant PRC governmental authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. Also, in the event that the actual use of our leased properties is inconsistent with the use registered on the corresponding property ownership certificate and/or land use right certificate, the competent authorities may require the lessors to return the land and impose fines on the lessors, or confiscate the proceeds from the leasing of the properties and imposed fines on the lessor if such properties are leased without their consent or handing in such income, as applicable. Therefore, the relevant lease agreements may be deemed to be in breach of the law and therefore be void. In addition, regulatory and administrative measures on fire safety in China may vary among different regions, and some internal regulatory guidance may not be published timely. During the Track Record Period and up to the Latest Practicable Date, none of the title defects of the leased properties were material to our Company and there were no material safety issues in relation to such properties.

Furthermore, our Company completed or underwent a series of construction projects regarding our leased properties in connection with our business operations during the Track Record Period. During the Track Record Period and as of the Latest Practicable Date, we have not obtained all of the relevant requisite construction permits or completed relevant construction formalities in connection with such construction projects as required by applicable PRC laws and regulations. As a result, according to applicable PRC laws and regulations, we may be ordered to rectify within a specified period, and may be subject to fines and other administrative penalties imposed by relevant governmental authorities (including demolishing the construction projects), which may have a negative impact on the use of leased properties and our business operations. In the event that our use of properties is successfully challenged by the regulators due to any of the aforementioned non-compliance in relation to the lack of the requisite construction permits or the completion of the relevant construction formalities in respect of our construction projects, we may be forced to relocate from the affected operations.

We are not aware of any material claims or actions being contemplated or initiated by governmental authorities, property owners or any other third parties with respect to our leasehold interests in or use of such properties or procedures of construction projects. However, we cannot assure you that our use of such leased properties will not be challenged in the future. In the event that our use of properties is successfully challenged, we may be subject to fines and forced to relocate the affected operations. In addition, we may become involved in disputes with the property owners or third parties who otherwise have rights to or interests in our leased properties. We cannot assure you that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties. As a result, our business, financial condition and results of operations may be materially and adversely affected.

***Security breaches and attacks against our systems and network, and any potential resultant breach or failure to otherwise protect confidential and proprietary information, could damage our reputation and adversely affect our business, financial condition and results of operations.***

We rely heavily on technology, particularly the internet, to provide high-quality online services. However, our technology operations are vulnerable to disruptions arising from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorised access and other similar events.

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Disruptions to, or instability of, our technology or external technology that allows the industry participants to use our online services and products could materially harm our business and reputation.

Although we have employed significant resources to develop security measures against breaches, our cybersecurity measures may not detect or prevent all attempts to compromise our systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, misconduct or sabotage by our employees, security breaches or other attacks and similar disruptions that may jeopardise the security of information stored in and transmitted by our systems or that we otherwise maintain. Breaches of our cybersecurity measures could result in unauthorised access to our systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to our business operations. As techniques used to obtain unauthorised access to or sabotage systems change frequently and may not be known until launched against us, we may be unable to anticipate, or implement adequate measures to protect against, these attacks. There can be no assurance that we would not in the future be subject to such attacks that may result in material damages or remediation costs. If we are unable to avert these attacks and security breaches, we could be subject to significant legal and financial liability, our reputation would be harmed and we could sustain substantial revenue loss from lost sales and customer dissatisfaction.

In addition, we may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Cyber-attacks may target us, our users or other participants of our ecosystem, or the information infrastructure on which we depend. Actual or anticipated attacks and risks may cause us to incur significantly higher costs, including costs to deploy additional personnel and network protection technologies, train employees, and engage third-party experts and consultants. Cybersecurity breaches may harm our reputation and business, and materially and adversely affect our financial condition and results of operations.

***We may not be able to conduct our marketing activities effectively, properly, or at reasonable costs, and we are subject to limitations in promoting our services and products, which will have an impact on our business operations.***

We invest significant resources in a variety of different marketing and brand promotion efforts designed to enhance our brand recognition and increase sales of our services and products. However, our brand promotion and marketing activities may not be well received and may not result in the levels of sales that we anticipate. Meanwhile, marketing approaches and tools in the PRC internet healthcare market are continually evolving, which may further require us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and customer preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share and materially and adversely affect our financial condition, results of operations and profitability. In addition, we are subject to certain limitations in promoting services and products.

Under PRC laws and regulations, all advertisements published online containing drug names, applicable symptoms treated by such drugs (major functions) or other drug-related content, and advertisements published online containing medical device names and the applicable scope, performance, structure and composition, function and other contents relevant to medical device are subject to examination by relevant governmental authorities. We are prohibited from publishing advertisements of prescription drugs on our website and must ensure that any advertisement of medical

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treatment, drugs or medical devices does not include any assertion or guarantee as to the function and safety or any statement of curative rate and effectiveness of such medical treatment, drugs or medical devices. Any violation of advertisement-related laws and regulations may subject us to fine, or even suspension of our business or revocation of our business licence. See “Regulations—PRC Regulations—Regulations relating to internet advertising” for further details. Although we have implemented internal procedures to examine the content of advertisements displayed on our website, we cannot assure you that all such content meets the requirements under PRC advertising-related laws and regulations at all times.

There can be no assurance that our existing practises of monitoring our information dissemination process and publication would continue to be effective and would comply fully with laws and regulations. Should there be any change in the relevant rules and regulations, or change of interpretation thereof, we may be regarded as breaching the relevant rules and regulations and may be subject to regulatory penalties or disciplinary actions, which may materially and adversely affect our business and reputation.

***We may be held liable for information or content displayed on, retrieved from or linked to our platform or created by us, which may adversely affect our business and results of operations.***

China has enacted laws and regulations governing internet access and the distribution of products, services, news, advertisements, information, audio-video programmes and other content through the internet. Even though we implement measures to review materials in light of the relevant laws and regulations as well as our internal guidelines before they are published on our platform, such measures may not be effective and may still subject us to potential liabilities. Our business, financial condition and results of operations may suffer as a result. In addition, the internet content providers and internet publishers are prohibited from posting or displaying over the internet any content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, frightening, gruesome, offensive, fraudulent or defamatory. In November 2016, the SCNPC promulgated the Cybersecurity Law of the PRC, which came into effect on 1 June 2017, to protect cyberspace security and order. The Cybersecurity Law tightens control of cyber security and sets forth various security protection obligations for network operators. If any of our internet information were deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licences, which could materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions by users of the websites we operate or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be prevented from operating these websites in China.

***We may not be able to prevent others from unauthorised use of our intellectual property, which could harm our business and competitive position.***

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property (which we have ownership or legal rights to use) as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete arrangements with our employees and others, to protect our proprietary rights. Despite these measures, any of our intellectual

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property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, there can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual property, or that such patents will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licenced by third parties, and we may not be able to obtain or continue to obtain licences and technologies from these third parties on reasonable terms, or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorised use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We cannot assure you that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.***

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, copyrights or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual property that is infringed by our solutions or services, the solutions or services provided by third-party merchants on our marketplace, or other aspects of our business. There could also be existing patents of which we are not aware that our solutions or services may inadvertently infringe. We cannot assure you that holders of patents purportedly relating to some aspects of our technology platform or business, if any such holders exist, would not seek to enforce such patents against us in China, the United States or any other jurisdictions. Further, the application and interpretation of China’s patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licencing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management’s time and other resources from our business and operations to defend against these third-party infringement claims, regardless of their merits. Successful infringement or licencing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or

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prohibiting our use of the intellectual property in question. Finally, we use open source software in connection with our solutions and services. Companies that incorporate open source software into their solutions and services have, from time to time, faced claims challenging the ownership of open source software and compliance with open source licence terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licencing terms. Some open source software licences may require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavourable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, results of operations and financial condition.

***Any damage to the reputation and recognition of our brand names, including negative publicity against us, may materially and adversely affect our business operations and prospects.***

We believe that the recognition and reputation of our brands, such as *Yaoshibang* (藥師幫), have contributed significantly to the growth and success of our business. Maintaining and enhancing the recognition and reputation of our brands are critical to our business and competitiveness. However, we cannot assure you that we will be able to maintain a positive reputation or brand name for all of our products and services in the future. Our reputation and brand names may be materially and adversely affected by a number of factors, many of which are beyond our control, including:

- adverse associations with the third party-branded products we sell or which are sold on our platform, including with respect to their efficacy or side effects;
- lawsuits and regulatory investigations against us or otherwise relating to our products or the industry in general;
- improper or illegal conduct by our employees or users on our platform, that is not authorised by us; and
- adverse publicity associated with us, our products or our industry, whether founded or unfounded.

Any damage to our brand names or reputation as a result of these or other factors may cause our products to be perceived unfavourably, and our business operations and prospects could be materially and adversely affected as a result.

***Our business may be materially and adversely affected by adverse news, scandals or other incidents associated with the PRC general health and wellness industry.***

Incidents that reflect doubt as to the quality or safety of pharmaceutical products manufactured, distributed or sold by other participants in the PRC general health and wellness industry, particularly the internet healthcare industry, including our competitors, have been, and may continue to be, subject to widespread media attention. Such incidents may damage the reputation of not only the parties involved, but also the health and wellness industry in general, even if such parties or incidents have no relation to us, our management, our employees, or our users. Such negative publicity may indirectly and adversely affect our reputation and business operations. In addition, incidents not related to product quality or safety, or other negative publicity or scandals implicating us or our employees, regardless of merit, may also have an adverse impact on us and our reputation and corporate image.

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***If our risk management and internal control system is not adequate or effective, and if it fails to detect potential risks in our business as intended, our business, financial condition and results of operations could be materially and adversely affected.***

We have adopted and implemented various policies and procedures to ensure rigorous risk management and internal control, and we are dedicated to continually improving these policies and procedures. Our risk management and internal control policies and procedures cover various aspects of our business operations such as financial reporting, information system, internal control, human resources and investment management. However, due to the inherent limitations in the design and implementation of our internal control system, our internal control system may not be sufficiently effective in identifying, managing and preventing all risks if external circumstances change substantially or extraordinary events take place.

Furthermore, our new business initiatives may give rise to additional internal control risks that are currently unknown to us, despite our efforts to anticipate such issues. If our internal control system fails to detect potential risks in our business as intended or is otherwise exposed to weaknesses and deficiencies, our business, financial condition and results of operations could be materially and adversely affected.

Our risk management and internal controls also depend on effective implementation by our employees. There can be no assurance that such implementation by our employees will always function as intended or such implementation will not involve any human errors, mistakes or intentional misconduct. If we fail to implement our policies and procedures in a timely manner, or fail to identify risks that affect our business with sufficient time to plan for contingencies for such events, our business, financial condition and results of operations could be materially and adversely affected, particularly with respect to the maintenance of our relevant approvals and licences granted by governments.

***Our failure to comply with anti-corruption laws and regulations, or effectively manage our employees and suppliers, could severely damage our reputation, and materially and adversely affect our business, financial condition, results of operations and prospects.***

We are subject to risks in relation to actions taken by us, our employees and suppliers that constitute violations of the anti-corruption laws and regulations. There have been several instances of corrupt practises in the pharmaceutical industry, including, among other things, receipt of kickbacks, bribes or other illegal gains or benefits by pharmacies, hospitals and medical practitioners from manufacturers, distributors and vendors in connection with the prescription of pharmaceutical products. While we adopt strict internal procedures and work closely with relevant government agencies to ensure compliance of our business operations with relevant laws and regulations, our efforts may not be sufficient to ensure that we comply with relevant laws and regulations at all times. If we, our employees or suppliers violate these laws, rules or regulations, we could be subject to fines and/or other penalties. In the case of our Online Marketplace and Self-operation Business, the products involved may be seized and our operations may be suspended. Actions by PRC regulatory authorities or the courts to provide an interpretation of PRC laws and regulations that differs from our interpretation or to adopt additional anti-bribery or anti-corruption related regulations could also require us to make changes to our operations. Our reputation, corporate image, and business operations may be materially and adversely affected if we fail to comply with these measures or become the target of any negative publicity as a result of actions taken by us, our employees or suppliers, which may in



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turn have a material adverse effect on our business, financial condition, results of operations and prospects.

***We rely on assumptions and estimates to calculate certain key operating metrics, and inaccuracies in such metrics may harm our reputation and adversely affect our business.***

Certain key operating metrics in this document are calculated using our internal data that have not been independently verified by third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are some challenges in measuring those metrics. In addition, our key operating metrics are derived and calculated based on different assumptions and estimates, and you should be cautious of such assumptions and estimates when assessing our operating performance.

Our operating metrics may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in data availability, sources and methodology. If third parties do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our operating metrics, our reputation may be harmed and third parties may be less willing to allocate their resources or spending to us, which could adversely affect our business and operating results.

***Our success depends on the continued efforts of our senior management and key employees. If one or more of our senior management or key employees were unable or unwilling to continue in their present positions, our business may be severely disrupted.***

Our future success depends heavily upon the continued services of our senior management and our key employees in various corporate functions, who have contributed significantly to our current achievements. Accordingly, we believe that our ability to attract and retain key personnel is a critical factor in our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which could increase our operating expenses and, in turn, materially and adversely affect our financial condition and results of operations. If we are unable to attract or retain the personnel required to achieve our business objectives, our business could be severely disrupted.

We do not maintain key-person insurance for members of our management team. If we lose the services of any senior management, we may not be able to identify suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and prospects and prolong our expansion strategies and plans. Furthermore, if any of our executive officers joins a competitor or forms a competing company, we may lose a significant number of our existing pharmacy users and consumers and potentially lose our substantial research and development achievements, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

***If we are unable to recruit, train and retain qualified personnel or if we fail to do so in a cost-efficient manner, our business may be materially and adversely affected.***

We intend to hire additional qualified employees to support our business operations and planned expansion. Our future success depends, to a significant extent, on our ability to recruit, train and retain qualified personnel, particularly healthcare, technical, fulfilment, marketing and other operational personnel with experience in the online retail industry and pharmaceutical industry.

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Since our industry is characterised by high demand and intense competition for talent and labour, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. We have observed an overall tightening of the labour market and an emerging trend of shortage of labour supply. Failure to obtain stable and dedicated personnel may lead to underperformance of our operation. Labour costs in China have increased with China’s economic development, particularly in the large cities where we operate our business. Therefore, to maintain and enhance our competitiveness, we may from time to time need to adjust certain elements of our operations in response to evolving economic conditions and business needs. Any failure to address these risks and uncertainties could materially and adversely affect our financial performance and prospects of achieving profitability, which could have a material adverse impact on our business development, financial conditions and results of operations. In addition, our ability to train and integrate new employees into our operations may also be limited and may not meet the demand for our business growth on a timely fashion, or at all, and rapid expansion may impair our ability to maintain our corporate culture.

***We may not be able to detect or prevent fraud or other misconduct committed by our employees or third parties.***

Fraud or other misconduct by our employees, such as unauthorised business transactions, bribery and breach of our internal policies and procedures, unauthorised access to or leakage of the data of our sellers or buyers, or by third parties, such as breach of law, may be difficult to detect or prevent. It could subject us to financial loss and sanctions imposed by governmental authorities while seriously damaging our reputation. This may also impair our ability to effectively attract prospective users, develop customer loyalty, obtain financing on favourable terms and conduct other business activities.

In particular, we may face risks with respect to fictitious or other fraudulent activities. There can be no assurance that the measures we have implemented to detect and reduce the occurrence of fraudulent activities would be effective in combating fraudulent transactions or improving overall satisfaction among the industry participants. The sellers on our platform may also engage in fictitious or “phantom” transactions with themselves or collaborators in order to artificially inflate their ratings, reputation and search results rankings. This activity may harm other third parties by enabling the perpetrating sellers to be favoured over legitimate ones, may harm consumers by deceiving them into believing that a seller is more reliable or trusted than that seller actually is, and result in inflated GMV from our Online Marketplace.

Our risk management systems, information technology systems and internal control procedures are designed to monitor our operations and overall compliance. However, we may be unable to identify non-compliance or suspicious transactions promptly, or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct committed by our employees, ecosystem participants or other third parties, and the precautions we take to prevent and detect such activities may not be effective. Therefore, we are subject to the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may materially and adversely affect our business, financial condition and results of operations.

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***We may from time to time become party to litigation, other legal or administrative disputes and proceedings that may materially and adversely affect us.***

In the course of our ordinary business operations, we may become a party to litigation, legal proceedings, claims, disputes or arbitration proceedings from time to time. Any ongoing litigation, legal proceedings, claims, disputes or arbitration proceedings may distract our senior management’s attention and consume our time and other resources. In addition, even if we ultimately succeed in such litigation, legal proceedings, claims, disputes or arbitration proceedings, there may be negative publicity attached to such litigation, legal proceedings, claims, disputes or arbitration proceedings, which may materially and adversely affect our reputation and brand names. In the case of an adverse verdict, we may be required to pay significant monetary damages, assume significant liabilities or suspend or terminate parts of our operations. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***We may not have sufficient insurance to cover our business risks.***

We have obtained insurance to cover certain potential risks and liabilities, such as warehouse insurance and employers liability insurance. However, we may not be able to acquire any insurance for certain types of risks such as business liability or service disruption insurance for all of our operations in the PRC, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. For example, we do not maintain product liability insurance, business interruption insurance or key-man life insurance. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

***We have granted and expect to continue to grant share-based awards in the future under our Share Incentive Plans, which may increase our equity-settled share-based payment expenses, affect our financial performance and potentially dilute the shareholding of our Shareholders.***

In order to attract and retain qualified employees, provide incentives to our directors, officers, employees and consultants, and promote the success of our business, we adopted the Share Incentive Plans [(namely, the 2019 Share Incentive Plan and 2023 Share Incentive Plan)]. The scheme limit for new Shares that may be issued under the 2019 Share Incentive Plan (which is a pre-[REDACTED] share scheme that is not governed by Chapter 17 of the Listing Rules) is 47,772,984 new Shares (following the Share Subdivision). [The scheme limit for new Shares that may be issued under the 2023 Share Incentive Plan and all other post-[REDACTED] share schemes of the Company adopted from time to time (which is a post-[REDACTED] share scheme that is governed by Chapter 17 of the Listed Rules) is 10% of the Shares in issue on the Listing Date.] See “Statutory and general information—Share Incentive Plans” for further details.

We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we may continue to grant share-based awards to employees in the future subject to compliance with the Listing Rules. As a result, our expenses associated with equity-settled share-based payment expenses may increase, which may have an adverse effect on our results of operations.

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***We may not be able to obtain additional capital when desired, on favourable terms or at all.***

We may require additional cash resources if we incur operating losses or for future growth and development of our business, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded credit facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future financial condition, results of operations, cash flows, share price performance, liquidity of international capital and lending markets and the PRC governmental regulations over foreign investment and the PRC healthcare industry. In addition, incurring indebtedness would subject us to increased debt service obligations and could result in operating and financing covenants that would restrict our operations. There can be no assurance that financing would be available in a timely manner or in amounts or on terms favourable to us, or at all. Any failure to raise needed funds on terms favourable to us, or at all, could severely restrict our liquidity as well as have a material adverse effect on our business, financial condition and results of operations. Moreover, any issuance of equity or equity-linked securities could result in significant dilution to our existing shareholders.

***Our business operations and financial performance have been adversely affected by the COVID-19 outbreak, may in the future continue to be affected by the COVID-19 outbreak, and may be affected by other natural disasters, epidemics and other unforeseeable catastrophes.***

Since the end of December 2019, the outbreak of a novel strain of coronavirus, now named as COVID-19, has materially and adversely affected the global economy. Although the COVID-19 outbreak has increased demand for certain drugs or medical equipment that we sell, it has caused disruptions to our business operations and those of our buyers, sellers, and logistics providers, to varying degrees. We currently lease office space in Guangzhou to support our operations and operate warehouses in 19 cities as of 31 December 2022. The COVID-19 has caused, and may continue to cause, companies in China, including us and certain of our buyers and sellers, to implement temporary adjustment of work schedules and travel plans or to require employees to work from home and collaborate remotely. The pandemic has also resulted in the temporary disruption of our warehouses due to government-imposed quarantines.

Many of the quarantine measures within China have been relaxed since 2020. However, relaxation of restrictions on economic and social activities may also lead to new cases which may cause restrictions to be imposed again in China. For example, China has experienced upticks in cases that have prompted selective restrictions in the affected regions at various times in 2021. We cannot predict whether there will be future disruptions in our operations. As a result, we may experience lower efficiency and productivity, internally and externally, which may adversely affect our business and operations. The extent to which the COVID-19 outbreak impacts our results of operations will depend on future developments, which are highly uncertain and unpredictable, including new information which may emerge concerning the severity of this outbreak and future actions we take, if any, to contain this outbreak or treat its impact, among others.

***Any deficiencies in China’s fixed telecommunications networks and internet infrastructure, as well as mobile operating systems and networks, could impair the functioning of our technology system and the operation of our business.***

Our business depends on the performance, reliability and security of the telecommunications and internet infrastructure in China. Substantially all of our computer hardware and cloud computing

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services are currently located in China. Access to internet in China is maintained through state-owned telecommunications carriers under administrative control and regulatory supervision, and we obtain access to end-user networks operated by such telecommunications carriers to give customers access to our technology platform. We may not have access to alternative networks in the event of disruptions, failures or other problems with the telecommunication and internet infrastructure in China. The failure of telecommunication and internet network operators to provide us with the requisite bandwidth could also interfere with the speed and availability of our technology platform. Any of such occurrences could delay or prevent our users from accessing our online website and mobile applications, and frequent interruptions could frustrate users and discourage them from using our services, which could cause us to lose users and harm our results of operations. In addition, we have limited control over the service fees charged by telecommunication and internet operators. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected.

***An occurrence of a natural disaster, widespread health epidemic or other outbreaks could have a material adverse effect on our business, financial condition and results of operations.***

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, the outbreak of a widespread health epidemic or other events, such as wars, acts of terrorism, environmental accidents, power shortage, labour unrest or communication interruptions. The occurrence of such a disaster or prolonged outbreak of an epidemic illness or other adverse public health developments in the PRC or elsewhere could materially disrupt our business and operations. Such events could also significantly affect our industry and cause a temporary closure of the warehouses we use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could be disrupted if any of our employees were suspected of having any of the epidemic illnesses, since this could require us to quarantine some or all of such employees or disinfect the warehouses used for our operations. In addition, our revenue and profitability could be materially reduced to the extent that a natural disaster, health epidemic or other outbreak harms the global or PRC economy in general. Our operations could also be severely disrupted if our users or other participants were affected by such natural disasters, health epidemics or other outbreaks. See also “—Our business operations and financial performance have been adversely affected by the COVID-19 outbreak, may in the future continue to be affected by the COVID-19 outbreak, and may be affected by other natural disasters, epidemics and other unforeseeable catastrophes”.

***Heightened tensions in international relations, particularly between the United States and China, may adversely impact our business, financial condition, and results of operations.***

Recently there have been heightened tensions in international relations, particularly between the United States and China, but also as a result of the conflict in Ukraine and sanctions on Russia. These tensions have affected both diplomatic and economic ties between the two countries. Heightened tensions could reduce levels of trade, investments, technological exchanges, and other economic activities between the two major economies. The existing tensions and any further deterioration in the relationship between the United States and China may have a negative impact on the general, economic, political, and social conditions in both countries and, given our reliance on the Chinese market, adversely impact our business, financial condition, and results of operations.

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### RISKS RELATED TO OUR CORPORATE STRUCTURE

*If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.*

Foreign ownership of certain of our businesses including value-added telecommunication services is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (excluding e-commerce, domestic multi-party communications, data collection and transmission services and call centres).

We are a Cayman Islands exempted company and our WFOE is considered as a foreign-invested enterprise. Accordingly, it is not eligible to provide certain value-added telecommunication services or provide certain other restricted services related to our businesses. As a result, we will conduct such business activities through our Consolidated Affiliated Entities in PRC.

We entered into a series of Contractual Arrangements with our Onshore Holdcos and their shareholders, which enable us to:

- exercise effective control over our Onshore Holdcos;
- receive substantially all of the economic benefits of our Onshore Holdcos; and
- have an exclusive option to purchase all or part of the equity interests in our Onshore Holdcos when and to the extent permitted by PRC law.

Because of these Contractual Arrangements, we are the primary beneficiary of our Onshore Holdcos and hence consolidate its financial results as our Consolidated Affiliated Entity. For a detailed discussion of these Contractual Arrangements, see “History, reorganization and corporate structure” for further details.

In the opinion of our PRC Legal Adviser, based on its understanding of the relevant PRC laws and regulations, subject to uncertainties of the enforceability of the dispute resolution provisions of the Contractual Arrangements, and subject as to enforceability to applicable bankruptcy, insolvency, moratorium, reorganisation and similar laws affecting creditors’ rights generally, the discretion of relevant governmental authorities in exercising their authority in connection with the interpretation and implementation thereof and the application of relevant PRC Laws and policies thereto, and to general equity principles, each of these Contractual Arrangements is and taken as a whole are, (i) valid and legally binding on each party thereto, and (ii) enforceable in accordance with the terms thereof. However, our PRC Legal Adviser has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC Laws, regulations and rules. Since PRC laws and regulations governing the validity of these Contractual Arrangements are uncertain and the relevant governmental authorities have broad discretion in interpreting these laws and regulations, we cannot assure you or make any prediction that the Contractual Arrangements will not result in any violation. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our Consolidated Affiliated Entities are found to be in violation of any existing or future PRC Laws,

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rules or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licences of such entity;
- discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and Consolidated Affiliated Entities;
- imposing fines, confiscating the income from our Consolidated Affiliated Entities, or imposing other requirements with which we or our Consolidated Affiliated Entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our Consolidated Affiliated Entities and deregistering the equity pledges of our Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our Consolidated Affiliated Entities; or
- restricting or prohibiting our use of the proceeds of any of our financing outside China to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our Consolidated Affiliated Entities in our combined financial statements, if the PRC governmental authorities were to find our legal structure and Contractual Arrangements to be in violation of PRC laws, rules and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our Consolidated Affiliated Entities or our right to receive substantially all the economic benefits and residual returns from our Consolidated Affiliated Entities and we are unable to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our Consolidated Affiliated Entities in our combined financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

***We rely on Contractual Arrangements with our Onshore Holdcos and their shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.***

We have relied and expect to continue to rely on Contractual Arrangements with Onshore Holdcos and their shareholders to operate value-added telecommunication services or certain other services subject to foreign ownership restriction under PRC laws and regulations. For a description of these Contractual Arrangements, see “History, reorganization and corporate structure” for further details. These Contractual Arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities.

If we had direct ownership of our Consolidated Affiliated Entities, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of such entity, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current Contractual Arrangements, we rely on the performance by our Onshore Holdcos and their shareholders of their obligations under the contracts to exercise control over our Consolidated

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Affiliated Entities. However, the shareholders of our Onshore Holdcos may not act in the best interests of our Company or may not perform its obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the Contractual Arrangements with our Onshore Holdcos. We may replace the shareholders of our Onshore Holdcos at any time pursuant to our Contractual Arrangements with our Onshore Holdcos and their shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See “—Any failure by our Onshore Holdcos or their shareholders to perform their obligations under our Contractual Arrangements with them would have a material and adverse effect on our business”. Therefore, our Contractual Arrangements with our Onshore Holdcos may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

***Any failure by our Onshore Holdcos or their shareholders to perform their obligations under our Contractual Arrangements with them would have a material and adverse effect on our business.***

If our Onshore Holdcos or their shareholders fail to perform their respective obligations under the Contractual Arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of our Onshore Holdcos were to refuse to transfer their equity interest in the Onshore Holdcos to us or our designee when we exercise the purchase option pursuant to these Contractual Arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions. See “—Risks Related to Doing Business in China— Uncertainties with respect to the PRC legal system could adversely affect us”. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated affiliated entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

Our Consolidated Affiliated Entities hold certain of our important licences and permits, including, but not limited to, Value-Added Telecommunications Business Operating Licence and Medical Institution Practicing Licence, to operate our business. In the event we are unable to enforce our Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities, and our ability to conduct these businesses may be negatively affected, which may have a material and adverse effect on our financial condition and results of operations.



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***If we exercise the option to acquire equity ownership and assets of Onshore Holdcos, the ownership or asset transfer may subject us to certain limitations and substantial costs.***

Pursuant to the Contractual Arrangements, the WFOE or its designated person(s) has the exclusive right to purchase all or any part of the equity interests in Onshore Holdcos from their registered shareholders for a nominal price permissible under PRC Laws.

The equity transfer may be subject to the approvals from and filings with the SAMR and other competent governmental authorities and/or their local competent branches. In addition, the equity transfer price may be subject to review and tax adjustment by the relevant tax or commerce authority. The registered shareholders of Onshore Holdcos will pay the equity transfer price they receive to the WFOE under the Contractual Arrangements. The amount to be received by the WFOE may also be subject to enterprise income tax. Such tax amounts could be substantial.

***We may lose the ability to use and enjoy assets held by our Onshore Holdcos and their subsidiaries that are important to our business if our Onshore Holdcos and their subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.***

Our Onshore Holdcos hold assets that are material to our business operations. Under our Contractual Arrangements, the shareholders of our Onshore Holdcos may not voluntarily liquidate our Onshore Holdcos or approve them to engage in any transaction that may materially affect their assets, liabilities, rights or operations in any manner without our prior consent. However, in the event that the shareholders breach this obligation and voluntarily liquidate our Onshore Holdcos, or our Onshore Holdcos declare bankruptcy, or all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if our Onshore Holdcos or their subsidiaries undergo a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third-party creditors may claim rights to some or all of its assets, hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

***If the chops of our PRC subsidiaries, our Onshore Holdcos and their subsidiaries, are not kept safely, are stolen or are used by unauthorised persons or for unauthorised purposes, the corporate governance of these entities could be severely and adversely compromised.***

In China, a company chop or seal serves as the legal representation of the company towards third-parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our PRC subsidiaries, our Onshore Holdcos and their subsidiaries are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safe, are stolen or are used by unauthorised persons or for unauthorised purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so.

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***The shareholders of our Onshore Holdcos may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.***

The shareholders of our Onshore Holdcos may have potential conflicts of interest with us. These shareholders may breach, or cause our Onshore Holdcos to breach, or refuse to renew, the existing Contractual Arrangements we have with them and our Onshore Holdcos, which would have a material and adverse effect on our ability to effectively control our Consolidated Affiliated Entities and receive substantially all the economic benefits from it. For example, the shareholders may be able to cause our agreements with our Onshore Holdcos to be performed in a manner adverse to us by, among other things, failing to remit payments due under the Contractual Arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favour.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive call option agreements with these shareholders to request them to transfer all of their equity interests in the Onshore Holdcos to a PRC entity or individual designated by us, to the extent permitted by PRC law. The shareholders of our Onshore Holdcos have executed powers of attorney to appoint our WFOE to vote on their behalf and exercise voting rights as shareholders of our Onshore Holdcos. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our Onshore Holdcos, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

The shareholders of our Onshore Holdcos may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in our Onshore Holdcos and the validity or enforceability of our Contractual Arrangements with our Onshore Holdcos and their shareholders. For example, in the event that any individual shareholder of our Onshore Holdcos divorces his or her spouse, the spouse may claim that the equity interest of our Onshore Holdcos held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder’s spouse or another third party who is not subject to obligations under our Contractual Arrangements, which could result in a loss of the effective control over our Onshore Holdcos by us. Similarly, if any of the equity interests of our Onshore Holdcos is inherited by a third party with whom the current Contractual Arrangements are not binding, we could lose our control over our Onshore Holdcos or have to maintain such control by incurring unpredictable costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

Although under our current Contractual Arrangements, (i) our Onshore Holdcos’ shareholders’ spouses have executed spousal consent letters under which the spouses agree not to assert any rights over the equity interest in our Onshore Holdcos held by these shareholders, and (ii) it is expressly provided that our Onshore Holdcos and their shareholders shall not assign any of their respective rights or obligations to any third party without the prior written consent of our WFOE, we cannot assure you that these undertakings and arrangements will be complied with or effectively enforced. In the case any of them is breached or becomes unenforceable and leads to legal proceedings, it could disrupt our business, distract our management’s attention and subject us to substantial uncertainties as to the outcome of any such legal proceedings.

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***We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.***

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries like our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If these subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require our WFOE or any other relevant PRC subsidiary to adjust its taxable income under the Contractual Arrangements it currently has in place with our Onshore Holdcos in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. See “—Contractual Arrangements in relation to our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our Consolidated Affiliated Entities owe additional taxes, which could negatively affect our financial condition and the value of your [REDACTED]”.

Under PRC laws and regulations, our wholly foreign-owned subsidiaries in China may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a PRC enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital.

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also “—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavourable tax consequences to us and our non-PRC shareholders”.

***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and Consolidated Affiliated Entities or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and Consolidated Affiliated Entities. We may make loans to our PRC subsidiaries and Consolidated Affiliated Entities subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits, i.e., the difference between its total amount of investment and its registered capital, or certain amount calculated based on elements including capital or net assets and the cross-border financing leverage ratio or the Macro-prudential Management Mode, under

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relevant PRC laws and the loans must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system. We may also provide loans to our Consolidated Affiliated Entities or other domestic PRC entities under the Macro-prudential Management Mode. According to the Notice of the PBOC and SAFE Raising the Macro-prudential Adjustment Parameters for Cross-border Financing (《人民銀行、外匯局上調跨境融資宏觀審慎調節參數》) issued on 25 October 2022, the limit for the total amount of foreign debt under the Macro-prudential Management Mode is increased from two times to two and a half times of their respective net assets. Moreover, any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities or other domestic PRC entities must also be approved by and registered with the NDRC.

We may also decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions shall go through record-filing procedures from competent administration for market regulation. SAFE issued the Circular Concerning Reform of the Administrative Approaches to the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, which took effect on 1 June 2015. SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC provided that such usage shall fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular on Further Promoting the Cross-border Trade and Investment Facilitation (《關於進一步促進跨境貿易投資便利化的通知》) on 23 October 2019, or SAFE Circular 28, pursuant to which all foreign-invested enterprises can make equity investments in the PRC with their capital funds in accordance with the law. As the relevant governmental authorities have broad discretion in interpreting the regulation, it is unclear whether SAFE will permit such capital funds to be used for equity investments in the PRC in actual practise.

Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to the subsidiaries of our wholly foreign-owned subsidiaries in China and our Consolidated Affiliated Entities, each a PRC domestic company. Meanwhile, we are not likely to finance the activities of our Consolidated Affiliated Entities by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our Consolidated Affiliated Entities.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or record-filings on a timely basis, if at all, with respect to future loans to our PRC subsidiaries or any Consolidated Affiliated Entity or future capital contributions by us to our wholly foreign-owned subsidiaries in China. As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or Consolidated Affiliated Entities when needed. If we fail to complete such registrations or record-filings, our ability to use foreign currency, including the [REDACTED] we received from our [REDACTED], and to capitalise or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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***Contractual Arrangements in relation to our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our Consolidated Affiliated Entities owe additional taxes, which could negatively affect our financial condition and the value of your [REDACTED].***

Under applicable PRC laws and regulations, transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities deem the transactions between the PRC subsidiaries and our Consolidated Affiliated Entities in China, and their respective shareholders were not entered into on an arm’s-length basis and resulted in deferral or underpayment in taxes, they are entitled to make special tax adjustments which might result in the increase of the Consolidated Affiliated Entities’ tax liabilities. If the tax authorities conduct special tax adjustments, they might impose interest charges for the underpaid taxes. Our financial position could be adversely affected if our Consolidated Affiliated Entities’ tax liabilities increase or if they are required to pay interest charge.

***Our current corporate structure and business operations may be affected by the Foreign Investment Law.***

On 15 March 2019, the NPC promulgated the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) or the FIL, which has become effective on 1 January 2020, and replaced the outgoing laws regulating foreign investment in China, namely the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》), the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), as well their implementation rules and ancillary regulations, or the Outgoing FIE Laws.

Meanwhile, the Implementing Rules of Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) came into effect as of 1 January 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law. However, uncertainties still exist in relation to interpretation and implementation of the FIL, especially in regard to, including, among other things, the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organisation form of foreign-invested enterprises within the five-year transition period. While FIL does not define contractual arrangements as a form of foreign investment explicitly, it has a catch-all provision under definition of “foreign investment” that includes investments made by foreign investors in the PRC through other means as provided by laws, administrative regulations or the State Council, we cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign investment. Therefore, there can be no assurance that our control over our Consolidated Affiliated Entities through Contractual Arrangements will not be deemed as foreign investment in the future. In the event that any possible implementing regulations of the FIL, any other future laws, administrative regulations or provisions deem Contractual Arrangements as a way of foreign investment, or if any of our operations through Contractual Arrangements is classified in the “restricted” or “prohibited” industry in the future “negative list” under the FIL, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws, administrative regulations or provisions mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Furthermore, under the FIL, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance

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with the requirements. In addition, the Administrative Regulations on the Foreign-invested Telecommunications Enterprises (《外商投資電信企業管理規定》) were recently amended by the State Council and took effect on May 1, 2022. The amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises cancelled the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry as stipulated in the previous version. Given this new regulatory development and any further detailed implementing rules that may be formulated by the PRC governmental authority, we may need to take further actions with respect to our Consolidated Affiliated Entities for the purpose of having better operational control on our Consolidated Affiliated Entities or continuously satisfying applicable requirements of the stock exchange where we list, which will be subject to a number of uncertainties, including adjusting the Contractual Arrangements with our Onshore Holdcos, registration of the equity interests change in our Consolidated Affiliated Entities and their subsidiaries, registration of the new equity pledges, and obtaining additional operating permits or making amendments to our current operating permits, including the Value-Added Telecommunications Business Operating Licences. However, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance, financial condition and business operations.

### RISKS RELATED TO DOING BUSINESS IN CHINA

*Changes in China’s or global economic, political or social conditions or government policies could have a material and adverse effect on our business and operations.*

Substantially all of our operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China’s economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us.

In addition, the global macroeconomic environment is facing challenges. For example, the COVID-19 pandemic has caused significant downward pressure for the global economy. In addition, the impact of the United Kingdom’s withdrawal from the European Union, commonly referred to as “Brexit”, and the resulting effect on the political and economic future of the U.K. and the European Union is uncertain. Brexit could adversely affect European and worldwide economic and market

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conditions, and could contribute to instability in global financial and foreign exchange markets. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term.

### *Uncertainties with respect to the PRC legal system could adversely affect us.*

We conduct our business primarily through our PRC subsidiaries and Consolidated Affiliated Entities in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries and Consolidated Affiliated Entities in China are subject to laws and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value. The PRC legal system is evolving rapidly, and the enforcement of these laws, regulations and rules may involve uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may cause difficulty for us to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

### *Failure to comply with the PRC Social Insurance Law and the Regulation on the Administration of Housing Provident Funds may subject us to fines and other legal or administrative sanctions.*

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations.

During the Track Record Period, certain of our PRC subsidiaries and Onshore Holdcos failed to make adequate contributions to social insurance and housing provident fund for certain of our employees. As a result, we may be required by relevant governmental authorities to make make-up contributions and be imposed a late payment penalty. See “Regulations — PRC Regulations — Regulations relating to employment and social welfare” for further details. As of the Latest Practicable Date, no competent governmental authorities had imposed administrative action, fine or penalty to us nor had any competent governmental authorities required us to settle the outstanding amount of social insurance payments and housing provident fund contributions. We have made provision of approximately RMB5.2 million, RMB13.7 million and RMB12.7 million for the shortfall of contribution to social insurance fund and housing provident fund for the years ended December 31,

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2020, 2021, and 2022, respectively. Although we are rectifying such non-compliance, we cannot assure you that we will not be subject to fines and penalties in relation to our failure to make social insurance and housing provident fund contributions in full for our employees. Our business, reputation and results of operations may be adversely affected.

During the Track Record Period, our Company and some of our PRC subsidiaries and Onshore Holdcos engaged third-party human resources agencies to pay social insurance premium and housing provident funds for certain of our employees. Pursuant to the PRC laws and regulations, we are required to pay social insurance premium and housing provident funds for our employees under our own accounts instead of making payments under third-party accounts. The contributions to social insurance premium and housing provident funds made through third-party accounts may not be viewed as fully compliance, and as a result, we may be required by competent governmental authorities to pay the outstanding amount. Pursuant to the agreements entered into between such third-party human resources agencies and our Company or our relevant PRC subsidiaries or Onshore Holdcos, the third-party human resources agencies have the obligation to pay social insurance premium and housing provident funds for our relevant employees. These third-party human resources agencies have confirmed in writing that they have paid such contributions. As of the Latest Practicable Date, neither our Company nor our relevant PRC subsidiaries or Onshore Holdcos had received any administrative penalty or labour arbitration application from employees for its agency arrangement with third-party human resources agencies. In addition, if such human resource agencies fail to pay the social insurance premium or housing provident funds for and on behalf of our employees in full as required by applicable PRC laws and regulations, we may also be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC governmental authorities for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer or be ordered to rectify. This in turn may adversely affect our financial condition and results of operations. Although we plan to comply with requests and requirements, if any, imposed by the relevant regulatory agencies on us with respect to our engagement of third-party human resources agencies, we cannot assure you that we would not be required to make additional payments or be subject to penalties or liabilities in relation to our existing practise.

***We may be required to register our operating offices outside of our residence addresses as branch offices under PRC law.***

Under PRC law, a company setting up premises for business operations outside its residence address must register them as branch offices with the relevant local market regulation bureau at the place where the premises are located and obtain business licences for them as branch offices. We may not be able to register branch offices in a timely manner due to complex procedural requirements and relocation of branch offices from time to time. As of the Latest Practicable Date, we were able to register branch offices in certain locations where we had significant presence, while we cannot assure you that we are and we have always been able to register branch offices in all locations where we have business operations. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, confiscation of income and suspension of operation. If we become subject to these penalties, our business, results of operations, financial condition and prospects could be adversely affected.



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***Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your [REDACTED].***

The conversion of Renminbi into other currencies, including the Hong Kong dollar and U.S. dollars, is based on rates set by the People’s Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China’s political and economic conditions and by China’s foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the Hong Kong dollar or U.S. dollar in the future.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to complete filings with and obtain approvals from SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

***Governmental control of currency conversion may limit our ability to utilise our revenues effectively and affect the value of your [REDACTED].***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our Company in the Cayman Islands may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our wholly foreign-owned subsidiaries in China are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by our shareholders or the ultimate shareholders of our corporate shareholders who are PRC residents. But approval from or registration with appropriate governmental authorities or delegated banks is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

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## RISK FACTORS

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***PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honoured brands. Moreover, the Anti-Monopoly Law of the PRC (Amended in 2022) (《中華人民共和國反壟斷法》(2022年修正)) requires that the anti-trust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the Provisions for the Implementation of the Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》 issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defence and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts or other relevant government agencies may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defence and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinised or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected. Furthermore, the Security Review Measures for Foreign Investments (《外商投資安全審查辦法》), or the New Security Review Measures, promulgated by the NDRC and the MOFCOM in 2020, provide that a review working institution for foreign investment security review will be jointly established by the NDRC and the MOFCOM, which will be responsible for organising, coordinating and guiding the security review of foreign investments, and if a proposed foreign investment meets the conditions as stipulated in the New Security Review Measures, the foreign investor or the relevant domestic party engaged shall report such case to the review working institution and the proposed foreign investment shall not be conducted if the review working institution decides to prohibit such investment. However, as the New Security Review Measures was newly issued, there are still substantial uncertainties as to its interpretation and implementations in practise.

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*We may be subject to the approval or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raisings activities.*

On 6 July 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated Opinions on Strictly Cracking Down on Illegal Securities Activities (《關於依法從嚴打擊證券違法活動的意見》), or the July 6 Opinion, which called for the enhanced administration and supervision of overseas-listed China-based companies, proposed to revise the relevant regulation governing the overseas issuance and listing of shares by such companies and clarified the responsibilities of competent domestic industry regulators and governmental authorities. The July 6 Opinion aims to achieve this by establishing a regulatory system and revising the existing rules for overseas listings of Chinese entities and affiliates including potential extraterritorial application of Chinese securities laws. As of the Latest Practicable Date, due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the July 6 Opinion, including on China-based companies with a VIE structure.

On 17 February 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”), and relevant five guidelines, which came into effect as of 31 March 2023. According to the Overseas Listing Trial Measures, PRC domestic enterprises that seek to [REDACTED] and list securities in overseas markets, either in direct or indirect means (the “**Overseas [REDACTED] and Listing**”), are required to fulfil the filing procedure with the CSRC and submit filing reports, legal opinions, and other relevant documents. For details, see “Regulations—PRC regulations—Regulations relating to M&A rules and overseas listings”.

According to the Notice on Arrangements for Record Filing Administration of Overseas Offering and Listing of Domestic Enterprises (《關於境內企業境外發行上市備案管理安排的通知》) and the relevant replies by the officials from CSRC which are both promulgated with the Overseas Listing Trial Measures simultaneously, the PRC domestic companies that have already been listed overseas or meet all of the following conditions shall be deemed as existing issuers (存量企業) (the “**Existing Issuers**”): (1) before the effective date of the Overseas Listing Trial Measures (i.e. 31 March 2023), the PRC domestic enterprise’s application for its indirect Overseas [REDACTED] and Listing has been approved by the relevant overseas regulatory authorities or securities exchanges (for example, a listing hearing has been passed by the Stock Exchange), and the PRC domestic enterprise does not need to re-perform the regulatory procedures for [REDACTED] and listing with the overseas regulatory authorities or overseas stock exchanges (for example, a new listing hearing is required by the Stock Exchange); and (2) the PRC domestic enterprise completes the Overseas Offering and Listing on or prior to 30 September 2023. The Existing Issuers are not required to complete the filing procedures immediately, and they shall be required to file with the CSRC when subsequent matters such as refinancing are involved.

Our PRC Legal Advisor is of the view that this Listing shall be deemed as indirect Overseas [REDACTED] and Listing by PRC domestic enterprise. Therefore, if there is no re-hearing required by the Stock Exchange after 31 March 2023 and this Listing can be completed on or prior to 30 September 2023, we will not be required to file with the CSRC with respect to this Listing.

If it is determined that we are subject to any CSRC filing, other governmental authorisation or requirements for this Listing and future [REDACTED] activities and reporting obligations, we cannot assure you that we could complete such filing or meet such requirements in a timely manner or at all. Under

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such circumstance, we, and our personnel directly in charge and other personnel with direct responsibility, may be warned, fined or subject to other disciplinary measures as set forth in the Overseas Listing Trial Measures.

Furthermore, given that the Overseas Listing Trial Measures were recently promulgated, there remains substantial uncertainties as to their interpretation, application, and enforcement and how they will affect our operations and our future financing.

In addition, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the July 6 Opinion, the Overseas Listing Trial Measures, the Special Management Measures (Negative List) for the Access of Foreign Investment (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) and any other related PRC Laws, rules and regulations will not impose any additional requirement on us or otherwise tightening the regulations on companies with a VIE structure. If it is determined that we are subject to any CSRC approval, filing, other governmental authorisation or requirements for future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions. Furthermore, any uncertainty and/or negative publicity regarding such an approval, filing or other requirements may also have a material adverse effect on the [REDACTED] of our Shares.

***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our wholly foreign-owned subsidiaries in China to liability or penalties, limit our ability to inject capital into these subsidiaries, limit these subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.***

The Circular on Foreign Exchange Administration for Financing and Round-Trip Investments by Domestic Residents via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 75, requires PRC residents to register with the relevant local branch of SAFE before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated the Circular on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, in July 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” The term “control” under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other

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material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions. In February 2015, SAFE issued the Circular on Further Simplifying and Improving the Policies for Foreign Exchange Administration for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Circular 13, which took effect on 1 June 2015. SAFE Circular 13 has delegated to the qualified banks the authority to register all PRC residents’ investment in “special purpose vehicle” pursuant to SAFE Circular 37, except that those PRC residents who have failed to comply with SAFE Circular 37 will remain to fall into the jurisdiction of the local SAFE branch and must make their supplementary registration application with the local SAFE branch.

We have requested PRC residents who we know hold direct or indirect interest in our Company to make the necessary applications, filings and amendments as required under SAFE Circular 37 and other related rules. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our Company, and we cannot provide any assurance that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements under SAFE Circular 37 or other related rules. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and legal sanctions, restrict our cross-border investment activities, limit the ability of our wholly foreign-owned subsidiaries in China to distribute dividends and the proceeds from any reduction in capital, share transfer or liquidation to us, and we may also be prohibited from injecting additional capital into these subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

***Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

Pursuant to the Circular on Relevant Issues Concerning the Foreign Exchange Administration over Involvement of Domestic Individuals in Equity Incentive Plans of Overseas Listed Companies (《關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知》), issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options are subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries’ ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors and employees under PRC law.

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***Our business benefits from certain financial incentives and discretionary policies granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.***

In the past, local governments in China granted certain financial incentives from time to time to our PRC subsidiaries or Consolidated Affiliated Entities as part of their efforts to encourage the development of local businesses. The timing, amount and criteria of government financial incentives are determined within the sole discretion of the local governmental authorities and cannot be predicted with certainty before we actually receive any financial incentive. We generally do not have the ability to influence local governments in making these decisions. Local governments may decide to reduce or eliminate incentives at any time. We cannot assure you of the continued availability of the government incentives currently enjoyed by our PRC subsidiaries or Consolidated Affiliated Entities. Any reduction or elimination of incentives would have an adverse effect on our results of operations.

***If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavourable tax consequences to us and our non-PRC shareholders.***

Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. On 22 April 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organisations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. If the PRC tax authorities determine that we should be classified as a PRC resident enterprise for PRC tax purposes, our global income will be subject to income tax at a uniform rate of 25%, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the EIT Law also provides that, if a PRC resident enterprise directly invests in another PRC resident enterprise, the dividends received by the investing PRC resident enterprise from the invested PRC resident enterprise are exempted from income tax, subject to certain conditions. However, it remains unclear how the PRC tax authorities will interpret the PRC tax resident treatment of an offshore

## RISK FACTORS

company with indirect ownership interests in PRC resident enterprises through intermediary holding companies.

Moreover, if the PRC tax authorities determine that our Company is a PRC resident enterprise for PRC enterprise income tax purposes, gains realised on the sale or other disposal of our Shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises, or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. Any such tax may reduce the returns on your [REDACTED] in our Shares.

*We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, and heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.*

The State Administration of Taxation has issued several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) issued in December 2009, or SAT Circular 698, the Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises (《關於非居民企業所得稅管理若干問題的公告》) promulgated issued in March 2011, or SAT Circular 24, and the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) issued in February 2015, or SAT Circular 7. Pursuant to these rules and notices, if a non-PRC resident enterprise indirectly transfers PRC taxable properties, referring to properties of an establishment or a place in the PRC, real estate properties in the PRC or equity investments in a PRC tax resident enterprise, by disposing of equity interest in an overseas holding company, such indirect transfer should be deemed as a direct transfer of PRC taxable properties and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%. SAT Circular 7 sets out several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose. An indirect transfer satisfying all the following criteria will be deemed to lack reasonable commercial purpose and be taxable under PRC law: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC income tax on the direct transfer of such assets. Nevertheless, the indirect transfer falling into the safe harbour available under SAT Circular 7 may not be subject to PRC tax and the scope of the safe harbour includes qualified group restructuring as specifically set out in SAT Circular 7, public market trading and tax treaty exemptions.

In October 2017, the SAT released the Public Notice Regarding Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (《關於非居民企業所得稅源泉扣繳有關問題的公告》), or SAT Public Notice 37, effective from December 2017. SAT Public Notice 37

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replaced a series of important circulars, including, but not limited to, SAT Circular 698, and revised the rules governing the administration of withholding tax on China-source income derived by a non-resident enterprise. SAT Public Notice 37 provides for certain key changes to the current withholding regime, for example, the withholding obligation for a non-resident enterprise deriving dividend arises on the date on which the payment is actually made rather than on the date of the resolution that declared the dividends.

Under SAT Circular 7 and SAT Public Notice 37, the entities or individuals obligated to pay the transfer price to the transferor are the withholding agents and must withhold the PRC income tax from the transfer price if the indirect transfer is subject to the PRC enterprise income tax. If the withholding agent fails to do so, the transferor should report to and pay the tax to the PRC tax authorities. In the event that neither the withholding agent nor the transferor fulfils their obligations under SAT Circular 7 and SAT Public Notice 37, according to the applicable law, apart from imposing penalties such as late payment interest on the transferor, the tax authority may also hold the withholding agent liable and impose a penalty of 50% to 300% of the unpaid tax on the withholding agent. The penalty imposed on the withholding agent may be reduced or waived if the withholding agent has submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with SAT Circular 7.

However, as there is a lack of clear statutory interpretation, we face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our Company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our Company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our Company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our Company and other non-resident enterprises in our group are transferees in such transactions. For the transfer of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the rules and notices. As a result, we may be required to expend valuable resources to comply with these rules and notices or to request the relevant transferors from whom we purchase taxable assets to comply, or to establish that our Company and other non-resident enterprises in our group should not be taxed under these rules and notices, which may have a material adverse effect on our financial condition and results of operations. There is no assurance that the tax authorities will not apply the rules and notices to our offshore restructuring transactions where non-PRC residents were involved if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-PRC resident **[REDACTED]** may be at risk of being taxed under these rules and notices and may be required to comply with or to establish that we should not be taxed under such rules and notices, which may have a material adverse effect on our financial condition and results of operations or such non-PRC resident **[REDACTED]** in us. We have conducted acquisition transactions in the past and may conduct additional acquisition transactions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.



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## **RISK FACTORS**

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**[REDACTED]**

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## **RISK FACTORS**

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**[REDACTED]**

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## WAIVERS AND EXEMPTIONS

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In preparation for Listing, we have sought the following waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Our Group’s management headquarters, senior management, business operations and assets are primarily based outside Hong Kong. The Directors consider that the appointment of two executive directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company or the Shareholders as a whole.

Accordingly, we have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with Rule 8.12 of the Listing Rules.

We will ensure that there is an effective channel of communication between the Stock Exchange and us by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives who shall act at all times as the principal channel of communication with the Stock Exchange. Each of our authorised representatives will be readily contactable by the Stock Exchange by telephone and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorised representatives are authorised to communicate on our behalf with the Stock Exchange. At present, our two authorised representatives are Mr. Fei Chen (“**Mr. Chen**”) and Ms. Fung Wai Sum (“**Ms. Fung**”) (as the designated primary authorised representative).
- (b) pursuant to Rule 3.20 of the Listing Rules, each Director has provided their contact information to the Stock Exchange and to the authorised representatives. This will ensure that the Stock Exchange and the authorised representatives should have means for contacting all Directors promptly at all times as and when required;
- (c) we will endeavour to ensure that each Director who is not ordinarily resident in Hong Kong must possess or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period; and
- (d) pursuant to Rules 3A.19 of the Listing Rules, we have retained the services of Maxa Capital Limited as compliance adviser, who will act as an additional channel of communication with the Stock Exchange.

### WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of a listed company must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

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## WAIVERS AND EXEMPTIONS

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Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles they played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company appointed Mr. Chen and Ms. Fung, as joint company secretaries. See “Directors and senior management—Company secretaries” for their biographies.

Ms. Fung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. Ms. Fung obtained her master’s degree in professional accounting and corporate governance from City University of Hong Kong in November 2008. Ms. Fung therefore meets the qualification requirements under Rule 3.28 Note 1 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

As set out in Code Provision C.6 in Part 2 of the Corporate Governance Code under Appendix 14 to the Listing Rules, the company secretary should be an employee of the Company and have day-to-day knowledge of the Company’s affairs. The Company’s principal business activities are outside Hong Kong. There are practical difficulties finding persons who possesses Mr. Chen’s day-to-day knowledge of the Company’s affairs while also having the academic and professional qualifications required. The Company believes that Mr. Chen, by virtue of his knowledge and past experience in handling corporate administrative matters of the Company, is capable of discharging the functions of a joint company secretary. Further, the Company believes that it would be in the best interests of the Company and the corporate governance of the Group to have as its joint company secretary a person such as Mr. Chen, who is an employee of the Company and who has day-to-day knowledge of the Company’s affairs. Mr. Chen has the necessary nexus to the Board and close working relationship with management of the Company in order to perform the function of a joint company secretary and to take the necessary actions in the most effective and efficient manner.

Accordingly, while Mr. Chen does not possess the formal qualifications required of a company secretary, we have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules.

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## **WAIVERS AND EXEMPTIONS**

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Pursuant to Guidance Letter HKEX-GL108-20 issued by the Stock Exchange, the waiver [is granted] on two conditions:

- (a) Mr. Chen must be assisted by Ms. Fung, who possesses all the requisite qualifications and experience required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary throughout the three-year waiver period; and
- (b) the waiver will be revoked if there are material breaches of the Listing Rules by our Company.

Prior to the end of the three-year period, the qualifications and experience of Mr. Chen and the need for on-going assistance of Ms. Fung will be further evaluated by our Company and our Company will liaise with the Stock Exchange to enable it to assess whether Mr. Chen, having benefited from the assistance of Ms. Fung for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

### **WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS**

We have entered into, and expect to continue, the Contractual Arrangements that will constitute continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], waivers from strict compliance with Chapter 14A of the Listing Rules. See “Connected Transactions” for further details, including the conditions for the waiver.

### **WAIVER AND EXEMPTION IN RESPECT OF THE 2019 SHARE INCENTIVE PLAN**

The Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance prescribes certain disclosure requirements in relation to the share options granted by our Company:

- (a) Rule 17.02(1)(b) of the Listing Rules stipulates that all the terms of a scheme must be clearly set out in this document. Our Company is also required to disclose in this document full details of all outstanding shares and their potential dilution effect on the shareholdings upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding shares.
- (b) Paragraph 27 of Part A of Appendix 1 to the Listing Rules requires our Company to set out in this document particulars of any capital of any member of our Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.
- (c) Paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires our Company to set out in this document, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with the certain particulars of the option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given.

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## WAIVERS AND EXEMPTIONS

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As at the Latest Practicable Date, our Company had granted [18,514,044] outstanding options under the 2019 Share Incentive Plan to [597] grantees to subscribe for an aggregate of [37,028,088] Shares, representing approximately [REDACTED] of the total number of Shares in issue immediately following the [REDACTED] (subject to the Assumptions). See “Statutory and general information—Share Incentive Plan” in Appendix IV for further details.

We have applied (i) to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules (the “**ESOP Waiver**”); and (ii) to the SFC for a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the options granted under the 2019 Share Incentive Plan (the “**ESOP Exemption**”), on the ground that the ESOP Waiver and the ESOP Exemption will not prejudice the interest of the [REDACTED] and strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons, among others:

- (a) as at the Latest Practicable Date, (i) our Company granted options which remain outstanding under the 2019 Share Incentive Plan to [597] grantees, comprising (i) [4] Directors, senior management and other connected persons of our Company, who collectively have an aggregate interest in [15,434,366] Shares underlying their outstanding options; and (ii) [593] grantees who are not Directors, members of the senior management or otherwise connected persons of our Company, who collectively have an aggregate interest in [21,593,722] Shares underlying their outstanding options;
- (b) our Directors consider that it would be unduly burdensome to disclose in this document full details of all the outstanding options granted by our Company to each of the grantees, which would significantly increase the cost and time required for information compilation and preparation for strict compliance with such disclosure requirements. For example, we would need to collect and verify the addresses of over 600 grantees to meet the disclosure requirement. Further, the disclosure of the personal details of each grantee, including their names, addresses and the number of options granted, may require obtaining consent from the grantees in order to comply with personal data privacy laws and principles and it would be unduly burdensome for our Company to obtain such consents given the number of grantees;
- (c) the grant and exercise in full of the shares under the 2019 Share Incentive Plan would not cause any material adverse impact in the financial position of our Company and non-compliance with all of the disclosure requirements set out above would not prevent our Company from providing its potential [REDACTED] with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Company; and
- (d) material information on the options has been disclosed in this document to provide prospective [REDACTED] with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the options in making their [REDACTED] decision, and such information includes: (i) a summary of the latest terms of the 2019 Share Incentive Plan; (ii) the aggregate number of Shares subject to the options and percentage of our Shares of which such number represents; (iii) the dilutive effect and the impact on earnings per Share upon full exercise of the options immediately following



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## WAIVERS AND EXEMPTIONS

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the [REDACTED] (subject to the Assumptions); (iv) full details of outstanding options granted to Directors and members of the senior management and connected persons of our Company, on an individual basis, are disclosed in this document, and such details include all particulars required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; (v) in respect of the outstanding options granted under the 2019 Share Incentive Plan to grantees other than those referred to in item (iv) of this paragraph, by bands of (A) options to subscribe for 1 to [20,000] Shares; (B) options to subscribe for [20,001] to [40,000] Shares; (C) options to subscribe for [40,001] to [60,000] Shares; (D) options to subscribe for [60,001] to [80,000]; and (E) options to subscribe for more than [80,000] Shares, details including (1) the aggregate number of the grantees and the number of Shares subject to such band; (2) the consideration paid for the grant of such options; and (3) the exercise period and the exercise price for such options; and (vi) the particulars of the ESOP Waiver and ESOP Exemption [granted by] the Stock Exchange and the SFC, respectively. This disclosure is consistent with the conditions ordinarily expected by the Stock Exchange in similar circumstances as set out in Guidance Letter HKEX-GL11-09 issued in July 2009 and updated in March 2014 by the Stock Exchange.

In light of the above, the Directors are of the view that the grant of the ESOP Waiver and the ESOP Exemption will not prejudice the interests of the [REDACTED].

The Stock Exchange [has granted] the ESOP Waiver on the conditions that:

- (a) on an individual basis, full details of the outstanding options granted under the 2019 Share Incentive Plan to each of the Directors and the senior management and connected persons of the Company, will be disclosed in “Statutory and general information—Share Incentive Plan” in Appendix IV as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) for outstanding options granted under the 2019 Share Incentive Plan to other grantees (being other than those set out in (a) above), by bands of (A) options to subscribe for 1 to [20,000] Shares; (B) options to subscribe for [20,001] to [40,000] Shares; (C) options to subscribe for [40,001] to [60,000] Shares; (D) options to subscribe for [60,001] to [80,000]; and (E) options to subscribe for more than [80,000] Shares, details including (1) the aggregate number of the grantees and the number of Shares subject to such band; (2) the consideration paid for the grant of such options; and (3) the exercise period and the exercise price for such options, will be disclosed in this document;
- (c) the aggregate number of Shares underlying outstanding options granted under the 2019 Share Incentive Plan and the percentage of our Company’s total issued share capital represented by such number of Shares as at the Latest Practicable Date will be disclosed in this document;
- (d) the dilutive effect and impact on earnings per Share upon the full exercise of the options granted under the 2019 Share Incentive Plan will be disclosed in this document;
- (e) a summary of the major terms of the 2019 Share Incentive Plan will be disclosed in this document;

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## WAIVERS AND EXEMPTIONS

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- (f) the particulars of the waiver will be disclosed in this document; and
- (g) the ESOP Exemption will be granted by the SFC.

The SFC [has granted] the ESOP Exemption on the conditions that:

- (a) on an individual basis, full details of the outstanding options granted under the 2019 Share Incentive Plan to each of the Directors and the senior management and connected persons of the Company, will be disclosed in “Statutory and general information—Share Incentive Plans” in Appendix IV as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) for outstanding options granted under the 2019 Share Incentive Plan to other grantees (being other than those set out in (a) above), by bands of (A) options to subscribe for 1 to [20,000] Shares; (B) options to subscribe for [20,001] to [40,000] Shares; (C) options to subscribe for [40,001] to [60,000] Shares; (D) options to subscribe for [60,001] to [80,000]; and (E) options to subscribe for more than [80,000] Shares, details including (1) the aggregate number of the grantees and the number of Shares subject to such band; (2) the consideration paid for the grant of such options; and (3) the exercise period and the exercise price for such options, will be disclosed in this document; and
- (c) the particulars of this exemption will be disclosed in this document and this document will be issued on or before **[REDACTED]**.

Further details of the 2019 Share Incentive Plan are set out in “Statutory and general information—Share Incentive Plans” in Appendix IV.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED "WARNING" ON THE COVER OF THIS DOCUMENT.

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**

**THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.**

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**[REDACTED]**

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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**INFORMATION ABOUT THIS DOCUMENT**

**Exchange rate conversion**

Solely for convenience purposes, this document includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi or Hong Kong dollar amounts can be or could have been at the relevant dates converted into another currency at the rates indicated, or at all.

Unless otherwise indicated (i) the translation between Renminbi and Hong Kong dollars was based on the rate of RMB1.00 to HK\$[1.11475], and (ii) the translation between U.S. dollars and Hong Kong dollars was based on the rate of US\$1.00 to HK\$[7.82077].

**Translation**

If there is any inconsistency between the English version of this document and the Chinese translation of this document, the English version of this document shall prevail unless otherwise stated. However, the English names of any Laws, governmental authorities, institutions, natural persons or other entities for which no official English translation exists are unofficial translations for your reference only and their names in the original language shall prevail.

**Rounding**

Certain amounts and percentage figures included in this document have been subject to rounding adjustments, or have been rounded to a set number of decimal places. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart in this document between total and sum of amounts listed therein are due to rounding.

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>I.D. issuing territory</b>
<b>Executive Directors</b>		
Mr. Buzhen Zhang	Room 301 (duplex unit), No. 26, Huancui Street, Baiyun District, Guangzhou, China	China
Mr. Fei Chen	Flat F, 15/F, Tower 10, Park Avenue, 18 Hoi Ting Road, Tai Kok Tsui, Kowloon, Hong Kong	Hong Kong, China
<b>Non-executive Directors</b>		
Mr. Frank Lin	Room 1001, Tower W2, Beijing Oriental Plaza, 1 East Chang’an Avenue, Beijing, China	America
Mr. Ziyang Zhu	Building B, East Area, Huanan Xincheng, Nancun Town, Panyu District, Guangzhou, Guangdong, China	Hong Kong, China
<b>Independent non-executive Directors</b>		
Ms. Rong Shao	No. 58 Jiangjun Road, Jiangning District, Nanjing, Jiangsu, China	China
Mr. Sam Hanhui Sun	No. 64 Donggong Street, Dongcheng District, Beijing, China	China
Mr. Hongqiang Zhao	Room 1101, Unit 3, Building 3, Yard 3, Jingda Road, Chaoyang District, Beijing, China	America

See “Directors and senior management” for further details.

**PARTIES INVOLVED IN THE [REDACTED]**

<b>Sole Sponsor and [REDACTED]</b>	<b>China International Capital Corporation Hong Kong Securities Limited</b> 29/F, One International Finance Centre 1 Harbour View Street Central, Hong Kong
	<b>[REDACTED]</b>

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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[REDACTED]

**Legal advisers to our Company**

*As to Hong Kong and U.S. Laws*

**Skadden, Arps, Slate, Meagher & Flom and affiliates**

42/F, Edinburgh Tower, The Landmark

15 Queen’s Road Central

Central, Hong Kong

*As to PRC Laws*

**Fangda Partners**

24/F, HKRI Centre Two, HKRI Taikoo Hui

288 Shi Men Yi Road

Shanghai, China

*As to Cayman Islands and BVI Laws*

**Harney Westwood & Riegels**

3501 The Centre, 99 Queen’s Road Central,

Central, Hong Kong

**Legal advisers to the Sole Sponsor  
and the [REDACTED]**

*As to Hong Kong and U.S. Laws*

**Freshfields Bruckhaus Deringer**

55/F, One Island East

Taikoo Place

Quarry Bay, Hong Kong



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**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

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*As to PRC Laws*

**Commerce & Finance Law Offices**

12-14/F, China World Office 2

No. 1 Jianguomenwai Avenue, Chaoyang District

Beijing, China

**Reporting accountant and auditor**

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

35/F, One Pacific Place

88 Queensway

Hong Kong

**Industry consultant**

**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.**

Suite 2504

Wheelock Square

1717 Nanjing West Road

Shanghai, China

**[REDACTED]**

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## CORPORATE INFORMATION

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<b>Headquarters</b>	Yaoshibang Building No. 8 Brand Street TIT Creative Industry Zone No. 397 Xingang Middle Road Guangzhou, China
<b>Principal place of business in Hong Kong</b>	5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong
<b>Registered office in the Cayman Islands</b>	Vistra (Cayman) Limited P.O. Box 31119 Grand Pavilion, Hibiscus Way 802 WestBay Road Grand Cayman KY1-1205 Cayman Islands
<b>Company website</b>	<b><u><a href="http://www.ysbang.cn">www.ysbang.cn</a></u></b> <i>(the information contained on this website does not form part of this document)</i>
<b>Joint company secretaries / Authorised representatives</b>	<b>Mr. Fei Chen</b> Yaoshibang Building No. 8 Brand Street TIT Creative Industry Zone No. 397 Xingang Middle Road Guangzhou, China  <b>Ms. Emily Fung (also known as Ms. Fung Wai Sum)</b> <i>ACG, HKACG</i> 5/F, Manulife Place 348 Kwun Tong Road Kowloon, Hong Kong
<b>Audit committee</b>	Mr. Hongqiang Zhao ( <i>Chairman</i> ) Mr. Sam Hanhui Sun Ms. Rong Shao
<b>Remuneration committee</b>	Mr. Sam Hanhui Sun ( <i>Chairman</i> ) Mr. Hongqiang Zhao Ms. Rong Shao
<b>Nomination committee</b>	Mr. Buzhen Zhang ( <i>Chairman</i> ) Mr. Hongqiang Zhao Mr. Sam Hanhui Sun

## CORPORATE INFORMATION

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[REDACTED]

**Compliance adviser**

**Maxa Capital Limited**  
Unit 1908, Harbour Center  
25 Harbour Road  
Wanchai, Hong Kong

**Principal banks**

**Ping An Bank, Shenzhen Bantian Branch**  
4/F, Ping An Bank Building  
No. 1099 Shennan Middle Road  
Shenzhen, China

**China Merchants Bank, Guangzhou Branch**  
No.5 Huasui Road  
Zhu Jiang New Town, Tianhe District  
Guangzhou, China

**Bank Of China, Guangzhou Panyu Branch**  
No.338 Qing He Dong Road  
Panyu District  
Guangzhou, China

## INDUSTRY OVERVIEW

*Certain information and statistics presented in this section and elsewhere in this document were derived from official government publications and other publicly available sources as well as from the Frost & Sullivan Report, a market research report prepared by Frost & Sullivan, an independent market research and consulting company that was commissioned by us. We believe that the sources of the information in this section and elsewhere in this document are appropriate sources for such information and reasonable care has been taken in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official government sources has not been independently verified by us or any other parties involved in the [REDACTED], or any of our or their respective directors, officers, or representatives, and no representation is given as to its accuracy. For discussions of risks relating to our industries, see “Risk Factors—Risks Related to Our Business and Industry.” Our directors confirm, after making reasonable enquires and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the Frost & Sullivan Report that would quality, contradict or have an impact on the information in this section.*

## SOURCE OF INFORMATION

We commissioned Frost & Sullivan to conduct a detailed research and analysis of the pharmaceutical market in China. Frost & Sullivan is an independent global market research and consulting company which was founded in 1961 and is based in the United States. Services provided by Frost & Sullivan include market assessments, competitive benchmarking, and strategic and market planning for a variety of industries. We have agreed to pay a fee of RMB850,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the Frost & Sullivan Report. The commissioned report was prepared by Frost & Sullivan independent of the influence of the Company and other interested parties. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed “Summary,” “Risk Factors,” “Business,” “Financial Information” and elsewhere in this document to provide our potential [REDACTED] with a more comprehensive presentation of the industry in which we operate. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report.

Frost & Sullivan prepared its report based on its in-house database, independent third party reports and publicly available data from reputable industry organisations. Where necessary, Frost & Sullivan contacts companies operating in the industry to gather and synthesise information in relation to the market, prices and other relevant information. Frost & Sullivan believes that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analysed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan research may be affected by the accuracy of these assumptions and the choice of these primary and secondary sources.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information on and industry insights into the pharmaceutical markets in which we operate. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources. The Frost & Sullivan Report was compiled based on the

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## INDUSTRY OVERVIEW

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following assumptions: (1) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (2) relevant key drivers are likely to drive the continued growth of China’s pharmaceutical market throughout the forecast period; and (3) there is no extreme force majeure or unforeseen industry regulations in which the industry may be affected in either a dramatic or fundamental way. All forecasts in relation to market size are based on the general economic conditions as of the Latest Practicable Date, which would be adjusted if the COVID-19 outbreak persists or escalates and has an unpredicted negative impact on the general economy.

### OVERVIEW OF CHINA’S HEALTHCARE INDUSTRY

China has one of the largest healthcare markets in the world. According to Frost & Sullivan, the total healthcare expenditure in China reached RMB7.6 trillion in 2021, ranked the second highest globally, and is expected to achieve and maintain a stable growth in the future at a CAGR of 9.5% and reach RMB13.0 trillion in 2027.

According to Frost & Sullivan, China’s healthcare expenditure is mainly driven by:

- *Rising per capita disposable income.* Against the backdrop of continuing economic development and urbanisation, the per capita disposable income in China is expected to grow at a CAGR of 7.5% from RMB36,883 in 2022 to RMB52,851 in 2027. Rising per capita disposable income leads to increasing purchasing power of Chinese citizens which in turn continuously boosts the growth of healthcare-related demand.
- *Ageing population.* China has become an ageing society with declining birth rates and increasing life span. Chinese population over 65 years old is estimated to increase from 211.3 million in 2022 to 273.6 million in 2027, approximately 14.9% in 2022 and 19.0% in 2027 as a percentage of the total population. As the elderly generally have more demand for disease management and treatment, ageing demographics is expected to create huge market opportunities in pharmaceutical and healthcare services.
- *Prevalence of typical chronic diseases.* Chronic diseases, such as diabetes, hepatitis and chronic nephritis, are closely related to lifestyle and an ageing population and have become prevalent in China. The percentage of healthcare expenditure in relation to chronic diseases to total healthcare expenditure in China increased from 57.3% in 2018 to 69.9% in 2022, and is estimated to further grow to approximately 75.1% in 2027. The prevalence of typical chronic diseases is boosting the demand for pharmaceutical products and health management from patients.
- *Favourable regulations and policies.* China has issued a series of policies to encourage the development of the healthcare industry. According to the *Healthy China 2030 Planning Outline*, promulgated by CPC Central Committee and the State Council and effective in October 2016, healthcare service capabilities are expected to be improved significantly by 2030 through a combination of favourable policies and implementation, including the establishment of a high-quality and efficiently integrated healthcare service system and a comprehensive public health service system, the further enhancement of the health insurance system, leadership in healthcare technological innovation, and considerable improvement in the quality of healthcare services. In addition, the *Implementation Plan to Build a Quality and Efficient Healthcare Service System Under the 14th Five-year Plan*, promulgated by the National Development and Reform Commission and National Health Commission and effective in June 2021, provides that a high quality and efficiently

## INDUSTRY OVERVIEW

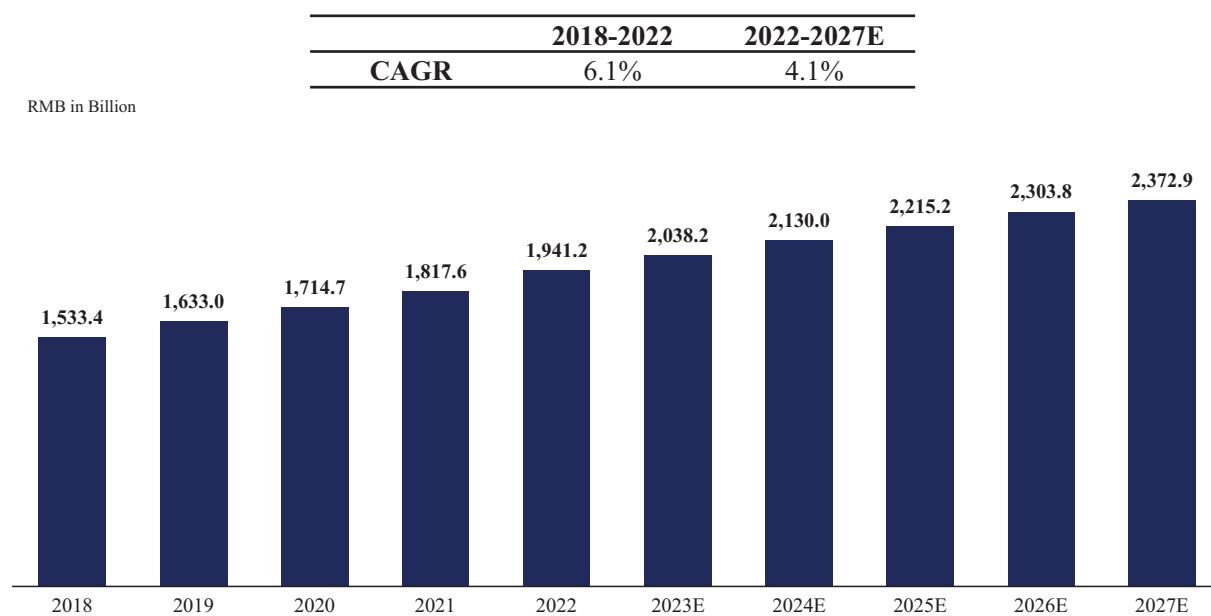
integrated healthcare service system will be established by 2025, leading to a comprehensive system, reasonable systematic design, clear division of labour, complementary functions, close collaboration, efficient operation and economic resilience. The development of the healthcare industry in China has become a focus at the national level, which has greatly fuelled the sound development of the industry.

### OVERVIEW OF CHINA’S PHARMACEUTICAL MARKET

#### Market size and industry value chain of China’s pharmaceutical market

China’s pharmaceutical market has witnessed a stable growth driven by the diversified pharmaceutical supply and growing pharmaceutical demand. According to Frost & Sullivan, China’s pharmaceutical market reached RMB1.9 trillion, in terms of retail sales value, in 2022. The retail sales value is expected to grow at a CAGR of 4.1% from RMB1.9 trillion in 2022 to RMB2.4 trillion in 2027.

China’s Pharmaceutical Market, by Retail Sales Value (2018-2027E)



Source: Frost & Sullivan

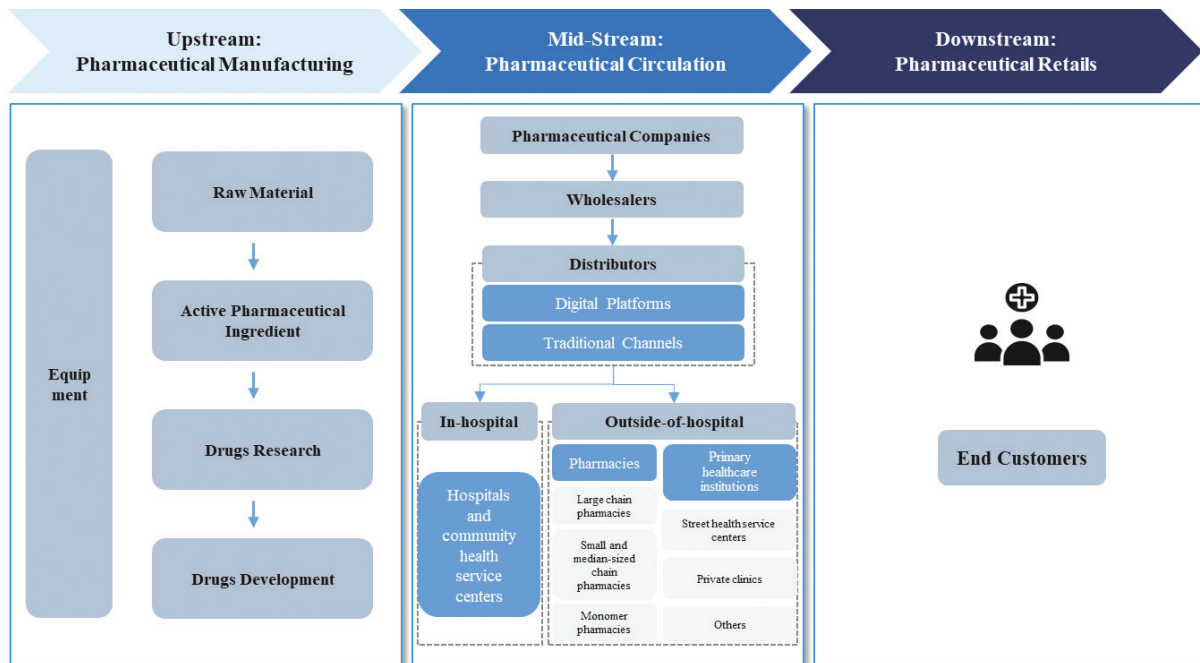
China’s pharmaceutical industry value chain mainly consists of three parts, namely pharmaceutical manufacturing, pharmaceutical circulation, and pharmaceutical retail. Pharmaceutical manufacturing is the process where pharmaceutical companies purchase raw materials and packing materials to manufacture pharmaceutical products. 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. Pharmaceutical retail is the process where end customers purchase pharmaceuticals from the retail terminals.

The pharmaceutical market can be divided into the in-hospital market and the outside-of-hospital market, based on the types of retail terminals. In-hospital terminals mainly include hospitals at various levels, and outside-of-hospital terminals mainly include pharmacies and primary healthcare institutions. Based on the size and operating model, pharmacies can be further categorised

## INDUSTRY OVERVIEW

into large chain pharmacies (with 500 and more stores), small and medium-sized chain pharmacies (with less than 500 stores) and monomer pharmacies. Primary healthcare institutions can be further categorised into health service centres/stations (at street level and township level), village clinics and private clinics. Given that small and medium-sized chain pharmacies, monomer pharmacies and primary healthcare institutions are usually located in lower tier cities, remote areas, or uptown areas and provide services to address the pharmaceutical demand from the primary level, they are collectively named as outside-of-hospital primary terminals.

### Overview of Industry Value Chain of China’s Pharmaceutical Market



Source: Frost & Sullivan

### Fragmented Outside-of-hospital Market

Compared with in-hospital terminals, outside-of-hospital terminals, especially the terminals at the primary healthcare level, are greater in number, smaller in size, and dispersed and fragmented. In addition, outside-of-hospital terminals can only serve the area within a limited radius, covering end customers within certain geographical areas. Therefore, pharmaceutical procurement by outside-of-hospital terminals features high frequency, small ticket size and scattered SKU demand. In the meantime, limited liquidity, low inventory level and fast turnover of outside-of-hospital terminals require prompt and in-time delivery. In addition, the capital turnover of outside-of-hospital terminals is usually higher than that of in-hospital terminals. Such capital turnover of outside-of-hospital terminals is typically within one month. The chart below demonstrates the main difference between the in-hospital and the outside-of-hospital market.

## INDUSTRY OVERVIEW

### Comparison of In-hospital Market and Outside-of-hospital Market

	Downstream Terminals	Upstream Suppliers	SKU	Procurement Frequency	Requirement on Delivery	Capital Turnover
In-hospital Market	<ul style="list-style-type: none"> <li>• Class I hospitals</li> <li>• Class II hospitals</li> <li>• Class III hospitals</li> </ul>	<ul style="list-style-type: none"> <li>• Large nationwide pharmaceutical distributors</li> </ul>	<ul style="list-style-type: none"> <li>• Prescription drugs</li> <li>• OTC drugs</li> </ul>	<ul style="list-style-type: none"> <li>• Low frequency with large demand on amounts for each order</li> </ul>	<ul style="list-style-type: none"> <li>• Low requirement with low difficulties</li> </ul>	<ul style="list-style-type: none"> <li>• 3-6 months</li> </ul>
Outside-of-hospital Market	<ul style="list-style-type: none"> <li>• Pharmacies</li> <li>• Primary healthcare institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Large nationwide pharmaceutical distributors</li> <li>• Regional median- and small- sized distributors</li> </ul>	<ul style="list-style-type: none"> <li>• OTC drugs (Primary)</li> <li>• Prescription drugs</li> <li>• Non-pharmaceutical health products</li> </ul>	<ul style="list-style-type: none"> <li>• High frequency with low demand on amounts for each order</li> </ul>	<ul style="list-style-type: none"> <li>• High requirement with high difficulties</li> </ul>	<ul style="list-style-type: none"> <li>• 0-3 months</li> </ul>

Source: Frost & Sullivan

On the supply side of the outside-of-hospital market, as of the end of 2022, China had approximately 14,000 pharmaceutical distributors, with the top three in aggregate representing around 27% market share, far lower than that in the U.S. which is more than 65% market share. According to Frost & Sullivan, although the number of pharmaceutical distributors in China is not expected to experience a notable growth in the next five years, the market will continue to stay highly fragmented for a certain period of time.

On the retail side of the outside-of-hospital market, the main terminals are pharmacies and primary healthcare institutions. On the pharmacy front, as of the end of 2021, China had a total of 600,000 pharmacies, 21.0% of which were large chain pharmacies and 79.0% of which were small and medium-sized chain pharmacies and monomer pharmacies. The top 20 pharmacies only account for approximately 27% market share in 2020, lower than that of 50% in the U.S. For primary healthcare institutions, as of the end of 2021, China had around 977,790 primary healthcare institutions, largely located in lower tier cities and remote areas. According to Frost & Sullivan, the number of outside-of-hospital terminals is expected to maintain a stable growth momentum in the near future, with the number of pharmacies growing at a CAGR of 7.4% from 2020 to around 928,000 in 2027, and the number of primary healthcare institutions growing at a CAGR of 1.3% from 2020 to around 1,064,000 in 2026.

### Growing pharmaceutical circulation market driven by the outside-of-hospital segment

Following similar trajectory of the retail market, China’s pharmaceutical circulation market experienced meaningful growth in the past five years from RMB1.3 trillion in 2018 to RMB1.8 trillion in 2022, representing a CAGR of 6.9%. In the next five years, the pharmaceutical circulation market is estimated to maintain a stable growth at a CAGR of 4.1% and rise from RMB1.8 trillion in 2022 to RMB2.1 trillion in 2027.

The outside-of-hospital pharmaceutical circulation market is expected to be an important driver of the growth in the overall pharmaceutical circulation market. The outside-of-hospital pharmaceutical circulation market grew from RMB371.6 billion in 2018 to RMB639.7 billion in 2022 at a CAGR of 14.5%, and the corresponding percentage of the overall pharmaceutical circulation market grew from



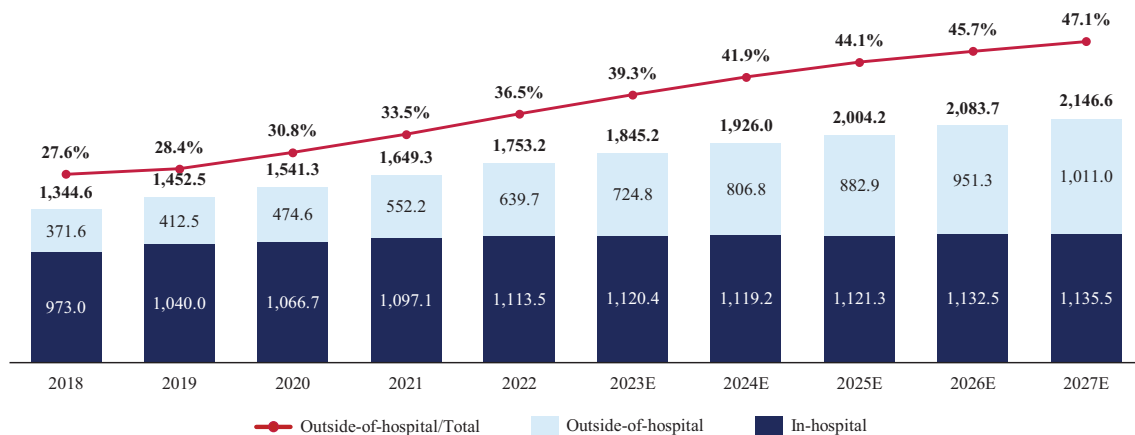
## INDUSTRY OVERVIEW

27.6% in 2018 to 36.5% in 2022. Over the next five years, the outside-of-hospital pharmaceutical circulation market will grow further from RMB639.7 billion in 2022 to RMB1.0 trillion 2027 at a CAGR of 9.6%, increasing the penetration rate of the overall circulation market from 36.5% in 2022 to 47.1% in 2027.

### China’s Pharmaceutical Circulation Market, by GMV (2018-2027E)

	CAGR	2018-2022	2022-2027E
<b>Total</b>		<b>6.9%</b>	<b>4.1%</b>
Outside of Hospitals		14.5%	9.6%
In Hospitals		3.4%	0.4%

RMB in Billion



Source: Frost & Sullivan

### Key drivers of outside-of-hospital pharmaceutical circulation market

- Favourable policies on the prescription outflow.* Sale of pharmaceuticals has historically been the major revenue model of public hospitals in China. In the past, patients with a doctor’s prescription could only purchase prescription drugs from the dispensary of a hospital. In 2014, the Ministry of Commerce, together with the other five ministries and commissions, jointly published the *Notice on the Implementation of the Key Tasks of the Healthcare Reform of 2014 to Enhance the Service Standards and Efficiency of Pharmaceutical Circulation* (“The Notice”). The Notice requires that retail pharmacies to take responsibility for services provided by the outpatient dispensary of public hospitals as well as other professional services. In addition, *The Key Tasks for Deepening the Reform of the Medical and Health System in 2016*, issued by the State Council in 2016, prohibited hospitals from restricting the outside-of-hospital circulation of prescription drugs, providing patients with the discretion to purchase prescription drugs from the outpatient dispensary of a public hospital or from a retail pharmacy. *The Key Tasks for Deepening the Reform of the Medical and Health System in 2017*, issued in 2017, proposed to explore the interlinkage and real-time sharing of information about prescriptions, medical insurance settlements and the retail sales of pharmaceuticals among healthcare institutions. These measures have been driving the outflow of prescription drugs from the in-hospital market to the outside-of-hospital market, leading to increasing sales of prescription pharmaceuticals in the outside-of-hospital market.
- Ever-rising threshold for introduction of new drugs to the in-hospital market.* The national government has long been vigorously supporting the R&D and promotion of new drugs,

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## INDUSTRY OVERVIEW

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and an increasing number of innovative drugs have been added to the *National Drug Reimbursement List*. However, pharmaceutical companies are faced with difficulties of introducing innovative drugs to the in-hospital market. According to Chinese Pharmaceutical Association, of the innovative drugs for tumour treatment that were added to the *National Drug Reimbursement List* in 2018-2019, only 15% to 25% had made their way into the in-hospital market as of the third quarter of 2020. The rising entry threshold for new drugs into hospitals is expected to drive those new drugs to flow to the outside-of-hospital market, leading to a greater selection of SKUs that can be purchased by end customers through pharmacies.

- *Limited incentives to supply pharmaceuticals to the in-hospital market.* In 2018, the National Healthcare Security Administration published the *Document on the Centralised Procurement of Pharmaceuticals in 4+7 Cities*, designating 11 cities, including Beijing, Tianjin and Shanghai, as the first batch of cities to pilot the programme of centralised pharmaceutical procurement, and the healthcare institutions were required to prioritise the use of pharmaceuticals that were centralised procured. The first batch of drugs under the centralised procurement scheme had their prices reduced by 52% on average, with the sharpest price drop being over 90%. As of February 2022, the national government had included seven batches of drugs into the “centralised procurement” (集中採購) scheme, including as many as 290 SKUs. The consensus belief is that the centralised procurement will become a norm, being implemented at a quickened pace and on a wider scale. The centralised procurement will shift the business strategy focus of pharmaceutical companies lean towards the outside-of-hospital market as a new distribution channel.
- *The trend towards medical resources being increasingly allocated to the primary level.* The development of primary healthcare resources has always been of the utmost importance in China’s medical system reform. The *Guiding Principles on the Implementation of the Building of a Graded Diagnosis and Treatment System*, issued by the General Office of the State Council in 2015, requires to improve the graded diagnosis and treatment system with a focus at the primary healthcare level. More detailed policies at both the national level and local level were introduced afterwards. Despite favourable policies, only about 50% of the patients in China had their diagnostic and treatment demands fulfilled at primary healthcare institutions in 2022, indicating significant room for growth at the primary healthcare level. These unmet demand resulted in patients travelling to better equipped but exceedingly congested tertiary hospitals in higher tier cities, exacerbating resource mismatch. As an integral part of the outside-of-hospital market, primary healthcare institutions will play an increasingly important role in residents’ medical consultations, medicine purchases, medical tests, treatment and other areas.
- *Technologies and new business models that facilitate the development of the outside-of-hospital market.* Advancements in the internet, big data, cloud computing, AI and other technologies have injected new fuel to the traditional pharmaceutical circulation industry. Digital pharmaceutical transactions have lifted geographical barriers, and the management and application of transaction data have enhanced the efficiency of the pharmaceutical supply chain. Compared with the in-hospital market, which is more centralised and highly regulated, outside-of-hospital terminals are more flexible in terms of the application of technologies and business models. Furthermore, outside-of-hospital

## INDUSTRY OVERVIEW

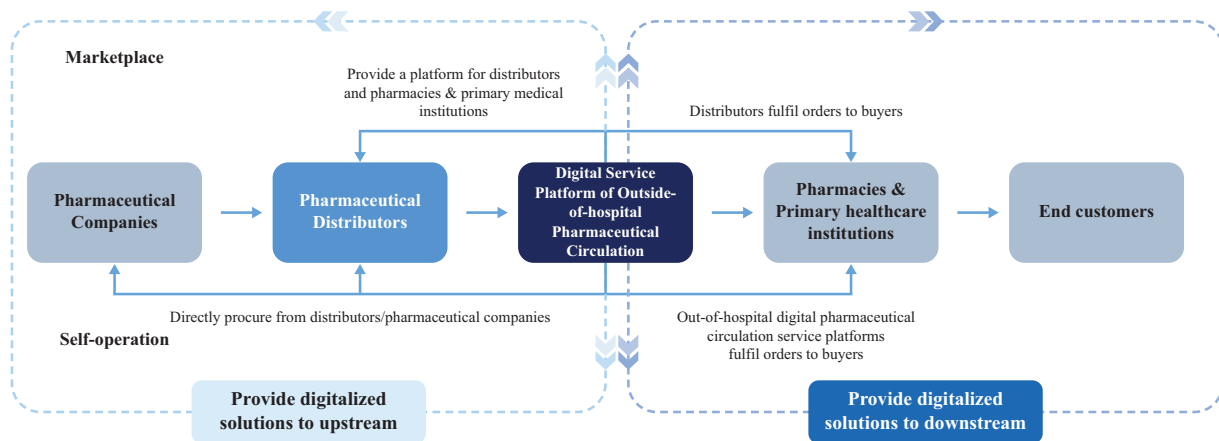
terminals are relatively fragmented and small in scale, meaning that they are in desperate need of efficiency enhancement mechanisms enabled by technology.

### OVERVIEW OF CHINA’S DIGITAL MARKET OF OUTSIDE-OF-HOSPITAL PHARMACEUTICAL CIRCULATION SERVICES

#### Overview of China’s digital market of outside-of-hospital pharmaceutical circulation services

Development in the internet and big data has been digitalizing services for businesses outside-of-hospital. Technologies are applied not only to facilitate online pharmaceutical circulation, but also to empower the outside-of-hospital market players with digital solutions. Digitalised pharmaceutical circulation can be divided into two business models, namely the marketplace and the self-operation. Under the marketplace, a platform acts as a marketplace to bridge upstream pharmaceutical sellers and downstream pharmaceutical buyers, and facilitate pharmaceutical transactions online. Under the self-operation, 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.

#### Business Model of Digital Market of Outside-of-hospital Pharmaceutical Circulation Services



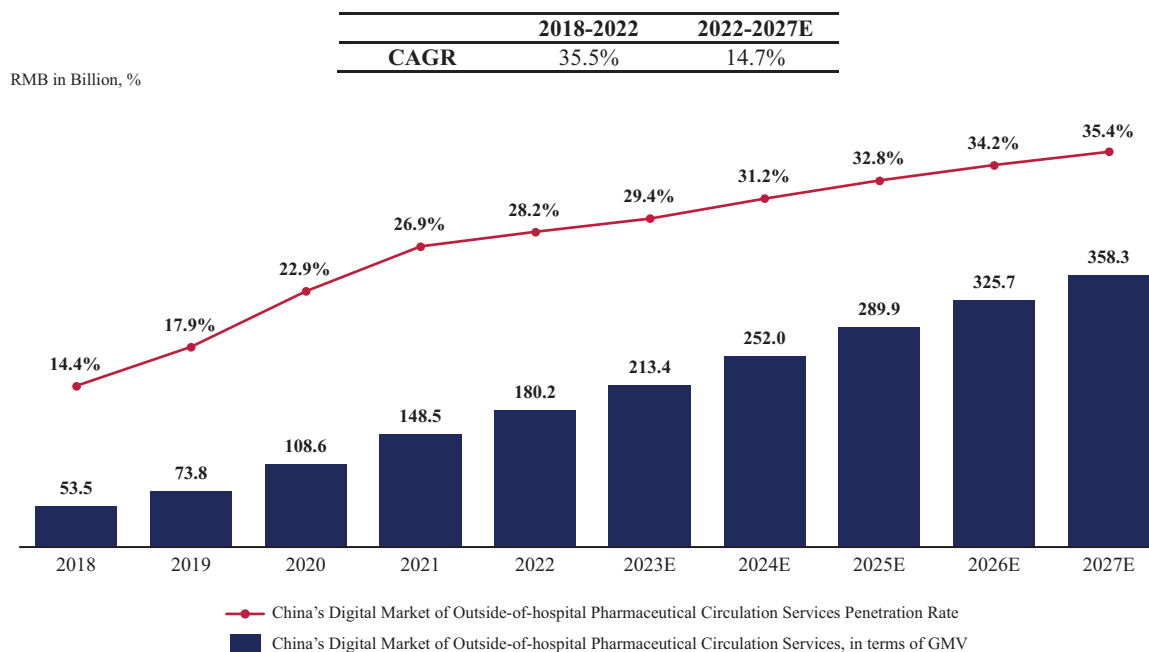
Source: Frost & Sullivan

China’s digital market of outside-of-hospital pharmaceutical circulation services has experienced rapid growth in recent years. According to Frost & Sullivan, the market size of China’s digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV 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%, while the percentage for the U.S. during the same period was over 35%, representing a considerable headroom for further growth. According to Frost & Sullivan, the market size of China’s digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV is expected to reach RMB358.3 billion in 2027 at a CAGR of 14.7%, when the penetration rate of China’s digital

## INDUSTRY OVERVIEW

market of outside-of-hospital pharmaceutical circulation services to the overall outside-of-hospital pharmaceutical circulation market, in terms of GMV, is expected to achieve 35.4%.

China’s Digital Market of Outside-of-hospital Pharmaceutical Circulation Services, in terms of GMV (2018-2027E)



Source: Frost & Sullivan

### Challenges faced by traditional outside-of-hospital pharmaceutical circulation market

There exist 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 regionalized. Large 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 advices 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

## INDUSTRY OVERVIEW

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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.

### **Emerging trends of digital service in the outside-of-hospital pharmaceutical circulation market**

- *Online platforms to overcome geographical barriers and connect businesses upstream and downstream seamlessly.* Online transaction platforms have become the dispensable solution to address the low efficiency and high costs of traditional pharmaceutical circulation, caused by the mismatch between supply and demand and the multi-layered circulation system. Online platforms enable sellers to, at a low cost, reach buyers not sufficiently covered by traditional models, thus bringing in the incremental sales opportunities. Meanwhile, the platforms enable downstream small and medium-sized buyers to procure a more diverse selection of SKUs to satisfy their long-tail demand. Online platforms replace the traditional multi-layered circulation system and allow buyers to form a virtual alliance, thus increasing their bargaining power and lowering procurement costs. Furthermore, certificate exchange platforms have brought the traditional offline certificate exchange process online, minimising human effort, reducing the time required for the compliance with regulatory requirements, and improving the accuracy of the information stored and exchanged.
- *Digital solutions to improve the operating efficiency.* The application of digitalised tools is penetrating into every aspect of the operation and management of outside-of-hospital market players. For pharmacies, SaaS solutions can help them achieve better inventory management, shelf management, marketing and membership management, GSP compliance and other aspects of daily operations. For pharmaceutical distributors, the empowerment brought by technologies can significantly enhance their supply chain capabilities, enabling them to achieve more precise procurement, more standardised inventory management and better logistic solutions. This can in turn lower the cost of products and increase the efficiency in fulfilment, resulting in better experience in downstream transactions and therefore better buyer engagement.
- *Data insights to identify and monetise more business opportunities.* The accumulation of transaction data on online platforms provides foundation for digital marketing. With sophisticated big data analytic tools, service providers can offer valuable data insights to upstream players, allowing them to accurately capture downstream demand so that they can promote their products tailored for such demand. In addition, industry players also create digital marketing means, such as group buy and livestreaming, allowing upstream players to access and interact with the target downstream more effectively.

## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE AND ENTRY BARRIERS OF CHINA’S DIGITAL MARKET OF OUTSIDE-OF-HOSPITAL PHARMACEUTICAL CIRCULATION SERVICES

#### Competitive landscape

The players in China’s digital market of outside-of-hospital pharmaceutical circulation services, in terms of the business model of digitalised pharmaceutical circulation business, can be divided into two types. Type one concerns pure online platforms and type two concerns traditional offline pharmaceutical distributors who establish and operate online platforms. The market is dominated by type one players, whose business models mainly include online marketplace that matches upstream supply and downstream demand and charges a commission, and self-operation business that builds and operates self-owned supply chain and directly sells to the downstream in the form of digital commerce transactions. The online platforms also provide digital solutions as value-added services to the upstream and downstream. Such initiative allows the platform to integrate transaction information among the platform and the terminals, enabling sellers and buyers to transact on the platform more conveniently and efficiently. In addition, by introducing digital solutions that can help improve operating efficiency, platforms are able to enhance user engagement and promote brand recognition. According to Frost & Sullivan, currently the competition in China’s digital market of outside-of-hospital pharmaceutical circulation services is concentrated, with the five leading major players accounting for over 63.5% of the market share. The following table presents the major players in China’s digital market of outside-of-hospital pharmaceutical circulation services:

Company <sup>(1)</sup>	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 <sup>(2)</sup>	23,000	12.8%	2	120,000	4	99.0%	1.0%
Competitor B <sup>(3)</sup>	20,000	11.1%	3	230,000	2	100%	0
Competitor C <sup>(4)</sup>	17,969	10.0%	4	175,000	3	25.4%	74.6%
Competitor D <sup>(5)</sup>	17,101	9.5%	5	110,000	5	<5%	>95%

Source: Frost & Sullivan

Notes:

- (1) Identities of the major players are commercially sensitive information. Disclosure of such information might negatively impact our operations.
- (2) Competitor A is a pharmaceutical wholesale platform officially launched in 2017 and offers the nation-wide pharmaceutical circulation service to terminals, including pharmacies and primary health institutions. Company A could also provide digital solutions, such as ERP system, to improve its clients’ business efficiency.
- (3) Competitor B is a pharmaceutical services company founded in Wuhan in 2015, primarily providing B2B pharmaceutical circulation services under marketplace model, with digital medical training services provided as part of its innovated businesses.
- (4) Competitor C is a listed pharmaceutical e-commerce company in NYSE, founded in Shanghai in 2013, primarily providing B2B pharmaceutical circulation services under both marketplace model and self-operation model.
- (5) Competitor D is a listed pharmaceutical services company in Shanghai Stock Exchange, founded in Wuhan in 1999, primarily providing B2B pharmaceutical circulation services in self-operation model, pharmaceutical logistics services, pharmaceutical retailing services and pharmaceutical manufacturing services.

#### Entry Barriers

- *User base and engagement.* The scale and engagement of users are important to online platforms. The flywheel effect is created when a larger buyer base attracts more sellers to the platform, while more sellers provide a wider variety of products, which can further attract more buyers. In addition, comprehensive value-added services provided by platforms can cultivate the consumption habit of users, further improving the user

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## INDUSTRY OVERVIEW

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engagement. The first mover advantage of leading platforms allows them to develop a diverse and loyal user base and thus create high entry barriers for the new entrants. Unless a large amount of subsidies is provided, users on existing platforms are reluctant to switch. Furthermore, given the fact that platforms provide users with digital solutions to improve their working efficiency in daily operation and management, the costs for them to switch platforms would be high.

- *Product quality and brand awareness.* Pharmaceutical circulation is highly regulated, and product quality is particularly important considering the nature of pharmaceuticals. Therefore, downstream terminals, when choosing a platform, have stringent requirements on product quality and fulfilment capability. Leading platforms existing in the industry for years have accumulated important know-how, resources and experience, thus could cultivate strong brand awareness and trustworthy partnership with users. In contrast, it would take a long time for new entrants to initiate the relationship, accumulate experience, create a standardised management system, and ultimately build a trustworthy brand image.
- *Data analytical and technological capabilities.* Data is core to digitalised transactions. Data analytical capability is a key competitive edge of a platform. In addition, it is also crucial for platforms to develop and commercialise advanced technologies. Leading platforms have accumulated massive transaction data, and have made long-time investment in acquiring and training information technology talents and improving technologies. The deep data insights, industry know-how and technological barriers they have built make it difficult for new entrants to copy and surpass them in the short term.

## OVERVIEW OF AND OUTLOOK FOR CHINA’S INDEPENDENT CLINICAL LABORATORY (ICL) MARKET

Independent clinical laboratories (“ICLs”) are allowed to provide independent clinical testing or pathological diagnostic services without involving hospitals. Hospitals outsource their tests and diagnostic tasks to ICLs to achieve meaningful economies of scale. The large-scale operation and professional division of labour of ICLs have significantly enhanced testing efficiency.

According to the *Notice by the State Council on the Issue of the “Fifteenth Five-year Plan” for the Deepening of the Reform Plan for the Pharmaceutical and Healthcare System* launched in 2016, the national government encouraged the establishment of professional medical testing institutions, and would promote the recognition of the testing results among medical institutions of the same tier and between medical institutions and ICLs. Later on, the national government introduced a series of policies to encourage and regulate the orderly development of the ICL industry. According to Frost & Sullivan, the market size of ICL in China had reached RMB40.6 billion in 2022, having achieved a strong CAGR of 22.3% over the past five years. Over the next five years, the market is expected to continue to maintain a stable growth, reaching a market size of RMB57.4 billion in 2027.

The primary healthcare market has a surging demand on independent medical testing and diagnostic services. Following the implementation of a graded diagnosis and treatment system, the testing demand of patients will gradually flow downwards to primary healthcare institutions. However, the primary healthcare market lacks sufficient medical resources, sophisticated technological capabilities, and especially professionals in pathology and testing. Meanwhile, it is not economically feasible for most primary healthcare institutions to make one-off investment in testing and diagnostic equipment. Their IT infrastructure and management capability are also relatively underdeveloped. As a

## INDUSTRY OVERVIEW

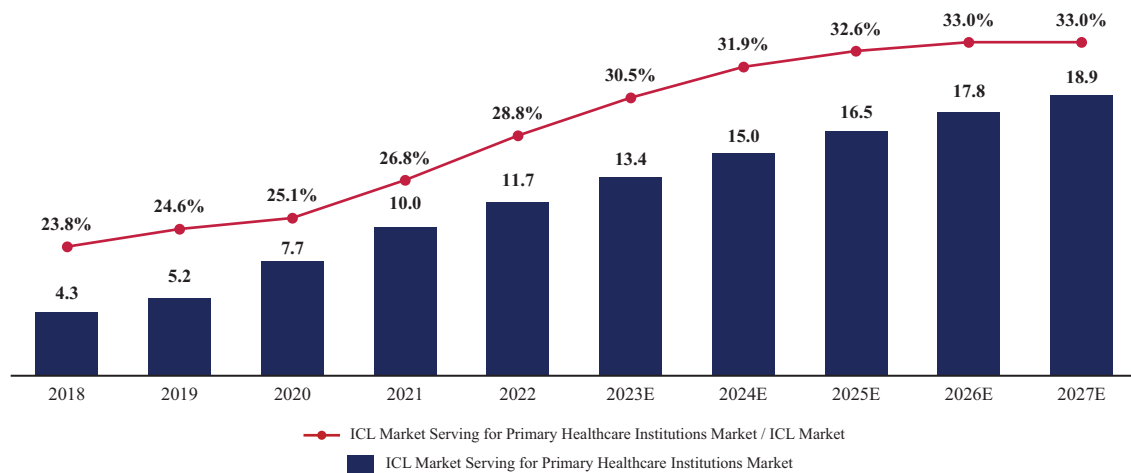
result, it is difficult for primary healthcare institutions to cope with the rapidly growing testing demand from the patients, thus resulting in the deficiency of testing services at the primary healthcare level.

ICL has become the solution to the problems faced by primary healthcare institutions. They can take over part of the demand on testing services and thus alleviate primary healthcare institutions from building their own testing capabilities, as well as enhance testing efficiency and service quality. According to Frost & Sullivan, the penetration rate of ICL market serving for the primary level of the overall ICL market is expected to grow from 28.8% in 2022 to 33.0% in 2027.

### Independent Clinical Laboratories Market Serving for Primary Healthcare Institutions Market in China, by Revenue (2018-2027E)

	2018-2022	2022-2027E
<b>CAGR</b>	28.4%	10.2%

RMB in Billion, %



Source: Frost & Sullivan

## OVERVIEW OF AND OUTLOOK FOR CHINA’S SMART UNMANNED PHARMACEUTICAL BOOTH MARKET

Pharmacies are critical to provide basic healthcare products and services to end customers. Pharmacies, particularly small and medium-sized ones, have increasing needs to improve their performance to address the challenges arising out of the stiff competition in the industry, such as low level of smartization, limited productivity, and expansion of large chain pharmacies.

Smart unmanned pharmaceutical booth is an important hardware in pharmacy smartization, where companies across industries have been increasingly employing digitalization and smart technologies to enhance operating efficiency and improve customer experience. Smart unmanned pharmaceutical booth can provide end customers with convenient pharmaceutical shopping experience by occupying only seven to eight square metres of ground space. Apart from the convenience of shopping experience, a smart unmanned pharmaceutical booth can provide 24-hour unmanned and uninterrupted services, thereby extending the operating hours of pharmacies during night time. Smart unmanned booths also help enhance operating efficiency, especially in that it improves the sales per square metre or per employee, during day time. Furthermore, compared with the shopping experience



## **INDUSTRY OVERVIEW**

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at traditional pharmacies, shopping at smart unmanned pharmaceutical booths provides end customers with a more private setting for carrying out their medication purchases.

China’s smart unmanned pharmaceutical booth market is still at its early development stage. However, with the optimization of product design, smart unmanned pharmaceutical booth is becoming a more prevailing option for pharmacies. Apart from the basic functions of pharmaceutical sales, other functions have been developed to cater to the diversifying demand of end customers, such as online consultation, and link with health insurance records. According to Frost & Sullivan, the GMV of transactions carried out through smart unmanned pharmaceutical booth is expected to reach RMB80 billion to RMB100 billion, and the penetration rate to the overall GMV in the outside-of-hospital pharmaceutical market is expected to reach over 10% in the next decade. It is estimated that pharmacies expect to invest RMB170 billion in purchasing smart unmanned pharmaceutical booths in the next decade.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### OVERVIEW

Our history can be traced back to 2015, when we first commenced our operation and launched YSB App. Since then, we have been led by Mr. Buzhen Zhang, our founder, chairman of the Board and chief executive officer, to address the pain points faced by upstream and downstream participants in the outside-of-hospital pharmaceutical market. We received multiple series of equity financing to support our expanding business operations from 2015 to 2021. We were the largest digital pharmaceutical platform serving businesses outside of hospitals in China in terms of GMV in 2021, according to Frost & Sullivan. See “Directors and senior management” for Mr. Zhang’s biography.

### KEY BUSINESS MILESTONES

The following table sets forth our key business development milestones:

<u>Year</u>	<u>Event</u>
2015	We launched YSB App and started operating Online Marketplace.
2016	We were granted a license from the State Food and Drug Administration for a third-party trading service platform for Internet drugs. We were granted High and New-Technology Enterprise (HNTE) status in China for recognition as an innovative company by the PRC government.
2018	Our Company was incorporated in the Cayman Islands and we carried out the 2018 Internal Restructuring.
2019	Our annual total GMV achieved RMB10 billion for the first time. We started operating Self-operation Business.
2020	We started Targeted Product Launch Business. Our annual total GMV achieved approximately RMB20 billion.
2021	The buyers registered on our Online Marketplace reached 400,000. We introduced ClouDiagnos and wePharmacy.
2022	Our average number of MAB reached 300,000 in March 2022.

### MAJOR SUBSIDIARIES

The principal business activities and date of establishment of each of our Major Subsidiaries are shown below:

<u>Name of company</u>	<u>Place of incorporation / establishment</u>	<u>Date of incorporation / establishment</u>	<u>Principal business activities</u>
Guangzhou Leyao Information Technology Co., Ltd. (廣州樂藥信息科技有限公司)	PRC	9 January 2019	Holding company of our Self-operation Business
Guangzhou Sudao Information Technology Co., Ltd. (廣州速道信息科技有限公司)	PRC	6 June 2012	Operating third party e-commerce platform, i.e., Online Marketplace

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### MAJOR SHAREHOLDING CHANGES OF OUR COMPANY AND REORGANIZATION

#### *Incorporation of our Company*

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 August 2018.

#### *Pre-[REDACTED] Investments*

From 2015 to 2021, we conducted several rounds of financing. See “—Pre-[REDACTED] Investments” for further information about the Pre-[REDACTED] Investments and “—Capitalisation” for the share capital of our Company as at the Latest Practicable Date and immediately after the [REDACTED] (subject to the Assumptions) showing the various rounds of investments and Shares held by each Shareholder before the [REDACTED].

#### *Entry into the Contractual Arrangements*

In preparation for Listing and to ensure that the scope of entities and businesses within our variable interest entity structure would be kept to a minimum, we adjusted our corporate structure (including our VIE structure) and entered into the Contractual Arrangements. See “Contractual Arrangements” for further details.

#### *Notable acquisitions and disposals during the Track Record Period*

We had not conducted any major acquisition or disposal of note during the Track Record Period.

#### *Other share capital changes of our Company*

For changes in our Company’s share capital within the two years immediately before the date of this document, see “Statutory and general information—Further information about our Group—Changes in share capital of our Company”.

For details of outstanding options granted under our Company’s share incentive plans, see “Statutory and general information—Share Incentive Plans”.

For other changes to our Company’s share capital[, including the Share Subdivision that will take effect upon Listing], see “Share Capital”.

### PRE-[REDACTED] INVESTMENTS

#### *Series Seed-Series C Financings*

Between April 2015 and June 2018, prior to our Company’s incorporation, Guangzhou Sudaο, our predecessor and now one of our Onshore Holdcos, conducted multiple rounds of onshore financings. In December 2018, soon after our Company was incorporated, and in contemplation of [REDACTED] our shares on an internationally recognised exchange, we internally restructured our then-group, following which certain then-shareholders of Guangzhou Sudaο became shareholders of our Company in exchange for Guangzhou Sudaο becoming a subsidiary of our Company (the “**2018 Internal Restructuring**”). Following this restructuring, the then-shareholders of Guangzhou Sudaο were allotted and issued shares in our Company on a proportionate basis to mirror their respective

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

then-equity holding in Guangzhou Sudao. Accordingly, we issued Seed to Series C-2 Preferred Shares in our Company to those pre-[REDACTED] investors that had initially subscribed for equity interests of Guangzhou Sudao.

### *Series D Financing*

On 4 December 2018, our Company entered into a share purchase agreement with the following Pre-[REDACTED] Investors, pursuant to which our Company issued, and the Pre-[REDACTED] Investors purchased, certain number of shares of our Company on 7 December 2018, as follows:

<u>Shareholders</u>	<u>Class of Shares</u>	<u>No. of Shares<sup>(1)</sup></u>	<u>Consideration</u>
Internet Fund V Pte. Ltd. ....	Series D	20,000,000	US\$80,000,000
H Capital V, L.P. ....	Series D	10,000,000	US\$40,000,000
DCM Investments (DE 5), L.L.C. ....	Series D	3,308,086	US\$13,232,344

*Note:*

(1) These Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.

### *Series E Financing*

On 1 February 2021, our Company entered into a share purchase agreement with the following Pre-[REDACTED] Investor, pursuant to which our Company issued, and the Pre-[REDACTED] Investor purchased, certain number of shares of our Company on 1 February 2021, as follows:

<u>Shareholders</u>	<u>Class of Shares</u>	<u>No. of Shares<sup>(2)</sup></u>	<u>Consideration</u>
Million Surplus Developments Limited .....	Series E <sup>(1)</sup>	17,357,824	US\$150,000,000

*Note:*

(1) Such 17,357,824 Series E Preferred Shares were re-designated and re-classified as Series E-1 Preferred Shares on 3 June 2021.

(2) These Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.

On 3 June 2021, our Company entered into a share purchase agreement with the following Pre-[REDACTED] Investor, pursuant to which our Company issued, and the Pre-[REDACTED] Investor purchased, certain number of shares or warrants for subscription of certain number of shares of our Company as follows:

<u>Shareholders</u>	<u>Class of Shares</u>	<u>No. of Shares<sup>(1)</sup></u>	<u>Consideration</u>
Baidu (Hong Kong) Limited .....	Series E-2	3,471,565	US\$30,000,000

*Note:*

(1) These Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.

<u>Warrant holders</u>	<u>Class of Shares</u>	<u>No. of Shares<sup>(3)</sup></u>	<u>Consideration</u>
Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司) <sup>(1)</sup> .....	Series E-2	3,471,565	US\$30,000,000
Genius II Found Limited <sup>(2)</sup> .....	Series E-2	2,670,434	US\$23,076,923
廣州新星花城創業投資合夥企業(有限合夥) Guangzhou XinXing Huacheng Venture Capital Partnership (Limited Partnership) <sup>(1)</sup> .....	Series E-2	578,594	US\$ 5,000,000

*Notes:*

(1) These warrants were exercised in full and the corresponding number of Shares were issued in full on 15 April 2022. See sub-paragraph (b) below.

(2) These warrants were exercised by affiliates of Genius II Found Limited pursuant to an amended warrant and on 15 April 2022, we issued an aggregate of 2,336,419 Series E-2 Preferred Shares to Shanghai Jixu Information Technology Partnership (Limited Partnership) and Genius V Found Limited. No further Shares may be issued under the original and amended warrants. See sub-paragraph (a) below.

(3) These Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In April 2022, we completed the following actions with respect to certain Pre-[REDACTED] Investors, following which, our Company had no outstanding warrants:

- (a) We entered into an amended warrant with Shanghai Jixu Information Technology Partnership (Limited Partnership) (上海績旭信息科技合夥企業(有限合夥)) and Genius V Found Limited to amend and restate the warrant dated 3 June 2021 originally entered into with Genius II Found Limited. Aside from the subscribing entities and the number of shares to be issued under the warrant, all other material terms of the amended warrant remained the same as the original warrant. On 15 April 2022, we issued 1,179,231 Series E-2 Preferred Shares to Shanghai Jixu Information Technology Partnership (Limited Partnership) (上海績旭信息科技合夥企業(有限合夥)) and 1,157,188 Series E-2 Preferred Shares to Genius V Found Limited pursuant to the amended warrant. For the avoidance of doubt, these Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.
- (b) On 15 April 2022, we issued 3,471,565 Series E-2 Preferred Shares to Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司) and 578,594 Series E-2 Preferred Shares to Guangzhou Xinxing Huacheng Venture Capital Partnership (Limited Partnership) (廣州新星花城創業投資合夥企業(有限合夥)) (formerly known as 廣州新星創業投資合夥企業(有限合夥)) pursuant to their respective warrants dated 3 June 2021. For the avoidance of doubt, these Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.

### Principal terms of the Pre-[REDACTED] Investments

The below table summarises the principal terms of the Pre-[REDACTED] Investments:

Series	Last completion date	Approximate amount raised	Approximate post-investment valuation <sup>(1)</sup>	Cost per share paid	Discount to the [REDACTED] <sup>(2)</sup>
Series Seed <sup>(3)</sup> . . . . .	22 May 2015	RMB16.0 million	RMB100.0 million	RMB2.15	[REDACTED]
Series A <sup>(3)</sup> . . . . .	12 September 2016	RMB55.0 million	RMB230.0 million	RMB3.76	[REDACTED]
Series B <sup>(3)</sup> . . . . .	2 April 2018	RMB108.0 million	RMB588.0 million	RMB7.84	[REDACTED]
Series C-1 <sup>(3)</sup> . . . . .	2 July 2018	RMB160.0 million	RMB1,385.0 million	RMB14.71 and RMB16.34 <sup>(4)</sup>	[REDACTED] and [REDACTED] <sup>(4)</sup>
Series C-2 <sup>(3)</sup> . . . . .	14 September 2018	US\$40.8 million	US\$271.4 million	US\$2.71	[REDACTED]
Series D . . . . .	30 January 2019	US\$133.2 million	US\$533.2 million	US\$4.00	[REDACTED]
Series E-1 . . . . .	5 February 2021	US\$150.0 million	US\$1,350.0 million	US\$8.64	[REDACTED]
Series E-2 . . . . .	15 April 2022	US\$85.2 million	US\$1,435.2 million	US\$8.64	[REDACTED]

*Notes:*

- (1) On a fully-diluted basis, and calculated by multiplying the cost per share by the number of shares immediately prior to the completion of corresponding round of financing, plus the amount raised in the corresponding round of financing.
- (2) Calculated based on the [REDACTED] of the indicative [REDACTED] range and eliminating the impact of the Share Subdivision.
- (3) Preferred Shares issued by our Company in exchange for, and in proportion to, the investors' interest in Guangzhou Sudao under the 2018 Internal Restructuring. See “—Series Seed-Series C financings” in this section for further details. For Series Seed to Series C financings, “last completion date” corresponds to the date that the investment was settled onshore, and “cost per share paid” equals to the investment amount raised from respective series of financing or investor divided by corresponding number of shares issued.
- (4) For Series C-1 financing, there are two different cost per share paid and discount to the [REDACTED], as one of the Series C-1 Pre-[REDACTED] Investors, Shenzhenshi Gaojie Zhihui Equity Investment Fund Partnership (LLP), subscribed Series C-1 Preferred Shares at a [REDACTED] discount (i.e. RMB14.71 per Share).

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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<b>Basis of consideration</b>	The consideration for the Pre-[REDACTED] Investments was determined based on arm’s length negotiations between our Company and the respective rounds of Pre-[REDACTED] Investors after taking into account the timing of the investments and the status of our business development and operating entities at the time of entering into the transaction documents.
<b>Use of [REDACTED] from the Pre-[REDACTED] Investments</b>	The [REDACTED] from the Pre-[REDACTED] Investments were used towards our business operations and in accordance with the business plan and budget approved by the Board. As of the Latest Practicable Date, we estimate that we had used over 90% of the funds raised from the Pre-[REDACTED] Investments.
<b>Lock-up</b>	The Pre-[REDACTED] Investors have agreed pursuant to the relevant investment documents to lock-up their Shares from the date of this document for a period of up to 180 days thereafter if so requested by our Company and the [REDACTED].
<b>Strategic benefits of the pre-[REDACTED] investment</b>	Many of our Pre-[REDACTED] Investors are sophisticated investors with a track record of investing in private and public companies with a focus in the business areas in which we operate. At the time of entering into the respective Pre-[REDACTED] Investments, our Directors were of the view that the respective investments would be beneficial to our Company for the primary reasons that: (i) the proceeds generated from those investments could be applied towards our Group’s operations to further grow and develop our business, and thereby generate greater returns to our then-shareholders; (ii) our Company would benefit from guidance and insights contributed by the Pre-[REDACTED] Investors, particularly by those who have experience investing in companies operating in the same industries in which we operate and/or are experienced in guiding and growing pre-[REDACTED] companies; and (iii) the investments represented positive market sentiment that would act as an endorsement of and confidence in our Group by those Pre-[REDACTED] Investors to the market, which would not only serve to validate our business to key stakeholders in our industry but would also enhance the reputation of our Company and would better position us for future fundraising opportunities.

### *Special rights of the Pre-[REDACTED] Investors*

The Pre-[REDACTED] Investors have been granted certain special rights in relation to our Company, such as redemption rights, director appointment rights, information rights and pre-emptive rights. All divestment (including redemption) rights have been terminated before our Company’s initial application for Listing; nevertheless, if the Listing is terminated before or not completed by 31 December 2023, the Company’s listing process will end and the Pre-[REDACTED] Investors will be entitled to divestment rights on the same terms as their original divestment rights. The remaining special rights will terminate upon Listing in accordance with Guidance Letters HKEX-GL43-12 and HKEX-GL44-12.

[REDACTED]

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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[REDACTED]

Other than as described above, immediately following the [REDACTED] (subject to the Assumptions) and upon Listing, the remaining Pre-[REDACTED] Investors and Shareholders will collectively hold [REDACTED] Shares (representing [REDACTED]% of the total issued share capital of our Company). To the best knowledge of our Company, these remaining Shareholders are not core connected persons of our Company and Shares held by them will count towards [REDACTED].

### *Information on our principal Pre-[REDACTED] Investors*

Set out below is a description of our Pre-[REDACTED] Investors.

- (a) Million Surplus Developments Limited (百盈發展有限公司), a company incorporated under the Laws of British Virgin Islands, is wholly owned by Meta Group Limited (元知集團有限公司), a company incorporated under the Laws of Cayman Islands. Meta Group Limited is ultimately controlled by Chu Mang Yee (朱孟依). Chu Mang Yee is a controlling shareholder of Hopson Development Holdings Limited, a company listed on the Stock Exchange (stock code: 754) and in which our non-executive Director, Mr. Ziyang Zhu is the Vice President.
- (b) Internet Fund V Pte. Ltd. is a Singapore private limited company and investment company that focuses on investing in internet, technology and software companies. It is managed by Tiger Global Singapore Pte. Ltd., which is an affiliate of Tiger Global Management, LLC, a Delaware limited liability company. All such shares are controlled by Chase Coleman and Scott Shleifer. The registered address of Internet Fund V Pte. Ltd. is 8 Temasek Boulevard #32-02, Suntec Tower Three, Singapore 038988.
- (c) H Capital V, L.P. is a limited partnership incorporated under the Laws of Cayman Islands. H Capital V, L.P. is controlled by H Capital V GP, L.P., which is the general partner of H Capital V, L.P.. H Capital V GP, L.P. is controlled by H Capital V GP, Ltd., which is the general partner of H Capital V GP, L.P.. H Capital V GP, Ltd. is controlled by Xiaohong Chen, who is the director of H Capital V GP, Ltd.. H Capital V, L.P. focuses on investment.
- (d) Shanghai Fosun Pharmaceutical Development Co., Ltd. (上海復星醫藥產業發展有限公司), a company established under the Laws of PRC, is wholly owned by Shanghai Fosun

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司), a company listed on the Stock Exchange (stock code: 2196) and Shanghai Stock Exchange (stock code: 600196).
- (e) DCM Investments (DE 5), LLC is a limited liability company formed under the Laws of Delaware. DCM Investments (DE 5), LLC is ultimately controlled as to one-third or more by DCM International IX, Ltd., of which Mr. Frank Lin, our non-executive Director, is a director.
  - (f) Genius II Found Limited (under the Laws of British Virgin Islands), Genius V Found Limited (under the Laws of British Virgin Islands), and Shanghai Jixu Information Technology Partnership (Limited Partnership) (上海績旭信息科技合夥企業(有限合夥)) (a limited partnership established under PRC Laws) are part of the Green Pine Capital Partners group. Genius II Found Limited and Shanghai Jixu Information Technology Partnership (Limited Partnership) are ultimately controlled by Shenzhen Songhe International Capital Management Partnership (Limited Partnership) (深圳市松禾國際資本管理合夥企業(有限合夥)), the general partner of which is Fei Luo (羅飛).
  - (g) Rizhao Changchunteng Innovation & Venture Capital Partnership (LLP) (日照常春藤創新創業投資合夥企業(有限合夥)) is a limited partnership established under the Laws of PRC, whose general partner is Qingdao Changchunteng Tengxin Investment Centre (Limited Partnership) (青島常春藤藤新投資中心(有限合夥)). The general partner of Qingdao Changchunteng Tengxin Investment Centre (Limited Partnership) is Shanghai Ivy Investment Co., Ltd., which is ultimately controlled by Jiyi Weng (翁吉義).
  - (h) Ivy Pacific GX Limited (formerly known as Everpower Global Co., Ltd.) is a BVI business company incorporated under the Laws of British Virgin Islands, which is wholly owned by Xiuguo Qi (齊秀國).
  - (i) Shunwei Growth III Limited is a BVI business company incorporated in British Virgin Islands and is wholly owned by Shunwei China Internet Opportunity Fund II, L.P., which is ultimately controlled by Tuck Lye KOH.
  - (j) Baidu (Hong Kong) Limited is a private company incorporated under the Laws of Hong Kong. It is ultimately wholly owned by Baidu, Inc., a company listed on Nasdaq (stock symbol: BIDU) and the Stock Exchange (Stock Code: 9888), a leading AI company with a strong Internet foundation, which was incorporated under the laws of the Cayman Islands.
  - (k) Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司) is a company limited by shares incorporated in the PRC and is owned as to 99.99% by Sunshine Insurance Group Company Limited. (陽光保險集團股份有限公司) (“**Sunshine Insurance**”). The Sunshine Insurance offers a range of insurance products including property insurance, life insurance.
  - (l) SIG Global China Fund I, LLLP (“**SIG Global**”) is a Delaware limited liability limited partnership. SIG Asia Investment, LLLP, a Delaware limited liability limited partnership, is the investment manager for SIG Global. Heights Capital Management, Inc., a Delaware Corporation, is the investment manager for SIG Asia Investment, LLLP. The only ultimate beneficial owner of SIG Global is a US citizen.
  - (m) Shenzhenshi Gaojie Zhihui Equity Investment Fund Partnership (Limited Partnership) (深圳市高捷智慧股權投資基金合夥企業(有限合夥)) (“**Gaojie**”) is a limited partnership established in the PRC. The general partner of Gaojie is Ningbo Meishan Free Trade Port Gaojie Huineng Investment Management Partnership (Limited Partnership), whose general partner is Wuxi Gaojie Enterprise Management Co., Ltd. (無錫高捷企業管理有限公司), which is wholly owned by Yushan Li (黎羽珊). Gaojie focuses on venture capital investment and management.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (n) High Mountain Capital Limited is a BVI business company incorporated in the British Virgin Islands and wholly owned by Jiangwei Wang (汪薑維). Jiangwei Wang is one of the registered shareholders of Guangzhou Sudao, see “Contractual Arrangements” for further details.
- (o) Smart Venture Management Limited is a BVI business company incorporated in the British Virgin Islands and wholly owned by Jiahao Shao (邵佳豪). Jiahao Shao is one of the registered shareholders of Guangzhou Sudao, see “Contractual Arrangements” for further details.
- (p) Guangzhou Xinxing Huacheng Venture Capital Partnership (Limited Partnership) (廣州新星花城創業投資合夥企業(有限合夥)) is a limited partnership established in the PRC, the general partner of which is Guangzhou Emerging Industry Development Fund Management Co., Ltd. (廣州市新興產業發展基金管理有限公司). Guangzhou Emerging Industry Development Fund Management Co., Ltd. is wholly owned by Guangzhou Industrial Investment Fund Management Company Limited (廣州產業投資基金管理有限公司), which is wholly owned by Guangzhou City Construction Investment Group Company Limited (廣州市城市建設投資集團有限公司), which is part of the People’s Government of Guangzhou Municipality.
- (q) Yue Du is an Independent Third Party.

Other than those Shareholders identified in “—Pre-[REDACTED] Investors—[REDACTED]”, none of the other Pre-[REDACTED] Investors are connected persons of our Company.

### ***Compliance with Interim Guidance***

On the basis that (i) the consideration for the Pre-[REDACTED] Investments was settled more than 28 clear days before the date of our first submission of the listing application to the Stock Exchange in relation to the Listing; and (ii) the special rights granted to the Pre-[REDACTED] Investors have terminated or will terminate before or upon the Listing, the Sole Sponsor has confirmed that the Pre-[REDACTED] Investments are in compliance with the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and last updated in March 2017 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and last updated in March 2017.

**HISTORY, REORGANIZATION AND CORPORATE STRUCTURE**

**CAPITALISATION**

The following table sets out our Company’s shareholding structure as at the date of this document and immediately upon completion of the [REDACTED] (subject to the Assumptions, but before the Share Subdivision).

Name of Shareholders	2018 Internal Restructuring		Pre-[REDACTED] Investment [REDACTED]		Shareholding Percentages							
	Founder Shares	Series Seed Preferred Shares <sup>(2)</sup>	Series A Preferred Shares <sup>(2)</sup>	Series B Preferred Shares <sup>(2)</sup>	Series C-1 Preferred Shares <sup>(2)</sup>	Series C-2 Preferred Shares <sup>(2)</sup>	Series D Preferred Shares <sup>(2)</sup>	Series E-1 Preferred Shares <sup>(2)</sup>	Series E-2 Preferred Shares <sup>(2)</sup>	Ordinary Shares <sup>(2)</sup>	Aggregate number of Shares as at the date of this document <sup>(2)</sup>	Aggregate ownership percentage immediately upon completion of the document <sup>(2)</sup>
<b>Management</b>												
MIYT Holdings Limited	31,329,046	—	—	—	—	—	—	—	—	—	31,329,046	20.33% [REDACTED]
<b>Substantial shareholders (under the Listing Rules)</b>												
Million Surplus Developments Limited (百盈發展有限公司)	—	100,005	492,259	191,252	—	2,343,306	—	17,357,824	—	—	20,484,646	13.29% [REDACTED]
Internet Fund V Pte. Ltd.	—	—	—	—	—	—	20,000,000	—	—	—	20,000,000	12.98% [REDACTED]
<b>Other shareholders</b>												
H Capital V, L.P. <sup>(1)</sup>	—	3,259,562	—	1,637,499	—	—	10,000,000	—	—	—	14,897,061	9.66% [REDACTED]
Shanghai Fosun Pharmaceutical Development Co., Ltd. (上海復星醫藥產業發展有限公司) <sup>(1)</sup>	—	—	9,352,948	4,482,492	—	—	—	—	—	—	13,835,440	8.98% [REDACTED]
DCM Investments (DE 5), LLC <sup>(1)</sup>	—	—	—	—	10,022,723	3,308,086	—	—	—	—	13,330,809	8.65% [REDACTED]
Genius II Found Limited	—	—	—	6,629,995	1,836,000	—	—	—	—	—	8,465,995	5.49% [REDACTED]
Genius V Found Limited	—	—	—	—	—	—	—	1,157,188	—	—	1,157,188	0.75% [REDACTED]
Shanghai Jixu Information Technology Partnership (Limited Partnership) 上海緝旭信息科技有限公司(有限合伙)	—	—	—	—	—	—	—	1,179,231	—	—	1,179,231	0.77% [REDACTED]
Rizhao Changchunteng Innovation & Venture Capital Partnership (LLP) (日照常春藤創新創業投資合夥企業(有限合伙))	—	2,328,260	2,727,386	—	—	—	—	—	—	—	5,055,646	3.28% [REDACTED]
Ivy Pacific GX Limited <sup>(1)</sup>	—	—	3,059,999	—	—	—	—	—	—	—	3,059,999	1.99% [REDACTED]
Shunwei Growth III Limited <sup>(1)</sup>	—	—	—	—	6,119,997	—	—	—	—	—	6,119,997	3.97% [REDACTED]
Baidu (Hong Kong) Limited (百度(香港)有限公司) <sup>(1)</sup>	—	—	—	—	—	—	—	—	3,471,565	—	3,471,565	2.25% [REDACTED]
Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司) <sup>(1)</sup>	—	—	—	—	—	—	—	—	3,471,565	—	3,471,565	2.25% [REDACTED]

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Shareholders	2018 Internal Restructuring				Pre-[REDACTED] Investment				Shareholding Percentages		
	Series Seed Preferred Shares <sup>(2)</sup>	Series A Preferred Shares <sup>(2)</sup>	Series B Preferred Shares <sup>(2)</sup>	Series C-1 Preferred Shares <sup>(2)</sup>	Series C-2 Preferred Shares <sup>(2)</sup>	Series D Preferred Shares <sup>(2)</sup>	Series E-1 Preferred Shares <sup>(2)</sup>	Series E-2 Preferred Shares <sup>(2)</sup>	Aggregate number of Shares as at the date of this document <sup>(2)</sup>	Aggregate ownership percentage as at the completion of the date of this document <sup>(2)</sup>	Aggregate ownership percentage immediately upon completion of the date of this document <sup>(2)</sup>
SIG Global China Fund I, LLLP <sup>(1)</sup>	—	—	—	—	2,668,056	—	—	—	2,668,056	1.73%	[REDACTED]
Shenzhenhi Gaojie Zhihui Equity Investment Fund Partnership (LLP) (深圳市高捷智慧股權投資基金合夥企業(有限合夥)) <sup>(1)</sup>	—	—	—	2,039,997	—	—	—	—	2,039,997	1.32%	[REDACTED]
High Mountain Capital Limited	1,396,957	—	637,499	—	—	—	—	—	2,034,456	1.32%	[REDACTED]
Smart Venture Management Limited	—	399,127	191,252	—	—	—	—	—	590,379	0.38%	[REDACTED]
Guangzhou Xinxing Huacheng Venture Capital Partnership (Limited Partnership) 廣州新星花城創業投資合夥企業(有限合夥) <sup>(1)</sup>	—	—	—	—	—	—	578,594	—	578,594	0.38%	[REDACTED]
Yue DU <sup>(1)</sup>	—	—	—	—	—	—	—	—	365,643	0.24%	[REDACTED]
<b>Shareholders after the date of this document</b>	—	—	—	—	—	—	—	[REDACTED] <sup>(3)</sup>	—	—	[REDACTED]
<b>Shareholders from the [REDACTED]</b>	—	—	—	—	—	—	—	[REDACTED] <sup>(3)</sup>	—	—	[REDACTED]
<b>Total</b>	<b>31,329,046</b>	<b>7,450,427</b>	<b>16,031,719</b>	<b>13,769,989</b>	<b>9,995,994</b>	<b>15,034,085</b>	<b>33,308,086</b>	<b>17,357,824</b>	<b>9,858,143</b>	<b>154,135,313</b>	<b>100.0%</b>

Note:

(1) Shares of these shareholders will contribute towards [REDACTED].

(2) These Share numbers are before the Share Subdivision and represent a Share of par value US\$0.00001 each.

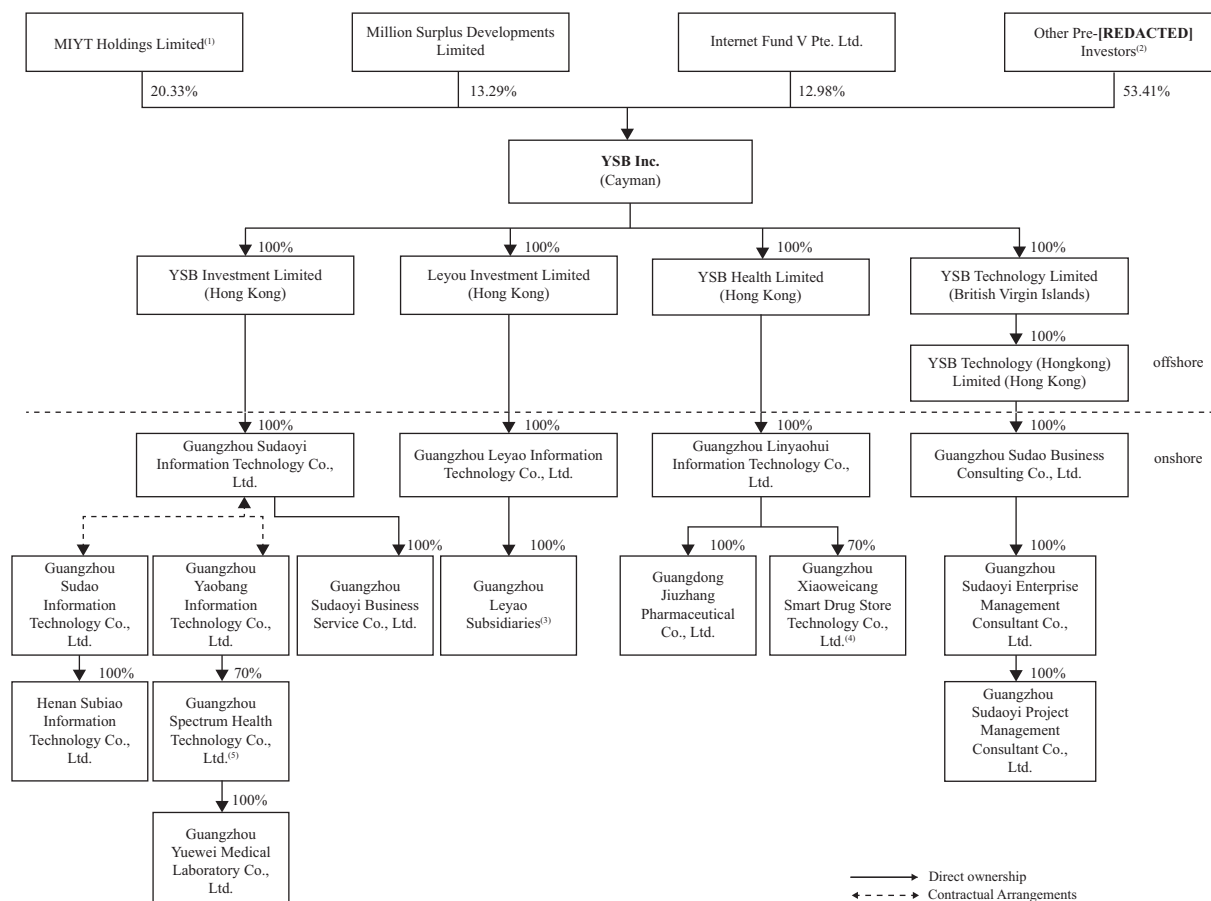
(3) These Share numbers reflect the [REDACTED] before the Share Subdivision and represent a Share of par value US\$0.00001 each. After the Share Subdivision, these figures will become [REDACTED] shares of par value US\$0.0000025 each.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### CORPORATE STRUCTURE

#### Corporate structure as of the date of this document

The following chart is a simplified depiction of the shareholding and beneficial ownership structure of our Group as of the date of this document:



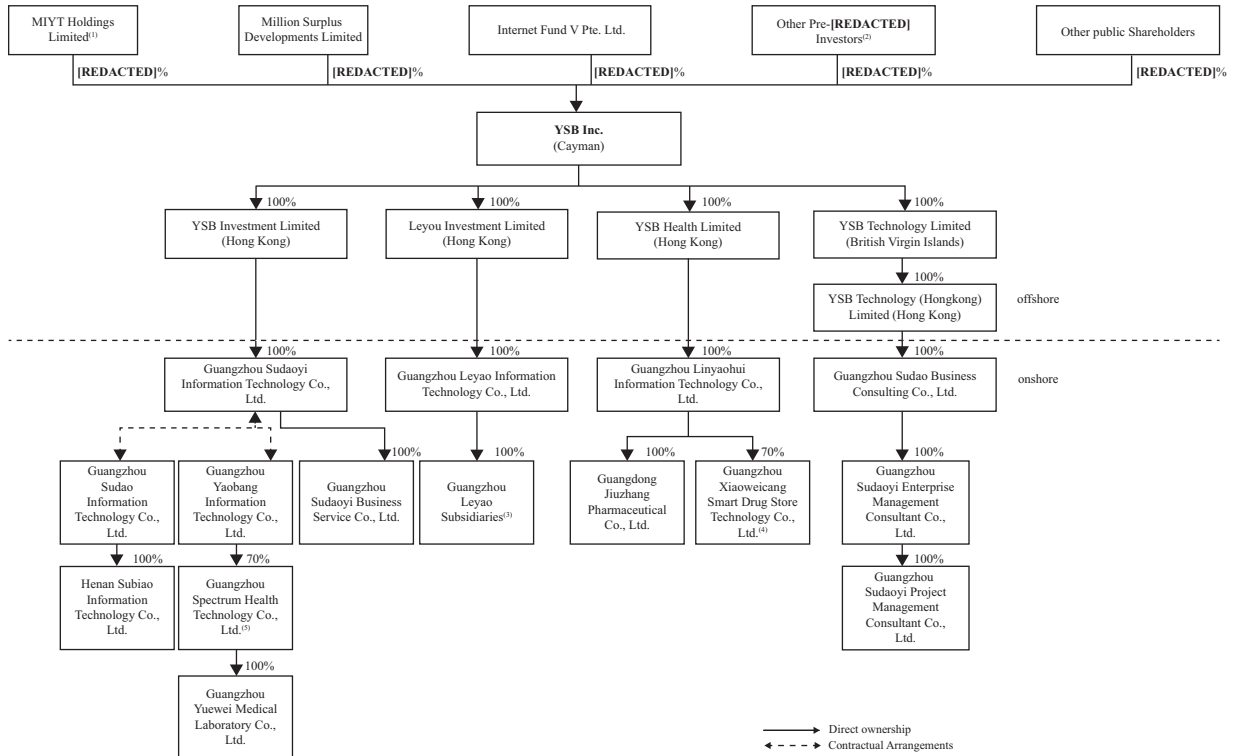
#### Notes:

- (1) MIYT Holdings Limited is controlled by MIYT Worldwide Limited, which in turn is wholly owned by a trust for the benefit of Mr. Buzhen Zhang, our Director.
- (2) See “—Capitalisation” and “—Pre-[REDACTED] Investment—Information on the Pre-[REDACTED] Investors” for more information about other Pre-[REDACTED] Investors and their respective shareholding.
- (3) These Guangzhou Leyao Subsidiaries are wholly owned by our Group.
- (4) The remaining shareholders of Guangzhou Xiaoweicang Smart Drug Store Technology Co., Ltd. are Luoyan Ran (冉羅燕) (as to 15%) and Guangzhou Xiaohuicang Enterprise Management Partnership (Limited Partnership) (廣州小慧倉企業管理合夥企業(有限合夥)) (as to 15%). Luoyan Ran is an Independent Third Party. Guangzhou Xiaohuicang Enterprise Management Partnership (Limited Partnership) is an employee shareholding platform that holds shares in Guangzhou Xiaoweicang Smart Drug Store Technology Co., Ltd. for the benefit of participants of this company’s share incentive programmes; the general partner of this employee shareholding platform is Wenhai Lu, who is an Independent Third Party.
- (5) The remaining shareholders of Guangzhou Spectrum Health Technology Co., Ltd. are Guangzhou Spectrum Enterprise Management Partnership (Limited Partnership) (廣州光譜企業管理合夥企業(有限合夥)) (as to 25%) and Yan Zhou (周嚴) (as to 5%). Yan Zhou is an Independent Third Party. Guangzhou Spectrum Enterprise Management Partnership (Limited Partnership) is an employee shareholding platform that holds shares in Guangzhou Spectrum Health Technology Co., Ltd. for the benefit of participants of this company’s share incentive programmes; the general partner of this employee shareholding platform is Wenhai Lu, who is an Independent Third Party.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### Corporate structure immediately following the [REDACTED]

The following chart is a simplified depiction of the shareholding and beneficial ownership structure of our Group immediately following the [REDACTED] (subject to the Assumptions):



Notes (1) to (5): Please refer to the details contained in the preceding page.

## SAFE REGISTRATION

Pursuant to the Circular on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“SAFE Circular 37”), promulgated by SAFE and which became effective on 14 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (“Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular on Further Simplifying and Improving the Policies for Foreign Exchange Administration for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (“SAFE Circular 13”), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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As advised by our PRC Legal Adviser, Mr. Buzhen Zhang completed the required registration with the SAFE on 30 September 2018.

### M&A RULES

Under the M&A Rules issued on 8 August 2006, which became effective on 8 September 2006 and was amended in June 2009, a foreign investor is required to obtain necessary approvals when it:

- (a) acquires the equity of a domestic non-foreign invested enterprise thereby converting the domestic enterprise into a foreign-invested enterprise;
- (b) subscribes for the increased capital of a domestic non-foreign invested enterprise so as to convert the domestic enterprise into a foreign-invested enterprise;
- (c) establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise; or
- (d) purchases the assets of a domestic enterprise and injects those assets to establish a foreign invested enterprise.

Our PRC Legal Adviser is of the opinion that prior CSRC approval for the [REDACTED] is not required because we did not acquire any equity interests or assets of a PRC domestic company owned by our controlling shareholders or beneficial owners who are PRC companies or individuals, as defined under the M&A Rules. However, as there has been no official interpretation or clarification of CSRC approval requirement under the M&A Rules, there is uncertainty as to how the M&A Rules will be interpreted or implemented and we cannot assure you that relevant PRC governmental authorities, including CSRC, would reach the same conclusion as our PRC Legal Adviser. Considering the uncertainties that exist with respect to issuance of new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules, the opinion of our PRC Legal Adviser as summarised above, is subject to change.

For further information about the risks associated with the CSRC approval, see “Risk factors—Risks related to doing business in China—We may be subject to the approval or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raisings activities”.

## BUSINESS

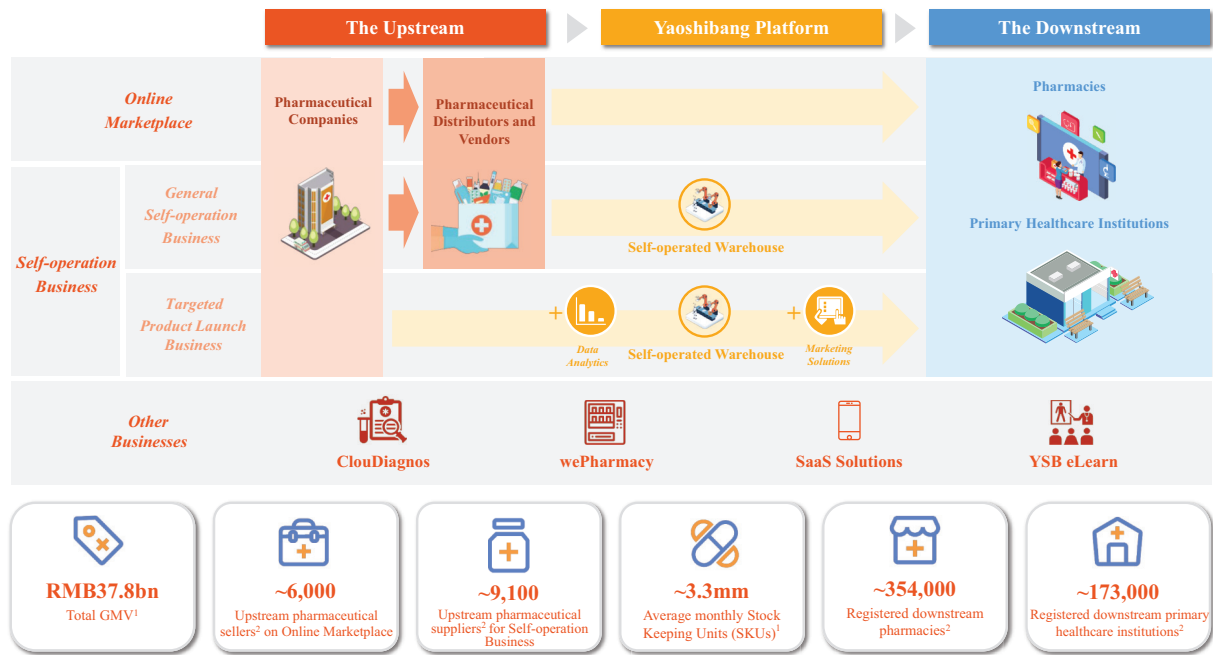
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### OUR BUSINESS

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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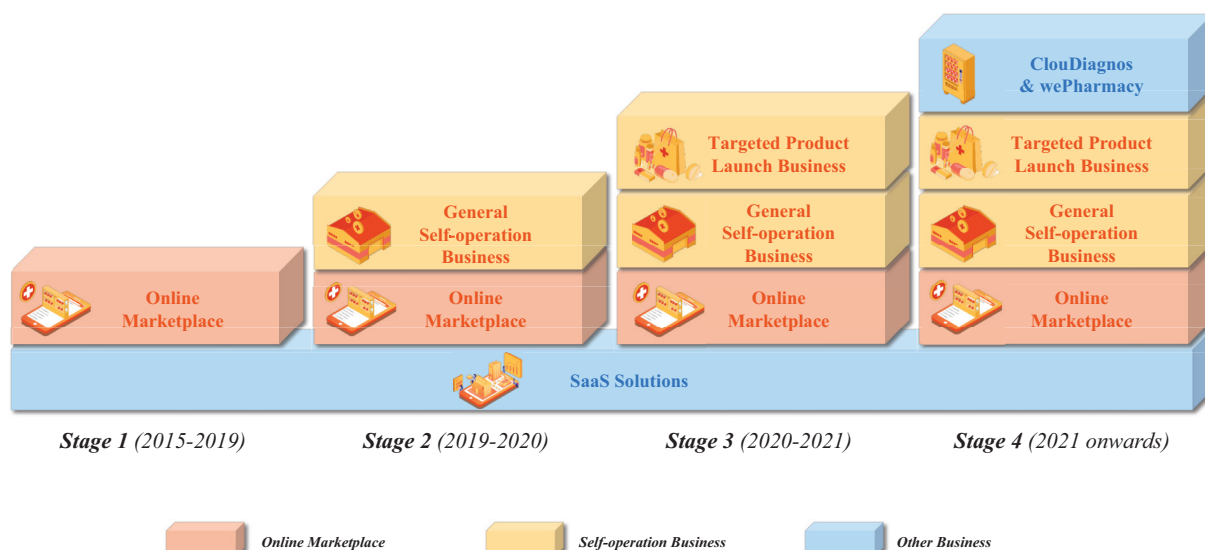
launch auxiliary medical consultation in the near future to help medical and pharmaceutical professionals provide more informed advice to patients. With the one-stop solution, our pharmaceutical circulation business and ClouDiagnos services together will create a self-reinforcing virtuous circle to fully 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
<b>Total</b>	<b>6,064,907</b>	<b>100.0</b>	<b>10,093,538</b>	<b>100.0</b>	<b>14,274,810</b>	<b>100.0</b>

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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
<b>GMV (RMB million)</b>			
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
<b>Total GMV</b>	<b>19,691</b>	<b>27,513</b>	<b>37,833</b>
<b>SKU</b>			
Average Number of Monthly Available SKU (million) <sup>(1)</sup>	1.5	2.4	3.3
Average Number of Monthly Available SKU for Self-operation Business (thousand)	150	196	278
<b>The Upstream</b>			
Number of Sellers on Online Marketplace	3,599	4,703	6,072
Number of Suppliers of Self-operation Business <sup>(2)</sup>	5,063	7,841	9,139
<b>The Downstream</b>			
<b>Overall</b>			
<b>Registered Number of Buyers (thousand)</b>	<b>332</b>	<b>434</b>	<b>527</b>
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
<b>Paying Ratio</b>	<b>80%</b>	<b>87%</b>	<b>92%</b>
<b>Average Number of Orders per Paying Buyer per Month<sup>(3)</sup></b>	<b>12.6</b>	<b>21.7</b>	<b>27.3</b>
GMV per Order (RMB)	806	474	409
<b>Online Marketplace</b>			
Average Number of MPB for Online Marketplace (thousand)	145	207	269
Average Number of Orders per Paying Buyer per Month for Online Marketplace <sup>(4)</sup>	9.8	15.8	18.8
GMV per Order for Online Marketplace (RMB)	798	434	374
<b>Self-operation Business</b>			
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 <sup>(5)</sup>	5.6	8.5	11.4
GMV per Order for Self-operation Business (RMB)	821	559	475
<b>Online Marketplace subsidy ratio<sup>(6)</sup></b>	<b>1.2%</b>	<b>0.8%</b>	<b>0.7%</b>
<b>Online Marketplace commission rate<sup>(7)</sup></b>	<b>2.8%</b>	<b>2.9%</b>	<b>3.1%</b>

*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.

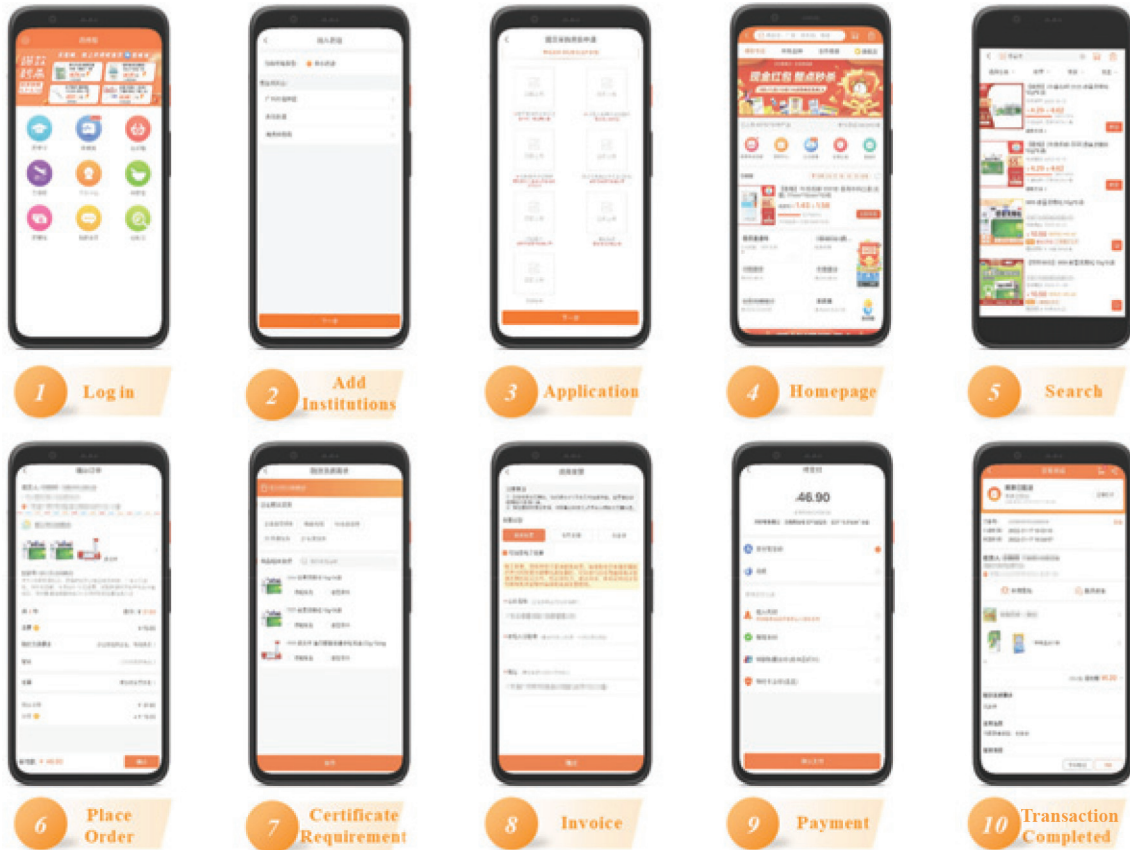
## OUR ONLINE MARKETPLACE

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.



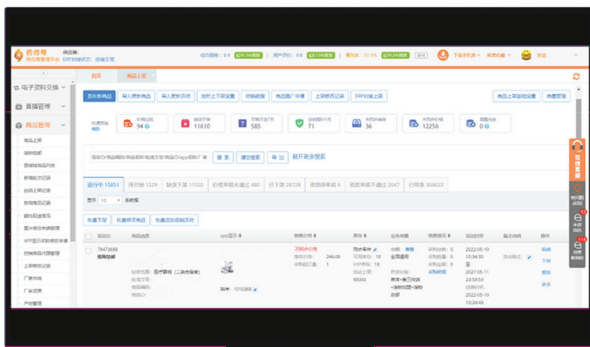
*Transaction process from buyer side*

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Homepage

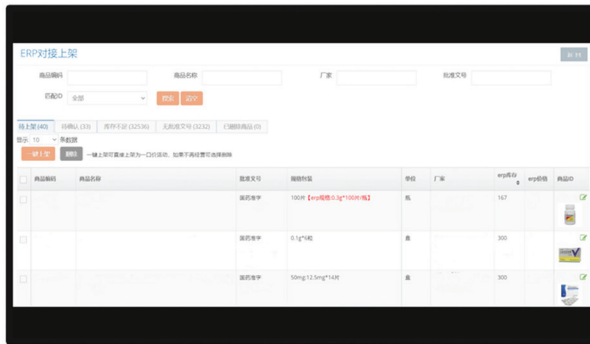
Provide sellers with various functions, including store management and marketing tools, etc.



On-shelf Management

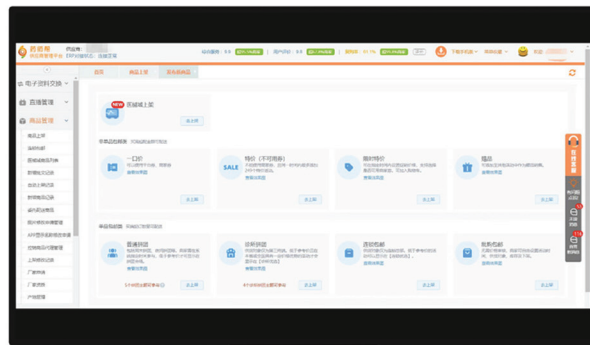
Conveniently add SKUs on shelf

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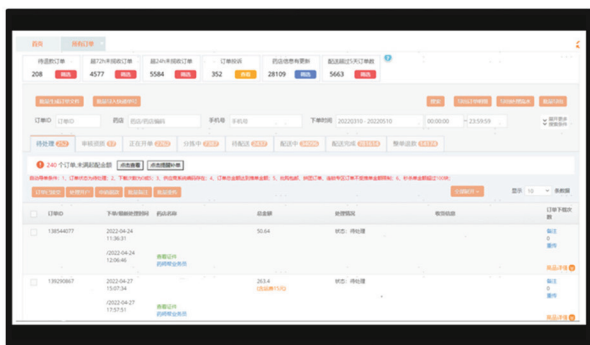
### Connection with ERP

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.

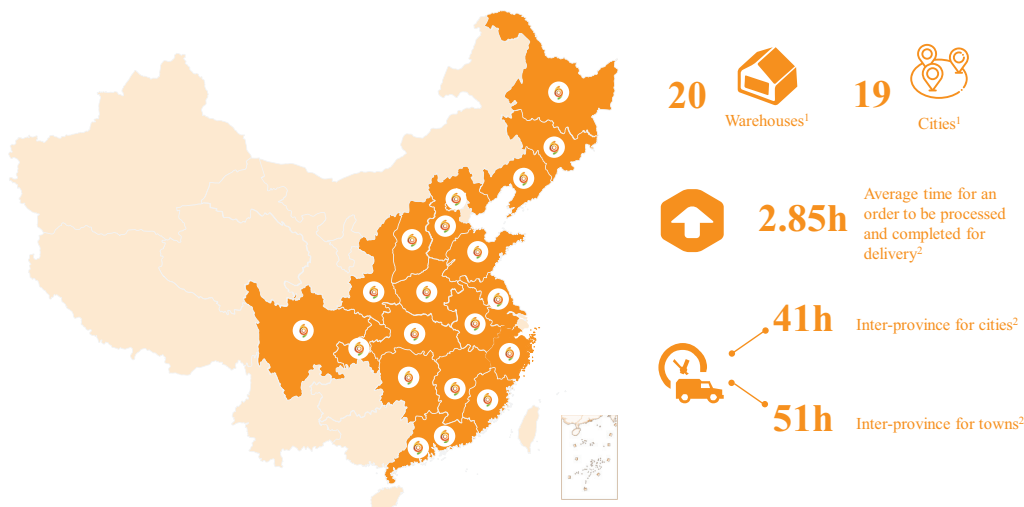
## BUSINESS

### 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

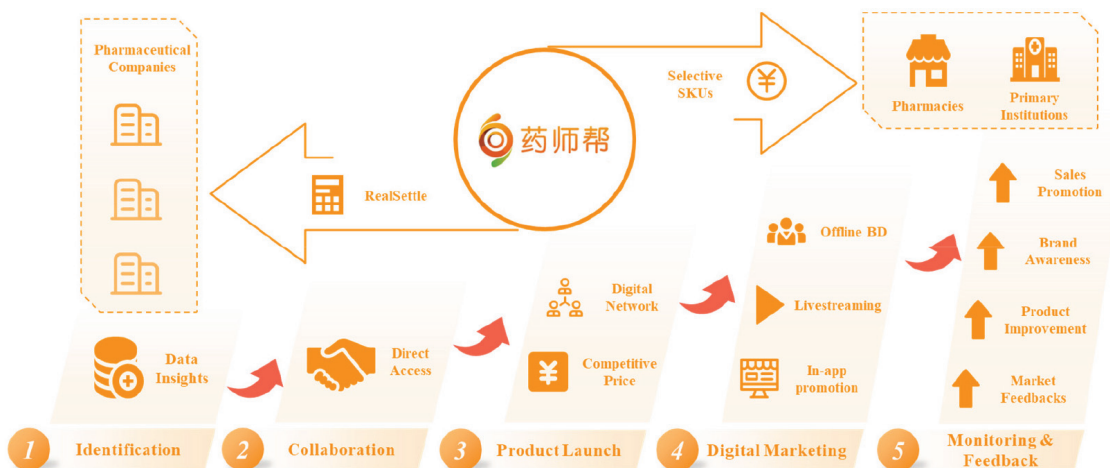
## BUSINESS

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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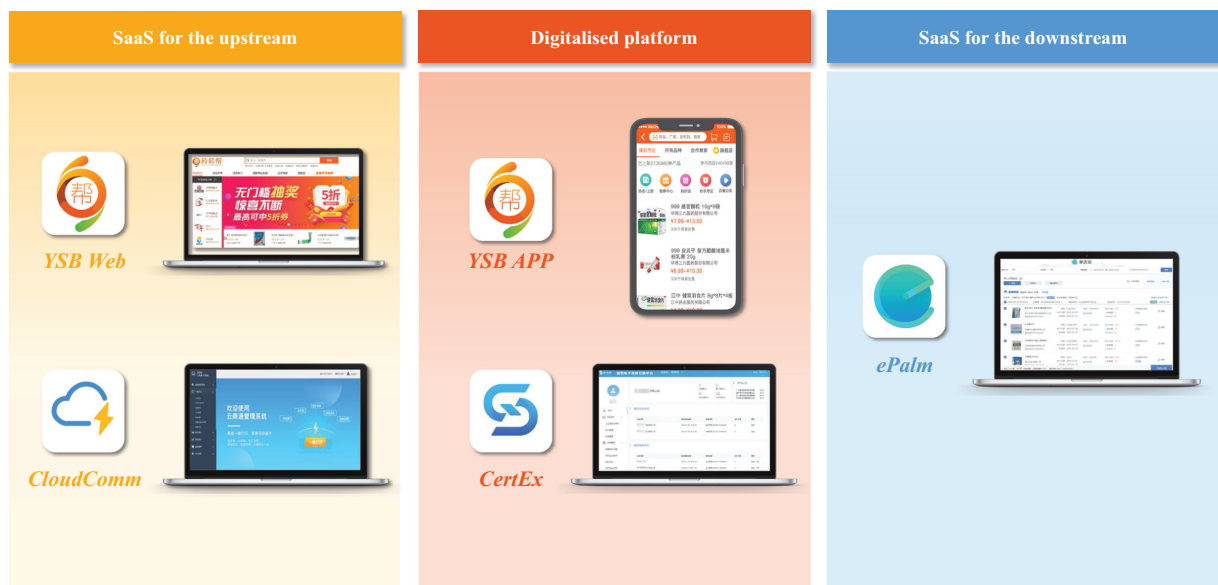
### YSB eLearn

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

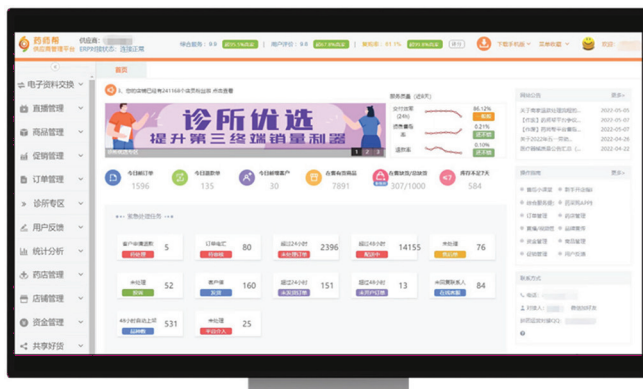
Enormous Amount of Information

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.

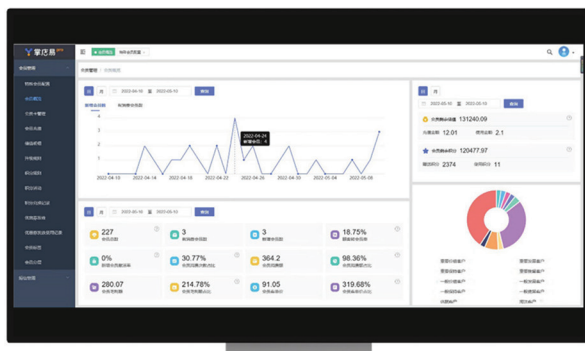
Real-time interaction between CloudComm and YSB Web eliminates delay in information transmission among industry participants along the supply chain and improves order transparency. When sellers update information such as price information, inventory availability and order status in CloudComm, buyers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

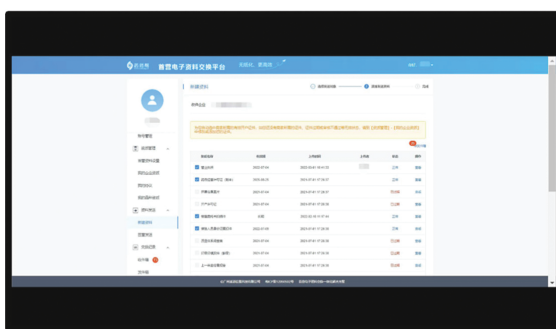


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### CertEx for certification exchange



**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.

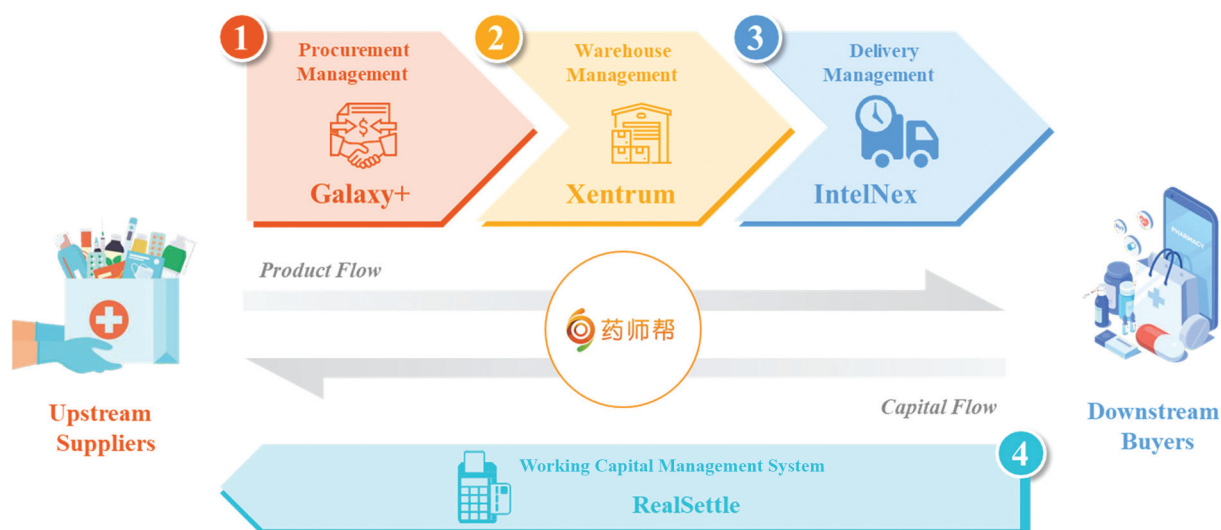
- With the help of CertEx, sellers and buyers can save the efforts and time for certificate authentication. After digitalizing the documents, exchange of certificates takes only five minutes, compared with several weeks traditionally.
- CertEx also provides an electronic official seal function for handling 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.

### BUSINESS SUSTAINABILITY

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:

<b>Key Terms</b>	<b>Description</b>
<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
<b>Total</b> .....	<b>5,916</b>

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 three 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

## CONTRACTUAL ARRANGEMENTS

### BACKGROUND

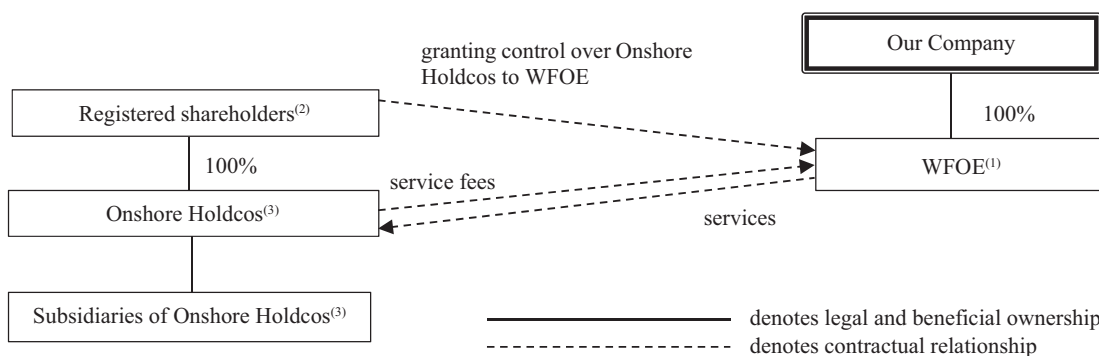
We operate certain businesses in Mainland China, including hosting and providing services through our Online Marketplace, and providing genetic testing services, which are subject to foreign investment restrictions (the “**Relevant Businesses**”).

As a result of the foreign investment restrictions, we operate our Relevant Businesses through the Consolidated Affiliated Entities under a variable interest entity structure. We do not directly own equity interest in the Consolidated Affiliated Entities, which are held by their respective registered shareholder(s). Instead, we control and consolidate the Consolidated Affiliated Entities through Contractual Arrangements. Under the Contractual Arrangements, all substantial and material business decisions of the Consolidated Affiliated Entities will be instructed and supervised by our Group, through our WFOE, and risks arising from the Consolidated Affiliated Entities’ business are also effectively borne by our Group as a result of these entities being treated as our controlled subsidiaries; accordingly, we are entitled to the economic benefits generated by the Consolidated Affiliated Entities to which the Onshore Holdcos are entitled through the Contractual Arrangements.

During each of the three financial years ended 31 December 2022, the revenue contribution of our Consolidated Affiliated Entities to our Group accounted for approximately 6.22%, 4.99% and 5.23%, respectively.

### OUR VIE STRUCTURE

The following diagram is a simplified illustration of our variable interest entity structure (the “**VIE Structure**”) under the Contractual Arrangements:



*Notes:*

- (1) WFOE is Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道易信息科技有限公司).
- (2) The registered shareholders of Guangzhou Sudaoyi are Mr. Buzhen Zhang (as to 85.92%), Mr. Jiangwei Wang (as to 3.18%), Mr. Jiahao Shao (as to 0.92%), and Guangzhou Yaodao Information Technology Partnership (Limited Partnership), which is controlled by Mr. Buzhen Zhang (as to 9.98%). The registered shareholder of Guangzhou Yaobang is Mr. Buzhen Zhang. Mr. Wang and Mr. Shao are former directors of our Company and Pre-[REDACTED] Investors, and Mr. Wang is a director of Guangzhou Sudaoyi, with Mr. Wang and Mr. Shao being interested in 1.32% and 0.38% of our Company’s issued share capital as at the date of this document; see “History, reorganization and corporate structure” for further details.
- (3) The Onshore Holdcos and their subsidiaries are collectively our Consolidated Affiliated Entities. The Onshore Holdcos are Guangzhou Sudaoyi Information Technology Co., Ltd. (廣州速道信息科技有限公司, “**Guangzhou Sudaoyi**”) and Guangzhou Yaobang Information Technology Co., Ltd. (廣州藥幫信息科技有限公司, “**Guangzhou Yaobang**”). The subsidiary of Guangzhou Sudaoyi is Henan Subiao Information Technology Co., Ltd. (河南速標信息科技有限公司, “**Henan Subiao**”). The subsidiaries of Guangzhou Yaobang are Guangzhou Yuewei Medical Laboratory Co., Ltd. (廣州閱微醫學檢驗所有限公司, “**Guangzhou Yuewei**”) and Guangzhou Spectrum Health Technology Co., Ltd. (廣州光譜健康科技有限公司, “**Guangzhou Spectrum**”). See “History, reorganization and corporate structure—Corporate structure” for further details.

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### REASONS FOR OUR VIE STRUCTURE

Foreign investment activities in the PRC are mainly governed by Special Management Measures (Negative List) for the Access of Foreign Investment (2021 Version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**Negative List**”) and the Catalogue of Industries for Encouraging Foreign Investment (2022 Version) (《鼓勵外商投資產業目錄(2022年版)》) (collectively, the “**Investment Restrictions**”), which were promulgated and are amended from time to time jointly by the MOFCOM and the NDRC. The Investment Restrictions sets out a list of industries in which foreign investment is restricted or prohibited.

The following table summarises the main Investment Restriction to which the Relevant Businesses are subject:

<b>Development and application of genes diagnosis and treatment technologies</b>	<p><i>Operated by Guangzhou Yuewei</i></p> <p>Guangzhou Yuewei operates genetic testing services as part of the ClouDiagnos business, which fall into the development and application of genes diagnosis and treatment technologies and is prohibited from foreign investment according to the Negative List. This prohibited business primarily involves laboratory testing relating to, for example, genes, cells and molecular genetics, to assist in diagnostic testing and treatment research and development.</p>
<b>Value-added telecommunications services</b>	<p><i>Operated by Guangzhou Sudao, Henan Subiao, Guangzhou Yaobang and Guangzhou Spectrum</i></p> <p>Guangzhou Sudao operates our Online Marketplace on our Yaoshibang platform, which involves electronic data interchange and transaction processing (the “<b>EDI</b>”) services and internet content provider (the “<b>ICP</b>”) services. The ICP services require a value-added telecommunication service licence for such service scope (the “<b>ICP Licence</b>”) to operate and the EDI services require a value-added telecommunication service licence for such service scope (the “<b>EDI Licence</b>”) to operate. Guangzhou Sudao holds an EDI Licence and ICP Licence to operate these services. Henan Subiao, Guangzhou Yaobang and Guangzhou Spectrum operate our other online platforms, including our ClouDiagnos platform (光譜雲檢), which constitute ICP services; and each of these entities holds an ICP Licence to operate these services. EDI and ICP services constitute value-added telecommunications services, which require relevant licences to operate (including without limitation, ICP Licence and EDI Licence, collectively “<b>VAT Licences</b>”).</p> <p>Foreign investment in entities holding an ICP Licence is restricted under the Negative List and Foreign investment in entities holding an ICP Licence or EDI Licence is subject to the Administrative Regulations on Foreign-Invested Telecommunications Enterprises. On 7 April 2022, the State Council officially promulgated the Decision of the State Council on Revising and Repealing Certain Administrative Regulations (《國務院關於修改和廢止部分行政法規的決定》), which amended the Administrative Regulations on Foreign-Invested Telecommunications Enterprises with the amendments taking effect on 1 May 2022. Under the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises, the requirement that foreign investors investing</p>



## CONTRACTUAL ARRANGEMENTS

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in entities holding VAT Licences must have a good track record and operational experience in the value-added telecommunications industry (“**Qualification Requirements**”) was cancelled. Nevertheless, under the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprise, whilst foreign investors are able to invest in entities holding an EDI Licence (without any shareholding percentage limit) and invest in entities holding an ICP Licence (holding up to 50% equity interest and not more), whether the post-foreign-invested entity can hold a VAT Licence is still subject to the examination of substance and merits by MIIT.

On 30 March 2022, our PRC Legal Adviser consulted with MIIT, after we expressed our listing intention and our wish to consult on questions relating to the foreign investment restrictions on VAT Licences, and was informed that, among other things, (i) even if the foreign investor from our Group met the Qualification Requirements and the relevant members of our Group applied to hold an EDI or ICP Licence as a foreign-invested enterprise, in practise, such application by a foreign-invested enterprise would not be currently approved; and (ii) we are not required to seek their approval for the Contractual Arrangements, comparable to many other overseas listed companies operating internet businesses in PRC which had adopted similar contractual arrangements. On 24 April 2022, our PRC Legal Adviser verbally consulted with MIIT again in relation to the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises, and was informed that the response from MIIT in the 30 March 2022 consultation remained effective and applicable before the issuance of detailed examination and approval rules or guidelines for the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises, meaning that currently an application by a foreign-invested enterprise from our Group to hold an EDI or ICP Licence would not be approved in practise.

The abovementioned MIIT consultations were conducted with the relevant department of MIIT. This department of MIIT is responsible for, among others, researching and analysing the information and communication (including telecom and internet) industry and relevant regulatory policies for VAT services. Based on this and the consultation responses, our PRC Legal Adviser is of the view that such department is competent to provide the above confirmation and give guidance on whether our Company or its equity-held subsidiaries would be approved to hold the relevant VAT Licences.

Given that Guangzhou Yuewei operates a foreign-prohibited business and the remaining Consolidated Affiliated Entities operate foreign-restricted businesses that require VAT Licences and based on the abovementioned MIIT consultations, our Company or any other subsidiaries our Company hold equity interests (together with the Company, collectively, the “**Equity-held Subsidiaries**”) would not be approved to hold these VAT Licences, and our Company is not currently able to hold any equity interest in our Consolidated Affiliated Entities. Based on this and the advice of our PRC Legal Adviser on the PRC foreign investment restriction policies, we are of the view that the Contractual Arrangements and our variable interest entity structure as a whole are narrowly tailored.

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## CONTRACTUAL ARRANGEMENTS

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Our Self-operation Business (namely, *procuring* pharmaceutical and health-care products and *selling* on our Yaoshibang platform) does not fall within the scope of VAT services and is not subject to foreign-investment prohibitions or restrictions under current PRC laws. By contrast, the *operation* of our Yaoshibang platform constitutes a VAT service and is operated by our Consolidated Affiliated Entities (as explained under the “Value-added communications services” row in the table above).

We will unwind and terminate the Contractual Arrangements wholly or partly once our businesses are no longer prohibited or restricted from foreign investment and to the extent permissible under PRC Laws.

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The Contractual Arrangements provide a mechanism through which: (a) economic benefits of the Onshore Holdcos are able to be transferred to us through the Business Cooperation Agreement (defined below); and (b) we are able to control the Onshore Holdcos through the Option Agreements, Share Pledge Agreements, Entrustment Agreements and Spousal Consent Letters (each defined below).

For the purpose of this section and unless the context specifies otherwise, “us”, “we” and “our” refer to our Company and/or its Equity-held Subsidiaries.

We set out below a summary of the documents underlying and key features of our Contractual Arrangements. See “Statutory and general information—Further information about our business—Summary of material contracts” in Appendix IV for further details on the agreements.

#### **Arrangements that allow us to receive economic benefits from our Consolidated Affiliated Entities**

##### ***Business Cooperation Agreements***

On 16 May 2022, our WFOE (being Guangzhou Sudaoyi) entered into an exclusive business cooperation agreement with each of our Onshore Holdcos (being Guangzhou Sudaoyi and Guangzhou Yaobang) (each an “**Business Cooperation Agreement**”). Under these agreements, WFOE or its designated parties have exclusive right to provide Onshore Holdcos with, among others, technical services, consultation services and broadcasting services, retail services, freight transportation services, value-added telecommunications services, and administrative services, in exchange for service fees. The amount of service fees may be adjusted by WFOE on the basis of the volume of work performed and commercial value of the services provided. Without WFOE’s prior written consent, Onshore Holdcos shall not accept any service covered by the agreement from any third party. WFOE owns the intellectual property rights arising out of the services performed under these agreements. Each agreement will remain in force until terminated by written agreement from both parties, by written notice from WFOE. Unless otherwise required by PRC Laws, Onshore Holdcos shall not unilaterally terminate their respective agreement.

#### **Arrangements that provide us with effective control over our Consolidated Affiliated Entities**

##### ***Option Agreements***

On 16 May 2022, WFOE entered into exclusive option agreements with the Onshore Holdcos and their registered shareholder(s) (each an “**Option Agreement**”). Under these agreements, each registered shareholder granted to WFOE or its designated person an irrevocable and exclusive option to

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## CONTRACTUAL ARRANGEMENTS

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acquire, at any time, all of their equity interests in or assets of the respective Onshore Holdco at the minimum price permissible under PRC Laws. The option period under each Option Agreement is from the agreement date until all registered shareholders under that agreement have transferred all their equity interests in the respective Onshore Holdco to, or all assets of the respective Onshore Holdco have been transferred to WFOE or its designated person.

To better manage our Group’s loss exposure, if any:

- (a) the registered shareholders undertook to WFOE that, unless with the prior consent of WFOE or its designated person, the following matters, among others, would not take place: (i) supplement, modify or amend constitutional documents of the respective Onshore Holdco; (ii) procure the respective Onshore Holdco to enter into transactions that would adversely affect the assets, operations, equity interests and other legitimate rights of that Onshore Holdco; (iii) changing the board or senior management composition of the respective Onshore Holdco; (iv) approving any dividend or bonus distributions; (v) disposing of or otherwise encumbering the respective Onshore Holdco’s equity interest or assets; and (vi) taking any act relating to restructuring (e.g., mergers and acquisitions, investing in third parties, liquidating or dissolving that Onshore Holdco);
- (b) the registered shareholders additionally undertook to, among others: (i) immediately notify WFOE of any litigation, arbitration or administrative procedure occurring or likely occurring that is related to or may adversely affect the equity interests of the respective Onshore Holdco; (ii) comply with the respective Option Agreement and any other agreement with WFOE and perform their obligations thereunder; (iii) cooperate and take necessary actions to assist in the performance of the Option Agreement (e.g., make relevant registrations to reflect any transfer under that agreement); and (iv) ensure that any proceeds distributed by the respective Onshore Holdco received by the registered shareholder(s) to that agreement (e.g., as profit or dividend distribution or proceeds from liquidation) will be gifted in the manner designated by WFOE as permissible under PRC Laws; and
- (c) the respective Onshore Holdco undertook to WFOE that, unless with prior consent of WFOE or its designated person, the following matters, among others, would not take place: (i) taking actions that would adversely affect its assets, operations, liabilities, equity interest and other legitimate rights (e.g., incurring any debts or entering/terminating into any material contracts) (other than those arising out of the ordinary course of business); (ii) distributing dividends or bonuses to its shareholders; (iii) disposing of or otherwise encumbering its equity interest or assets (other than those arising out of the ordinary course of business); and (iv) amending its constitutional documents, entering into any merger, or acquiring or investing in third parties.

### *Share Pledge Agreements*

On 16 May 2022, WFOE entered into share pledge agreements with the Onshore Holdcos and their registered shareholder(s) (each a “**Share Pledge Agreement**”). Under these agreements, each registered shareholder pledged all of their equity interests in the respective Onshore Holdco, held from time to time, to guarantee performance under the respective Contractual Arrangements by the registered shareholder and respective Onshore Holdco. The pledge period for each Share Pledge Agreement is from the day when any such pledge is registered with the relevant authority until all contractual obligations are fulfilled or guaranteed debts fully paid off in relation to the parties thereto.

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To preserve the pledged interests, each registered shareholder undertook that, among others: (i) the pledged interests would not be transferred or encumbered without WFOE’s prior written consent; and (ii) any rights over the pledged interests enjoyed by WFOE would not be prejudiced by legal procedures by that registered shareholder or their successor or any other person, and that registered shareholder would take all necessary and required measures and execute all necessary and required documents to assist WFOE in realising its rights over the pledged interests.

### *Entrustment Agreements*

On 16 May 2022, WFOE entered into voting entrustment agreements with the registered shareholder(s) of each Onshore Holdco (each an “**Entrustment Agreement**”). Pursuant to these agreements, each registered shareholder granted a power of attorney to WFOE or a person designated by WFOE (“**attorney-in-fact**”) to irrevocably authorise WFOE to act as its attorney-in-fact to exercise all of that shareholder’s voting and other rights associated with that shareholder’s equity interest in the respective Onshore Holdco, including, but not limited to, the right to attend shareholders’ meetings on behalf of that shareholder, the right to appoint directors and chief executive officers and other senior management, and the right to sell, transfer, pledge and dispose of all or a portion of the shares held by that shareholder. Each Entrustment Agreement remains effective until, among other reasons, the agreement is terminated by the parties in writing. Unless otherwise required by PRC Laws, none of the Onshore Holdcos or its registered shareholder(s) can unilaterally terminate this agreement.

To minimise any conflicts of interest, under the Entrustment Agreements, none of the registered shareholders of the Onshore Holdcos or any other person who may give rise to a conflict of interest with our Company may act as attorney-in-fact in respect of the registered shareholders’ rights and interests in the respective Onshore Holdco. Other than this, the attorney-in-fact may be a director of our Group (who does not have a material conflict of interest) and an administrator or liquidator of WFOE.

### *Spousal Consent Letters*

The spouse of each registered shareholder of the Onshore Holdcos has each signed a spousal consent letter agreeing that the equity interest in the respective Onshore Holdco held by and registered under the name of the respective shareholder will be disposed of pursuant to the respective Contractual Arrangements with WFOE. Each spouse agreed not to assert any rights over the equity interest in the respective Onshore Holdco held by the respective shareholder.

### **Further information about our Contractual Arrangements**

#### *Onshore Holdcos’ subsidiaries*

Under the Contractual Arrangements, our Company has control over Onshore Holdcos’ subsidiaries (the “**VIE Subsidiaries**”) by virtue of: (a) the subsidiaries being controlled by the Onshore Holdcos, over which we have extensive control of the composition of board and senior management (under the Option Agreements); (b) both Onshore Holdcos and their Registered Shareholders having undertaken to WFOE that no actions would be taken that would adversely affect the assets, equity interests and other legitimate rights of Onshore Holdcos, which includes interest over the VIE Subsidiaries (under the Option Agreements); and (c) during the service period, both Onshore Holdcos having undertaken that they would not, and would procure their subsidiaries not, to accept any same or similar services provided by a third party, and both Onshore Holdcos would not enter into a similar service agreement with a third party (under the Business Cooperation Agreements).

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To further enhance our Company’s control over the VIE Subsidiaries, on 21 November 2022, WFOE, each VIE Subsidiary, and its respective Onshore Holdco (or direct shareholder) entered into a separate full set of VIE agreements, which are on substantially the same terms as the Contractual Arrangements (as described in “—Arrangements that allow us to receive economic benefits from our Consolidated Affiliated Entities” and “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities” above). Through these three sets of VIE agreements, our Company, through WFOE, has direct control over the VIE Subsidiaries. See “Statutory and general information—Further information about our business—Ancillary VIE agreements to the Contractual Arrangements” for a list of the VIE agreements entered into by these VIE Subsidiaries.

### *Dispute resolution*

In the event of any dispute with respect to the interpretation or performance of the provisions, each of the Business Cooperation Agreements, Option Agreements, Entrustment Agreements and Share Pledge Agreements stipulates: (i) that the parties shall negotiate in good faith to resolve the dispute; and (ii) in the event the parties fail to reach an agreement on the resolution of the dispute within 30 days after the relevant dispute arises, any party may submit the relevant dispute to the Shenzhen Court of International Arbitration for arbitration, in accordance with the then effective arbitration rules. The arbitration ruling shall be final and binding on all parties.

Each respective party to the agreements shall have right to apply to courts with competent jurisdiction to enforce the arbitral awards. The agreements further provide that: (i) the tribunal may award remedies over shares or assets of the respective Onshore Holdco, award injunctive relief (e.g., for the conduct of business or to compel the transfer of assets), or order the winding-up of the respective Onshore Holdco; and (ii) the courts of Hong Kong, the Cayman Islands (as the place of incorporation of our Company), Guangzhou, PRC (as the place of establishment of the Onshore Holdcos) and other jurisdictions where our Company and/or the respective Onshore Holdco’s main assets are located each have jurisdiction to grant interim remedies and/or enforce an arbitral award or interim remedies against the shares or properties of the respective Onshore Holdco.

See “Risk factors—Risks related to our corporate structure.”

### *Conflict of Interests*

Under the Entrustment Agreements, none of the registered shareholders of the Onshore Holdcos or any other person who may give rise to a conflict of interest with our Company may act as attorney-in-fact in respect of the registered shareholders’ rights and interests in the respective Onshore Holdco. See—Arrangements that provide us with effective control over our Consolidated Affiliated Entities—Entrustment Agreements” for further details.

### *Loss Sharing*

Under current PRC Laws, neither our Company nor WFOE is legally required to share losses of, or provide financial support to, the Consolidated Affiliated Entities. Further, each Consolidated Affiliated Entity is a limited liability company that is solely liable for its own debts and losses in relation to its assets and liabilities.

Notwithstanding this, WFOE intends to provide continuous support and assistance to the Consolidated Affiliated Entities, as necessary, and their financial performance will be consolidated into

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## CONTRACTUAL ARRANGEMENTS

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our Company’s accounts. As such, our operational and financial performance would be materially and adversely affected if the Consolidated Affiliated Entities suffer loss. To minimise the risk of loss, we have undertaken a number of measures under the Contractual Arrangements. In particular, see “Option Agreements” and “Share Pledge Agreements” in the sub-section “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities” above for further details.

### *Succession*

WFOE’s rights over the Onshore Holdcos may be survived by a liquidator in the event of winding-up, including through: (i) the administrator or liquidator being appointed the attorney-in-fact under the Entrustment Agreements and gaining control over the Onshore Holdcos as if they were the shareholders; and (ii) through the dispute resolution mechanism of the Contractual Arrangements, which provides the arbitral tribunal with power to, among other things, award remedies over the shares or assets of the Onshore Holdcos and grant injunctive relief.

In the event that an Onshore Holdco is wound-up, WFOE’s interests in that Onshore Holdco are protected, including through: (i) the respective registered shareholder(s) undertaking in the respective Option Agreement that, among other things, proceeds received by them from liquidation would be gifted to WFOE or its designated person; (ii) the respective registered shareholder(s) undertaking in the respective Share Pledge Agreement that, among other things, WFOE’s rights over the pledged shares would not be prejudiced by such registered shareholder(s) or their successors; and (iii) each spouse of the respective registered shareholder(s) undertaking, among other things, in the event of acquiring any equity interest in that Onshore Holdco, to enter into a set of contractual arrangements with the same or comparable terms as the Contractual Arrangements to preserve WFOE’s rights as against such spouse.

See “Entrustment Agreements” and “Option Agreements” in the sub-section “—Arrangements that provide us with effective control over our Consolidated Affiliated Entities” for further details.

### *Insurance*

We do not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

### **Our confirmation**

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through the Consolidated Affiliated Entities under the Contractual Arrangements.

## LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC Laws.

In addition, our PRC Legal Adviser is of the opinion that:

- (a) parties to each of the agreements are entitled to execute the agreements;
- (b) the Contractual Arrangements would not fall within the circumstances as stipulated in the PRC Civil Code which will lead the arrangements as invalid act under the PRC Civil Code;

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## CONTRACTUAL ARRANGEMENTS

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- (c) none of the Contractual Arrangements violates any provisions of the articles of association of our Onshore Holdcos or WFOE;
- (d) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the PRC governmental authorities, except that:
  - (i) the exercise of the option by WFOE of its rights under the Option Agreements to acquire all or part of the equity interests in the respective Onshore Holdco is subject to the approvals of, consent of, filing with and/or registrations with the PRC governmental authorities;
  - (ii) any share pledge contemplated under the Share Pledge Agreements is subject to the approval of and/or registration with competent administration bureau;
  - (iii) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognised by the PRC courts before compulsory enforcement;
  - (iv) the transfer and license of the intellectual properties pursuant to the Business Cooperation Agreements are subject to the approval of and/or registration with competent government authorities; and
- (e) based on its understanding of the relevant PRC laws and regulations, subject to uncertainties of the enforceability of the dispute resolution provisions of the Contractual Arrangements, and subject as to enforceability to applicable bankruptcy, insolvency, moratorium, reorganisation and similar laws affecting creditors' rights generally, the discretion of relevant governmental authorities in exercising their authority in connection with the interpretation and implementation thereof and the application of relevant PRC Laws and policies thereto, each of these Contractual Arrangements is and taken as a whole are, (i) valid and legally binding on each party thereto, and (ii) enforceable in accordance with the terms thereof.

Our PRC Legal Adviser has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Since PRC laws and regulations governing the validity of these Contractual Arrangements are uncertain and the relevant governmental authorities have broad discretion in interpreting these laws and regulations, we cannot assure you or make any prediction that the Contractual Arrangements will not result in any violation. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws, rules or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including: (a) revoking the business licences of such entity; (b) discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and Consolidated Affiliated Entities; (c) imposing fines, confiscating the income from our Consolidated Affiliated Entities, or imposing other requirements with which we or our Consolidated Affiliated Entities may not be able to comply; (d) requiring us to restructure our ownership structure or operations, including terminating the Contractual Arrangements with our Consolidated Affiliated Entities and deregistering the equity pledges of our Consolidated Affiliated Entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our Consolidated Affiliated Entities; or

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(e) restricting or prohibiting our use of the proceeds of any of our financing outside China to finance our business and operations in China.

See “Risk factors— Risks related to our corporate structure—If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations”.

Nevertheless, based on the above analysis and advice from our PRC Legal Adviser, our Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the current applicable PRC Laws.

### DEVELOPMENT IN PRC LEGISLATION ON FOREIGN INVESTMENT

#### Background of the Foreign Investment Law

On 15 March 2019, the National People’s Congress approved the Foreign Investment Law which became effective on 1 January 2020. On 26 December 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law, which came into effect on 1 January 2020. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementing Rules of the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

The Foreign Investment Law and the Implementing Rules of the Foreign Investment Law do not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Adviser, the Foreign Investment Law, as it is interpreted and implemented as of the date of this document, does not have a material adverse impact on our Contractual Arrangements, including their legality and validity.

#### Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use Contractual Arrangements to establish control of the Consolidated Affiliated Entities, by WFOE, through which we operate our business in the PRC.

The Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of the Onshore Holdcos will not be materially and adversely affected in the future due to changes in PRC Laws and regulations.

See “Risk Factors—Risks related to our corporate structure—Our current corporate structure and business operations may be affected by the Foreign Investment Law.”



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## CONTRACTUAL ARRANGEMENTS

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### COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and
- (d) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and the Onshore Holdcos to deal with specific issues or matters arising from the Contractual Arrangements.

### ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOE, each Onshore Holdco shall pay service fees to WFOE. Additionally, WFOE has a right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the Option Agreements and Share Pledge Agreements, WFOE has absolute contractual control over the distribution of dividends or any other amounts to the respective Onshore Holdco’s registered shareholder(s) given that WFOE’s prior written consent is required before any distribution can be made. If an Onshore Holdco’s registered shareholder(s) receive any income, profit distribution or dividend, they shall promptly transfer or pay such income, profit distribution or dividend to WFOE or its designated person to the extent permissible under PRC Laws.

As a result of the Contractual Arrangements among WFOE, the Onshore Holdcos and its respective registered shareholder(s), WFOE is able to effectively control, recognise and receive the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, Consolidated Affiliated Entities are treated as controlled entities of our Company and consolidated by our Company. The basis of consolidating the results of these Consolidated Affiliated Entities is disclosed in Note 5 to the Accountant’s Report set out in Appendix I to this document.

## CONNECTED TRANSACTIONS

### CONNECTED PERSON

The Contractual Arrangements were entered into between our Group and certain persons(s), set out below, that will become connected persons of our Company upon Listing. Accordingly, the Contractual Arrangements will become connected transactions of our Company upon the Listing.

Name of connected person	Relationship
Mr. Buzhen Zhang .....	Executive Director, chief executive officer and substantial shareholder of our Company

### SUMMARY OF OUR CONNECTED TRANSACTIONS

Transaction	Proposed annual caps for the years ending 31 December		
	2023	2024	2025
<i>(in RMB million)</i>			
<i>Non-exempt Continuing Connected Transaction</i>			
<b>Contractual Arrangements</b>			
1. Contractual Arrangements .....	N/A	N/A	N/A

### CONTRACTUAL ARRANGEMENTS

#### Background

As disclosed in “Contractual Arrangements”, due to regulatory restrictions on foreign ownership in the PRC, we conduct a portion of our business in Mainland China through our Consolidated Affiliated Entities. We do not hold equity interests in these entities. Rather, through the Contractual Arrangements, we have effective control over our Consolidated Affiliated Entities. See “Contractual Arrangements” for further detail on the agreements underlying the Contractual Arrangements.

#### Listing Rules implications

The transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into by, among others, the Consolidated Affiliated Entities (or any of its subsidiaries in the future) and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, as certain parties to the Contractual Arrangements are connected persons of the Company.

#### Reasons for the transactions and the waiver application

The transactions underlying the Contractual Arrangements enable the Consolidated Affiliated Entities to be consolidated into our Group and allow our Group to obtain the economic benefits (including profits earned) generated by the Consolidated Affiliated Entities, which are then consolidated into our Company’s accounts and may be distributed up to our Shareholders. See “Contractual Arrangements” for further details on how consolidation and economic benefit is achieved.

As a result of the Contractual Arrangements, our Company, through WFOE, effectively has control over the Consolidated Affiliated Entities and shall be entitled of the distributions made by the

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## CONNECTED TRANSACTIONS

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Consolidated Affiliated Entities (that do not otherwise remain with the Consolidated Affiliated Entities). Accordingly, the Consolidated Affiliated Entities are effectively treated as our subsidiaries (within the meanings ascribed under the Companies Ordinance and the Listing Rules) and form part of our Group and are no different in substance and effect from those subsidiaries in which we hold equity interest (“**Equity-held Subsidiaries**”).

Since the Consolidated Affiliated Entities are part of our Group, transactions under New Intergroup Agreements would be in the same nature as intragroup transactions typically conducted between our Company and our Equity-held Subsidiaries or among our Equity-held Subsidiaries, which would not constitute connected transactions under Chapter 14A of the Listing Rules (except if considered a connected subsidiary). Transaction fees (if any) and benefits generated under the Contractual Agreements and the Intergroup Agreements remain within our Group, which means that benefits received by the Consolidated Affiliated Entities will at the same time equally benefit our Company and be in the interests of our Shareholders as a whole. As a result of the Contractual Arrangements, no transaction fee (if any) or benefit received by the Consolidated Affiliated Entities would flow to the Registered Shareholders.

Given the above, our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements, the New Intergroup Agreements, and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business and corporate operations, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Additionally, our Directors consider that, given that our Group is placed in a unique situation with respect to the connected transactions rules in connection with the Contractual Arrangements and New Intergroup Agreements, it would be unduly burdensome and impracticable, and it would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements under Chapter 14A of the Listing Rules, including the announcement, annual reporting, and independent shareholders’ approval (including recommendation from an independent financial adviser) requirements.

### WAIVER

We have applied for[, and the Stock Exchange has granted us,] in respect of the Contractual Arrangements and New Intergroup Agreements, (i) a waiver from strict compliance with the announcement, circular and independent shareholders’ approval (including recommendation from an independent financial adviser) requirements under Chapter 14A of the Listing Rules; (ii) a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) a waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules (collectively, the “**Applicable Requirements**”), for so long as our Shares are listed on the Stock Exchange, subject to the following conditions:

- (a) No change without independent non-executive Directors’ approval. No change to the Contractual Arrangements (including with respect to any fees payable to WFOE thereunder) will be made without the approval of the independent non-executive Directors.
- (b) No change without independent Shareholders’ approval. Save as described below, no material change to the agreements governing the Contractual Arrangements will be made

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## CONNECTED TRANSACTIONS

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without the approval of our independent Shareholders. Once the independent Shareholders’ approval of any change has been obtained, no further announcement or approval by our independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will continue to be applicable.

- (c) Economic benefits and flexibility. The Contractual Arrangements will continue to enable our Group to receive economic benefits generated by our Consolidated Affiliated Entities through: (i) our Group’s option (if and when allowed under applicable PRC Laws) to acquire, all or part of, the entire equity interests in Onshore Holdcos for the minimum amount of consideration permitted by applicable PRC Laws; (ii) the business structure under which the profit generated by Onshore Holdcos is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to WFOE by Onshore Holdcos under the Business Cooperation Agreements (as defined and described in “Contractual Arrangements”); and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of Onshore Holdcos.
- (d) Renewal and reproduction. On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and our Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced without being in strict compliance with the Applicable Requirements (including obtaining the approval of our independence Shareholders): (i) upon the expiry of the existing arrangements; (ii) in connection with any changes to the registered shareholders of our Consolidated Affiliated Entities in respect of their respective shareholding in or director(s) of our Consolidated Affiliated Entities; or (iii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise (or foreign-controlled joint venture) or operating company (including branch company), engaging in a similar business as that of the Consolidated Affiliated Entities. Such renewal and/or reproduction is justified by business expediency. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise (or foreign controlled joint venture) or operating company (including branch company) engaging in a similar business as that of the Consolidated Affiliated Entities which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC Laws and approvals. Any such renewed or reproduced agreements will be on substantially the same terms and conditions as the existing Contractual Arrangements.

## DIRECTORS’ CONFIRMATION

Our Directors (including independent non-executive Directors) are of the view that: (a) the Contractual Arrangements have been entered into in our ordinary and usual course of business on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (b) the terms of the Contractual Arrangements are justifiable and in line with the normal business practise of agreements of this type, and necessary to ensure that our

## **CONNECTED TRANSACTIONS**

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Consolidated Affiliated Entities remain controlled, and their economic interest may be enjoyed, by the Company on an uninterrupted basis.

### **SOLE SPONSOR’S CONFIRMATION**

Based on the documentation provided by the Company and the Sole Sponsor’s due diligence and discussions with the Company and the PRC Legal Adviser, the Sole Sponsor is of the view that: (a) the Contractual Arrangements are fundamental to the Group’s legal structure and business operations and that the Contractual Arrangements have been entered into in the ordinary and usual course of business, on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (b) the terms of the Contractual Arrangements are justifiable and in line with the normal business practise of agreements of this type, and necessary to ensure that our Consolidated Affiliated Entities remain controlled, and their economic interest may be enjoyed, by the Company on an uninterrupted basis.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table provides certain information about the Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities
Buzhen Zhang	48	Executive Director, Chairman of the Board and Chief Executive Officer	January 2015	August 2018	Responsible for the overall strategy, business development, planning and management of the Company and the Group
Fei Chen	39	Executive Director and Chief Financial Officer	April 2022	April 2022	Oversight of our Group’s corporate finance, investment activities, and legal matters
Frank Lin	58	Non-executive Director	December 2018	December 2018	Providing professional advice, opinions, and guidance to our Board
Ziyang Zhu	27	Non-executive Director	February 2021	February 2021	Providing professional advice, opinions, and guidance to our Board
Rong Shao	60	Independent Non-executive Director	Listing Date	Listing Date	Supervising and providing independent judgement to the Board and serving as chairman and/or members of certain Board committees
Sam Hanhui Sun	50	Independent Non-executive Director	Listing Date	Listing Date	Supervising and providing independent judgement to the Board and serving as chairman and/or members of certain Board committees
Hongqiang Zhao	46	Independent Non-executive Director	Listing Date	Listing Date	Supervising and providing independent judgement to the Board and serving as chairman and/or members of certain Board committees

Save as disclosed below, none of the Directors had held any directorships in listed companies during the three years immediately prior to the Latest Practicable Date, there is no other information in respect of the Directors to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of our Shareholders or potential [REDACTED].

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Buzhen Zhang (張步鎮)**, aged 48, is our executive Director, Chairman of our Board and Chief Executive Officer. Mr. Zhang co-founded our Group and served as our Chief Executive Officer since January 2015, and as the Director of our Company since its incorporation in August 2018. Prior to founding our Group, Mr. Zhang held a number of positions with Fang Holdings Limited, which is listed on the New York Stock Exchange (stock symbol: SFUN) from April 1999 to October 2014, including separately as chief technology officer, and vice president of Fang Holdings Limited, responsible for the technology development and business management. Mr. Zhang received a bachelor’s degree majoring in communication engineering from the Beijing Institute of Electronic Science and Technology (北京電子科技學院) in China in July 1997.

**Mr. Fei Chen (陳飛)**, aged 39, is our executive Director and Chief Financial Officer. Mr. Chen joined our Group in April 2022 and has served as our Director since April 2022 and our Chief Financial Officer since May 2022. Prior to joining our Group, Mr. Chen previously worked as an investment banker with HSBC from July 2008 to May 2010, advising on financings and mergers and acquisitions for domestic and foreign clients. From May 2010 to May 2018, Mr. Chen worked with UBS AG Hong Kong Branch, also advising on a broad range of financings and mergers and acquisitions. From May 2018 to April 2022, Mr. Chen was the chief financial officer and board secretary at Tubatu Group Co., Ltd. (土巴兔集團股份有限公司), overseeing their financial and investment activities. Mr. Chen received a bachelor’s degree in finance in July 2006 and a master’s degree in finance in July 2008 from Peking University (北京大學) in China. Mr. Chen holds a chartered financial analyst certificate from the CFA Institute, awarded in September 2012, and a board secretary certification from the Shenzhen Stock Exchange, awarded in November 2020.

### Non-Executive Directors

**Mr. Frank Lin (林欣禾)**, also known as Mr. Frank Hurst Lin, aged 58, is our non-executive Director. Aside from our Group, Mr. Lin has been the co-founder and general partner of DCM China, a technology venture capital firm, since 2006. Mr. Lin also holds directorships at various listed companies, namely QuantaSing Group Limited, a company listed on the Nasdaq (stock symbol: QSG), since May 2022, Kuaishou Technology, a company listed on the Stock Exchange (stock code: 1024), since May 2016, China Online Education Group, a company listed on the New York Stock Exchange (stock symbol: COE) since June 2013, Vipshop Holdings Limited, a company listed on the New York Stock Exchange (stock symbol: VIPS) since January 2011, Tuniu Corporation, a company listed on Nasdaq (stock symbol: TOUR) since December 2009, and GigaCloud Technology Inc, a company listed on the Nasdaq (stock symbol: GCT), since November 2006. Between March 2010 and April 2020, Mr. Lin was a director of 58.com Inc., a company formerly listed on the New York Stock Exchange until September 2020. Mr. Lin received his bachelor’s degree in engineering from Dartmouth College in New Hampshire, the United States in June 1988, and his MBA degree from Stanford University in California, the United States, in June 1993.

**Mr. Ziyang Zhu (朱梓陽)**, aged 27, is our non-executive Director. Prior to joining our Group, from July 2017 to May 2020, Mr. Zhu was an assistant to the strategic committee director at Hopson Development Holdings Limited (合生創展集團有限公司). Since 2020, Mr. Zhu has been the Head of Chinese Medicine and Smart Healthcare at Guangdong Yuanzhi Technology Group Co., Ltd. (廣東元知科技集團有限公司). Mr. Zhu is the Vice President, at Hopson Development Holdings Limited, a company listed on the Stock Exchange (stock code: 754) and a fellow subsidiary of Million Surplus

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## DIRECTORS AND SENIOR MANAGEMENT

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Developments Limited (i.e., both are controlled corporations of Sounda Properties Limited), since July 2021. Mr. Zhu also serves as the non-executive director, the Chairman of the Risk Control Committee and the member of the Strategy Committee at Genertec Universal Medical Group Company Limited, a company listed on the Stock Exchange (stock code: 2666), since July 2021, and the non-executive director at Ping An Healthcare and Technology Company Limited, a company listed on the Stock Exchange (stock code: 1833), since December 2021. Mr. Zhu received his bachelor’s degree majoring in information management and information systems from the Beijing Institute of Technology (北京理工大學) in China in June 2017.

### Independent Non-Executive Directors

**Ms. Rong Shao (邵蓉)**, aged 60, will join as our independent non-executive Director upon Listing. Ms. Shao has been the Executive Dean of the Institute of Drug Regulatory Sciences, China Pharmaceutical University (National Drug Administration Scientific Research Base), in charge of regulatory science disciplines and research, since October 2021. Ms. Shao is or has been a director of several listed corporations, including Jiangsu GDK Biotechnology Co., Ltd. (江蘇金迪克生物技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688670), since June 2020, I-Mab, a company listed on Nasdaq (stock symbol: IMAB) since June 2021, and Changzhou Qianhong Biopharma Co., Ltd. (常州千紅生化製藥股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002550), from September 2014 to January 2021. Ms. Shao received her bachelor’s degree in medicinal chemistry from Nanjing College of Pharmacy (南京藥學院) (now China Pharmaceutical University (中國藥科大學)) in China in July 1983, her second bachelor’s degree in law from Nanjing University in China in July 1989, and a PhD in Pharmacy from Shenyang Pharmaceutical University (瀋陽藥科大學) in China in July 2010. Ms. Shao is a qualified lawyer, licenced by the Jiangsu Justice Department (江蘇司法廳) in 2009.

**Mr. Sam Hanhui Sun (孫含暉)**, aged 50, will join as our independent non-executive Director upon Listing. Mr. Sun has been the chairman of VSP Private Fund Management (Zhuhai) Co., Ltd. (維世私募基金管理(珠海)有限公司) since December 2020, and the chairman of VSP Investment Consulting (Shenzhen) Co., Ltd. (維世投資諮詢(深圳)有限公司) since August 2021. Mr. Sun assumed various positions at Qunar Cayman Islands Limited, a mobile and online travel platform listed on Nasdaq until February 2017. Mr. Sun currently acts as an independent director of various listed companies, namely Zhihu Inc., a company listed on the Stock Exchange (stock code: 2390) and the New York Stock Exchange (stock symbol: ZH), iQIYI Inc. a company listed on Nasdaq (stock symbol: IQ) since March 2018, and Yiren Digital Ltd., a company listed on the New York Stock Exchange (stock symbol: YRD) since December 2015. From August 2014 to July 2021, Mr. Sun acted as an independent non-executive director of CAR Inc., a company formerly listed on the Stock Exchange until July 2021. From March 2018 to July 2019, Mr. Sun served as an independent director of Sunlands Technology Group (formerly known as Sunlands Online Education Group), a company listed on the New York Stock Exchange (stock symbol: STG). From September 2010 to May 2019, Mr. Sun served as an independent director of Fang Holdings Limited (formerly known as SouFun Holdings Limited), a company listed on the New York Stock Exchange (stock symbol: SFUN). Mr. Sun received a bachelor’s degree in business administration from Beijing Institute of Technology in China in July 1993. Mr. Sun was also awarded his PRC certified public accountant (non-practicing member) certificate from the Beijing Institute of Certified Public Accountants (北京註冊會計師協會).

**Mr. Hongqiang Zhao (趙宏強)**, aged 46, will join as our independent non-executive Director upon Listing. Mr. Zhao is a director of various listed companies, including executive director and chief



## DIRECTORS AND SENIOR MANAGEMENT

financial officer of Bairong Inc. (百融雲創), a company listed on the Stock Exchange (stock code: 6608), since June 2018, independent director of Li Auto Inc. a company listed on Nasdaq (stock symbol: LI) and the Stock Exchange (stock code: 2015), since July 2020, and HUYA Inc., a company listed on the New York Stock Exchange (stock symbol: HUYA), since May 2018. From August 2013 to October 2014, he was the vice president of finance at Fang Holdings Limited, a company listed on the New York Stock Exchange (stock symbol: SFUN). Mr. Zhao formerly served as an assistant Chief Auditor on the Public Company Accounting Oversight Board, in 2009. Mr. Zhao received his bachelor’s degree in accounting from Tsinghua University (清華大學) in China in July 1999, and his master’s degree in accountancy from George Washington University in Washington D.C., the United States, in May 2001.

### SENIOR MANAGEMENT

The following table provides information about members of the senior management of our Company (other than our executive Directors):

Name	Age	Position	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities
Haodong Xiao	50	Vice President	December 2018	December 2018	Oversight of our Self-operation Business
Zhuoqi Chen	44	Director of Technology	January 2015	August 2018	Oversight of our Group’s technical and R&D activities and developments

**Mr. Buzhen Zhang** is our executive Director, Chairman of the Board and Chief Executive Officer. See “—Executive Directors” for Mr. Zhang’s biography.

**Mr. Fei Chen** is our executive Director and Chief Financial Officer. See “—Executive Directors” for Mr. Chen’s biography.

**Mr. Haodong Xiao (肖浩東)** is our Vice President. Aside from our Group, Mr. Xiao previously held positions with Xi’an Janssen Pharmaceutical Ltd. (西安楊森製藥有限公司), including as the Commercial Regional Sales Director, South, responsible for southern region dealers and market management, from January 1999 to December 2013. From January 2014 to February 2017, Mr. Xiao has also worked as the general manager of Guangzhou Pharmaceuticals Corporation’s Popular Drug Sales Branch (廣州醫藥有限公司大眾藥品銷售分公司). Following this, from March 2017 to November 2018, Mr. Xiao joined Johnson & Johnson Medical (Shanghai) Ltd. (強生(上海)醫療器材有限公司) as the Director of Channel Management, responsible for company-wide commercial channels management.

Mr. Xiao received his certification in culinary and hospitality enterprise management (餐旅企業管理) from Shenzhen University in China in June 1993 and his MBA in business management from Hong Kong Baptist University in November 2011.

**Mr. Zhuoqi Chen (陳焯杞)** is our Director of Technology as well as a director of our subsidiary Leyou Investment Limited. Following this, from November 2009 to May 2013, Mr. Chen worked at New Post Telecommunication Equipment Co., Ltd. (新郵通信設備有限公司), and from June 2013 to January 2015, as system architect at Vtron Group Co., Ltd. (威創集團股份有限公司), a

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## DIRECTORS AND SENIOR MANAGEMENT

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company listed on the Shenzhen stock exchange (002308) (formerly known as 廣東威創視訊科技股份有限公司). Mr. Chen received his bachelor of science degree (majoring in applied physics) from the Southeast University (東南大學) in China in June 2001.

### COMPANY SECRETARIES

**Mr. Fei Chen** is a joint company secretary of our Company. See “—Executive Directors” for Mr. Chen’s biography.

**Ms. Emily Fung (馮慧森)**, also known as Ms. Fung Wai Sum, is a joint company secretary of our Company. Ms. Fung is a Senior Manager of Corporate Services of Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services. Ms. Fung has over 15 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Fung is currently the company secretary/joint company secretary of various listed companies on the Stock Exchange, namely FriendTimes Inc. (友誼時光股份有限公司) (stock code: 6820), Tongdao Liepin Group (同道獵聘集團) (stock code: 6100), Greenland Hong Kong Holdings Limited (綠地香港控股有限公司) (stock code: 337), Shenzhen Neptunus Interlong Bio-technique Company Limited (深圳市海王英特龍生物技術股份有限公司) (stock code: 8329), China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司) (stock code: 1728) and ClouDr Group Limited (stock code: 9955). Ms. Fung is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. Ms. Fung obtained her master’s degree in professional accounting and corporate governance from City University of Hong Kong in November 2008.

### CORPORATE GOVERNANCE

#### Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and provide advice and comments to the Board. The audit committee comprises three members, namely Mr. Hongqiang Zhao, Mr. Sam Hanhui Sun and Ms. Rong Shao. Mr. Zhao, as chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

#### Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board with respect to remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee comprises three members, namely Mr. Sam Hanhui Sun, Mr. Hongqiang Zhao and Ms. Rong Shao, with Mr. Sun as chairman of the committee.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Nomination Committee

Our nomination committee complies with the requirements in respect of nomination committees in the Corporate Governance Code set out in Appendix 14 to the Listing Rules .

The primary duties of the nomination committee are, among other things to develop and recommend to the Board criteria for Board and committee membership, recommend to the Board the persons to be nominated for election as Directors and to each of the Board’s committees, and develop and recommend to the Board a set of corporate governance guidelines.

The nomination committee comprises three members, namely Mr. Buzhen Zhang, Mr. Hongqiang Zhao and Mr. Sam Hanhui Sun, with Mr. Zhang as chairman of the committee.

### Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, save as disclosed below, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the Listing.

Pursuant to the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairperson and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Buzhen Zhang currently performs these two roles. The Board believes that vesting the roles of both chairperson and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of our Company if and when it is appropriate taking into account the circumstances of our Group as a whole.

### Management Presence

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since the principal business operations of our Group are conducted in Mainland China, members of our senior management are, and are expected to continue to be, based in Mainland China. Further, as our executive Directors have a vital role in our Group’s operations, it is crucial for them to remain in close proximity to our Group’s central management located in Mainland China. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. We have applied for, and the Stock Exchange [has granted], a waiver from compliance with Rule 8.12 of the Listing Rules. See “Waivers and Exemptions—Waiver in respect of management presence in Hong Kong” for further details.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Board Diversity

Our Company [has adopted] a board diversity policy which sets out the approach to achieve diversity of the Board. Our Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company’s competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the board diversity policy, in reviewing and assessing suitable candidates to serve as a director of the Company, the nomination committee will consider a number of aspects, including, but not limited to, gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. Pursuant to the board diversity policy, the nominating will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

### DIRECTOR REMUNERATION

#### Appointment contracts with Directors

Each of our Directors entered into an appointment service contract with our Company on [●]. Under the contracts, the term of the respective Director’s appointment shall be for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the contract by giving not less than three months’ written notice.

#### Remuneration of Directors

- (a) None of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).
- (b) The aggregate amount of remuneration paid and benefits in kind granted to our Directors by our Group in respect of the year ended 31 December 2022 was approximately RMB[28.6] million.
- (c) Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending 31 December 2023 is approximately RMB[3.5 million] (excluding amounts associated with share based compensation).
- (d) During the Track Record Period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group during the Track Record Period. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

See the Accountant’s Report in Appendix I for details on remuneration (including fees, basic salaries, allowances and benefits in kind, pension scheme contributions) paid to the Directors and, on an aggregate basis, the five highest paid individuals of our Group during the Track Record Period, and “Statutory and general information—Share Incentive Plans” in Appendix IV for further details on the incentive plans of our Company.

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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed above and in “Financial information”, “Accountant’s Report” in Appendix I and “Statutory and general information” in Appendix IV, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

### COMPLIANCE ADVISOR

We have appointed Maxa Capital Limited as our compliance advisor (the “**Compliance Advisor**” pursuant to Rules 3A.19 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong Laws. Pursuant to Rules 3A.23 of the Listing Rules, the Compliance Advisor will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of the Compliance Advisor shall commence on the Listing Date and end on the date on which our Company distributes to Shareholders the annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

### COMPETITION

Each of our Directors confirms that as of the Latest Practicable Date, he/she did not have any interest in a business that materially competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules. From time to time, our non-executive Directors may serve on the boards of both private and public companies within the industries in which we operate. However, as these non-executive Directors are neither our controlling shareholders nor members of our executive management team, we do not believe that their interests in such companies as directors would render us incapable of carrying on our business independently from the other companies in which they may hold directorships from time to time.

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*You should read the following discussion and analysis in conjunction with our audited consolidated financial information as of and for the years ended 31 December 2020, 2021 and 2022 included in the Accountant’s Report set out in Appendix I to this document, together with the respective accompanying notes. Our audited consolidated financial information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”).*

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

*For the purpose of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our fiscal years ended 31 December of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.*

## OVERVIEW

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 over 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. 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.

Leveraging our technological capabilities, we have created and keep enhancing 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, according to Frost & Sullivan. We serve the [largest] digital pharmaceutical transaction and service network, according to Frost & Sullivan, including, among others, around 354,000 downstream pharmacies and around

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## FINANCIAL INFORMATION

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173,000 primary healthcare institutions, as of 31 December 2022. Furthermore, we had 308,000 average number of MAB in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China, according to Frost & Sullivan. 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.

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 solution fees from pharmacies. We have a track record of business growth. Our revenues increased by 66.4% from RMB6,064.9 million in 2020 to RMB10,093.5 million in 2021 and further increased by 41.4% from RMB10,093.5 million in 2021 to RMB14,274.8 million in 2022. We recorded gross profit of RMB608.8 million in 2020, RMB913.8 million in 2021 and RMB1,434.7 million in 2022. Our loss and total comprehensive expense for the year was RMB571.7 million in 2020, RMB501.6 million in 2021 and RMB1,500.0 million in 2022.

### BASIS OF PRESENTATION

The historical financial information presented in this section has been prepared in accordance with IFRSs issued by the International Accounting Standards Board (“IASB”). The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 5 to the Accountant’s Report in Appendix I to this document.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Our critical accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in detail in note 4 to the Accountant’s Report in Appendix I to this document.

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### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and operating results are affected by general factors affecting China’s healthcare and pharmaceutical industry, especially outside-of-hospital pharmaceutical circulation sector and digital service for outside-of-hospital circulation sector in China, which are in turn driven by increasing disposable income and healthcare spending, rising awareness of health, an ageing population, increasing life expectancy, increasing penetration of mobile internet, favourable government policies and increasing coverage of medical insurance. Unfavourable changes in any of these general industry conditions could negatively affect demand for our products and services and adversely affect our results of operations.

We are affected by government policies and regulations that address all aspects of our operations, including qualifications and licencing requirements for online and offline sales and distribution of pharmaceutical and other health and wellness products, and online healthcare services, among other things. See also “Risk Factors—Risks Related to Our Business and Industry—We are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may materially and adversely affect our business and prospects.” We have benefitted from certain recent favourable regulatory and policy changes in China, especially various policy initiatives promoting the distribution of pharmaceutical products. We expect that the implementation of these measures relating to the distribution of pharmaceutical products will also affect market competition and drive industry consolidation.

While our business is influenced by general factors affecting China’s digital pharmaceutical platforms, we believe our results of operations are more directly affected by company-specific factors, including the following major factors.

#### ***Our ability to expand healthcare ecosystem participants transacting on our platform as well as maintain and enhance buyer engagement***

Healthcare ecosystem participants transacting on our platform include sellers and buyers of pharmaceutical products on our Online Marketplace, and suppliers of our Self-operation Business. As a result, our ability to attract and grow the number of healthcare ecosystem participants on our platform and to maintain and enhance buyer engagement is fundamental to the success of our business. Our ability to attract and grow ecosystem participant base and to maintain and enhance buyer engagement depends on, among other things, our ability to continue to cultivate an efficient ecosystem, offer a wide variety of SKUs, facilitate fulfilment and fast delivery, and provide high-quality service to industry participants along the value chain. As of 31 December 2022, we had attracted a large number of buyers, including 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. The average number of MAB on our platform was around 202,000 in 2020, 256,000 in 2021 and 308,000 in 2022, among which, the average number of MPB represents 80%, 87% and 92%, respectively. We are able to maintain high buyer engagement. 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%. On the upstream front, the number of suppliers of our Self-operation Business increased consistently from over 5,000 as of 31 December 2020 to over 9,100 as of 31 December 2022, representing a CAGR of 34.4% from 2020 to 2022. Our suppliers receive timely feedbacks on the downstream demand of products and after-sale services. Our suppliers can adjust their decision-making according to the feedback we provide them on geographical preference, pharmacy distribution and the market sales trend. The number of sellers on our Online Marketplace also increased consistently from around 3,600 as of 31 December 2020 to over 6,000 as of 31 December 2022, representing a CAGR of



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29.9% from 2020 to 2022. Increased ecosystem participant base as well as buyer engagement positively affected each other and created flywheel effect, leading to a significant growth of GMV on our platform. During the Track Record Period, the total GMV on our platform increased from RMB19.7 billion in 2020 to RMB27.5 billion in 2021 and further to RMB37.8 billion in 2022.

### ***Our ability to create value for participants in the healthcare ecosystem***

We are the largest digital pharmaceutical platform serving businesses outside of hospitals in China in terms of GMV in 2021, according to Frost & Sullivan. Our results of operations depend on our ability to create value for various participants in the healthcare ecosystem and increase monetization from these participants. As a digitalization enabler in the outside-of-hospital pharmaceutical circulation 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 institution. Sellers and buyers are drawn to our Online Marketplace because we offer a wide selection of competitively priced pharmaceutical and other health and wellness products, as well as efficient and comprehensive services. Leveraging the large buyer base accumulated on our Online Marketplace, we started our Self-operation Business in 2019 to fulfil the demand of commonly used pharmaceuticals with high quality, and provide reliable fulfilment using our self-operated facilities. With respect to pharmaceutical companies, we are able to create special value for them through our Targeted Product Launch Business. Under such business, we leverage our deep industry know-how 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 products with our digital marketing solutions. In addition, we offer participants in the ecosystem our digital solutions, such as ePalm and CloudComm. We have also implemented various initiatives and invested significantly to ramp up our digital solutions and improve our smart supply chain services.

The value we create for industry participants and our attractiveness to them are reflected in the transaction volume on our platform. Total GMV on our platform increased from RMB19.7 billion in 2020 to RMB27.5 billion in 2021 and further to RMB37.8 billion in 2022. We charge commissions from sellers on our Online Marketplace based on a certain percentage of their sales to buyers. Our commission rates also vary by type of sellers and type of SKUs. We also generate revenue from sales of products under our Self-operation Business. As we further enhance our technologies and IT infrastructure, we aim to create more value for these participants, increasing their engagement and connection and deepening our penetration in the healthcare ecosystem, which we anticipate will create additional monetization avenues for us to drive our revenue growth.

### ***Our ability to manage our mix of product and service offerings***

Our results of operations are also affected by the mix of products and services we offer. We currently derive our revenue primarily from the sale of pharmaceuticals to buyers under our Self-operation Business. We also earn commissions from sellers on our Online Marketplace. In addition, we generate revenue by offering other businesses to industry participants such as SaaS solutions and ClouDiagnos. Different products and services have different cost structures. For example, under our Self-operation Business, we purchase pharmaceutical products from suppliers and then sell these products to buyers. The cost of sales of our Self-operation Business mainly represents cost for purchasing pharmaceutical products. Under Online Marketplace business, we charge commissions from sellers on transactions completed on our Online Marketplace and the cost of sales of our Online Marketplace mainly represents transaction processing fees we pay to third-party payment service

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providers. The Self-operation Business generally has a much lower gross profit margin than that of Online Marketplace. We plan to diversify and optimise the product portfolio on our Online Marketplace to improve our overall commission level. We also plan to increase the portion of procurement directly from pharmaceutical companies, which is expected to reduce the length of supply chain and reduced our procurement costs. With respect to other businesses, we launched ClouDiagnos and wePharmacy in 2021 and plan to further develop our other businesses to diversify our revenue sources. Changes in mix of revenue from different sources could have a significant impact on our profitability. We intend to better manage the mix of our product and service offerings to improve our profitability.

### *Our ability to control operating costs and expenses and improve efficiency*

Our cost of sales primarily represents the cost of procuring pharmaceuticals from suppliers for our Self-operation Business. As our business further grows in scale, we expect to obtain more favourable terms from suppliers, including pricing terms, credit period and volume-based rebates. In addition, we aim to continue to create value for our suppliers, especially pharmaceutical companies, by providing an effective and transparent channel for selling large volumes of their products online and by offering them valuable data insights on market demand, customer preferences and supply chain information. We believe this value proposition will also help us deepen our relationships with suppliers, obtain favourable terms and reduce our procurement costs.

Our selling and marketing expenses are a significant component of our operating costs and expenses, and they primarily consist of salaries and benefits we pay to our sales personnel as well as fulfilment expenses for our Self-operation Business. In 2020, 2021 and 2022, selling and marketing expenses accounted for 12.0%, 10.5% and 9.3% of our total revenues, respectively. We expect our selling and marketing expenses to increase in absolute amounts as we continue to expand our business operations and invest in our new business initiatives, such as ClouDiagnos and wePharmacy, but the selling and marketing expenses as a percentage of revenue is expected to decrease, as buyers are getting more sticky to our platform and thus less subsidies are needed to incentivise them to make purchases on our Online Marketplace. In addition, we anticipate that our research and development expenses will increase in absolute amounts in the foreseeable future in light of our anticipated expansion of our other businesses and further enhancement of our technology capabilities. We also expect that our general and administrative expenses will increase in absolute amounts in the foreseeable future along with our business expansion, but the general administrative expenses as a percentage of revenue is expected to decrease.

## IMPACT OF COVID-19 ON OUR OPERATIONS

The COVID-19 pandemic caused general business disruption in China in the first half of 2020. The warehouse we leased in Wuhan was shut down at the end of January 2020 and thus caused delays and suspensions in the delivery and shipping of pharmaceutical products. The warehouse in Wuhan resumed operations on April 8, 2020. In addition, we also recorded a higher amount of inventory impairment as of 31 December 2020 due to price fluctuations caused by the rapid development of the COVID-19 pandemic. See “—Discussion of certain key items of consolidated statements of financial position—Inventories” for more information. After the COVID-19 pandemic was contained in the second half of 2020, different variants of the coronavirus caused regional resurgences of confirmed cases in 2021 and 2022. We have experienced delays in the delivery and shipping of pharmaceutical products due to travel restrictions imposed by governments. Certain stores we operated on our Online

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Marketplace and certain warehouses also experienced temporary shutdown for a period of a few days to over one month in 2022. In particular, starting from mid-October 2022, we have experienced shutdowns of warehouses, certain employees being quarantined and restrictions on logistics services in several locations, which negatively affected product shipments. The COVID-19 pandemic also resulted in changes in SKUs on our platform. The amount of pandemic control related SKUs experienced fluctuations. Inconvenience or inability to conduct certain business activities offline also promoted online transactions, which led to a positive impact on our business operations. However, such positive impact could be temporary and we cannot assure you that such positive impact would be sustainable or develop into a reliable driver to the growth of our business. Temporary shutdowns or delays in warehousing and logistics services also negatively affected product shipment by certain of our suppliers, which resulted in them generating less cash from their operations, and thus caused liquidity issues for certain of our suppliers. In 2020, we recorded impairment of prepayments that were previously made to certain suppliers as we believed that it was more probable than not that we would not be able to receive the corresponding products from the suppliers due to the liquidity issues. See “—Period-to-period comparison of results of operations—2021 compared to 2020—Other gains and losses” for more information.

China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December. There were surges of cases in many cities during this time, which caused disruption to our and our suppliers’ operations. Demand for medicines that alleviate COVID symptoms increased significantly in a short period of time, which resulted in supply shortages. Surges of cases also resulted in delays or suspension of warehousing and logistics services, which led to additional difficulties in product supply. Many of our employees also contracted COVID during this time, which also negatively affected our delivery capabilities. As of early January 2023, all of our employees had resumed working from offices and warehousing and logistics services all resumed normal.

There remains uncertainty as to the future impact of the virus, especially in light of this change in policy. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments. Consequently, the COVID 19 pandemic may continue to materially and adversely affect our business, financial condition and results of operations in the current and future years. For risks related to COVID-19 pandemic, see “Risk Factors—Risks related to our Business and Industry—Our business operations and financial performance have been adversely affected by the COVID-19 outbreak, may in the future continue to be affected by the COVID-19 outbreak, and may be affected by other natural disasters, epidemics and other unforeseeable catastrophes.”

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### MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

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

	For the Year Ended 31 December					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
<b>Revenue</b> .....	<b>6,064,907</b>	<b>100.0</b>	<b>10,093,538</b>	<b>100.0</b>	<b>14,274,810</b>	<b>100.0</b>
Cost of sales .....	(5,456,118)	(90.0)	(9,179,708)	(90.9)	(12,840,093)	(89.9)
<b>Gross profit</b> .....	<b>608,789</b>	<b>10.0</b>	<b>913,830</b>	<b>9.1</b>	<b>1,434,717</b>	<b>10.1</b>
Other income .....	44,296	0.7	62,465	0.6	88,920	0.6
Other gains and losses .....	(14,217)	(0.2)	(8,623)	(0.1)	19,965	0.1
Changes in fair value of financial liabilities at fair value through profit and loss .....	(294,331)	(4.9)	(128,696)	(1.3)	(1,299,500)	(9.1)
Impairment losses recognised under expected credit loss model, net .....	(3,151)	(0.1)	(1,769)	(0.0)	(2,300)	0.0
Selling and marketing expenses <sup>(1)</sup> .....	(726,417)	(12.0)	(1,063,817)	(10.5)	(1,325,640)	(9.3)
Research and development expenses <sup>(1)</sup> .....	(24,724)	(0.4)	(56,611)	(0.6)	(79,146)	(0.6)
General and administrative expenses <sup>(1)</sup> .....	(156,216)	(2.6)	(207,005)	(2.1)	(286,787)	(2.0)
Finance costs .....	(10,301)	(0.2)	(8,494)	(0.1)	(10,231)	(0.1)
<b>[REDACTED]</b> .....	—	—	(4,354)	(0.0)	(36,865)	(0.3)
<b>Loss before tax</b> .....	<b>(576,272)</b>	<b>(9.5)</b>	<b>(503,074)</b>	<b>(5.0)</b>	<b>(1,496,867)</b>	<b>(10.5)</b>
Income tax credit/(expense) .....	4,561	0.1	1,454	0.0	(3,171)	0.0
Loss for the year .....	(571,711)	(9.4)	(501,620)	(5.0)	(1,500,038)	(10.5)
Other comprehensive expense for the year .....	—	—	—	—	—	—
<b>Loss and total comprehensive expense for the year</b> .....	<b>(571,711)</b>	<b>(9.4)</b>	<b>(501,620)</b>	<b>(5.0)</b>	<b>(1,500,038)</b>	<b>(10.5)</b>
Loss and total comprehensive expense for the year attributable to:						
Owners of the Company .....	(571,711)	(9.4)	(494,041)	(4.9)	(1,488,688)	(10.4)
Non-controlling interests .....	—	—	(7,579)	(0.1)	(11,350)	(0.1)

(1) Equity-settled share-based payment expenses were allocated as follows:

	For the Year Ended 31 December					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Selling and marketing expenses .....	—	—	5,770	23.7	7,329	18.9
General and administrative expenses .....	—	—	16,076	66.0	28,470	73.3
Research and development expenses .....	—	—	2,516	10.3	3,018	7.8
<b>Total</b> .....	<b>—</b>	<b>—</b>	<b>24,362</b>	<b>100.0</b>	<b>38,817</b>	<b>100.0</b>

### Non-IFRS Financial Measure

In evaluating our business, we consider and use adjusted net loss and adjusted net loss margin as supplemental measures to review and assess our operating performance. The presentation of these non-IFRS financial measures is not intended to be considered in isolation or as substitutes for the financial information prepared and presented in accordance with IFRS. We define adjusted net loss as loss for the year adding back (i) changes in fair value of financial liabilities at fair value through profit and loss, (ii) equity-settled share-based payment expenses, and (iii) [REDACTED]. We define adjusted net loss margin as adjusted net loss divided by revenue.

We present these non-IFRS financial measures because they are used by our management to evaluate our operating performance and formulate business plans. Accordingly, we believe that the use of these non-IFRS financial measures provide useful information to [REDACTED] and others in understanding and evaluating our operating results in the same manner as our management and Board.

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These non-IFRS financial measures are not defined under IFRS and are not presented in accordance with IFRS. These non-IFRS financial measures have limitations as an analytical tool. Further, these non-IFRS measures may differ from the non-IFRS information used by other companies, including peer companies, and therefore its comparability may be limited.

These non-IFRS financial measures should not be considered in isolation or construed as alternatives to profit/(loss) or any other measure of performance. [REDACTED] are encouraged to review our historical non-IFRS financial measures in light of the most directly comparable IFRS measures, as shown below. The non-IFRS financial measures presented here may not be comparable to similarly titled measure presented by other companies. Other companies may calculate similarly titled measures differently, limiting the usefulness of such measures when analysing our data comparatively. We encourage you to review our financial information in its entirety and not rely on a single financial measure.

The following table (i) reconciles adjusted net loss for the years presented to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is loss for the year, and (ii) presents adjusted net loss margin for the years presented:

	For the Year Ended 31 December		
	2020	2021	2022
	(RMB in thousands, except for percentages)		
<b>Loss for the year</b> .....	<b>(571,711)</b>	<b>(501,620)</b>	<b>(1,500,038)</b>
<b>Add back:</b>			
Changes in fair value of financial liabilities at fair value through profit and loss .....	294,331	128,696	1,299,500
Equity-settled share-based payment expenses .....	—	24,362	38,817
[REDACTED] .....	—	4,354	36,865
<b>Adjusted net loss, a non-IFRS measure</b> .....	<b>(277,380)</b>	<b>(344,208)</b>	<b>(124,856)</b>
<b>Adjusted net loss margin, a non-IFRS measure</b> .....	<b>(4.6)%</b>	<b>(3.4)%</b>	<b>(0.9)%</b>

Changes in fair value of financial liabilities at fair value through profit and loss are related to preferred shares issued to investors. Upon the completion of the Listing, this line item will no longer be recorded in our consolidated financial statements. Equity-settled share-based payment expenses are non-cash employee related expenses arising from grant of share incentive awards. [REDACTED]

### Revenue

During the Track Record Period, we generated revenue from our (i) Self-operation Business, (ii) Online Marketplace, and (iii) other businesses.

We generated a vast majority of our revenue during the Track Record Period from our Self-operation Business, through which we procure pharmaceutical products from pharmaceutical companies and distributors and sell to pharmacies and primary healthcare institutions primarily through our Online Marketplace. Revenue from our Self-operation Business increased significantly during the Track Record Period. See “—Period-to-Period Comparison of Results of Operations” for reasons of the significant increases.

Our revenue from Self-operation Business increased significantly during the Track Record Period primarily due to enlarged buyer base and increased buyer engagement, which improved the

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GMV for our Self-operation Business. The average number of MPB for our Self-operation Business increased from around 109,000 in 2020 to around 185,000 in 2021 and further to around 234,000 in 2022. Average number of orders per paying buyer per month for our Self-operation Business increased from 5.6 in 2020 to 8.5 in 2021 and further to 11.4 in 2022. The GMV on our Self-operation Business increased from RMB6.1 billion in 2020 to RMB10.5 billion in 2021 and further to RMB15.2 billion 2022.

We operate our Online Marketplace where sellers of pharmaceutical products such as pharmaceutical distributors sell pharmaceutical products to downstream pharmacies and primary healthcare institutions. We generated revenue from Online Marketplace during the Track Record Period by charging commissions from sellers, based on a certain percentage of their sales on our Online Marketplace. See “Business—Our Business—Online Marketplace” for more information on commission rates.

In addition, we have several other businesses, which mainly include SaaS solutions and ClouDiagnos services. During the Track Record Period, we generated revenue by offering (i) SaaS solutions in 2020, 2021 and 2022, (ii) ClouDiagnos services in 2021 and 2022, and (iii) wePharmacy in 2022. We launched wePharmacy in 2021 but did not recognise any revenue in 2021.

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

	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
<b>Total</b>	<b>6,064,907</b>	<b>100.0</b>	<b>10,093,538</b>	<b>100.0</b>	<b>14,274,810</b>	<b>100.0</b>

### Cost of Sales

Our cost of sales primarily consists of (i) product procurement costs in connection with our Self-operation Business, (ii) transaction processing fees paid to third-party payment service providers in connection with our Online Marketplace, (iii) hardware procurement costs in relation to SaaS solutions, diagnosis testing service fee paid to third-party testing agencies and costs for reagents and consumables for ClouDiagnos services, and manufacturing, shipment and installation costs for wePharmacy. We expect our cost of sales to increase generally along with the expansion of our business.

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The following table sets forth a breakdown of our cost of sales by revenue source, both in absolute amount and as a percentage of our total revenue, for the periods presented:

	For the Year Ended 31 December					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Self-operation Business <sup>(1)</sup> . . . . .	5,400,766	89.1	9,092,751	90.1	12,679,477	88.8
Online Marketplace <sup>(2)</sup> . . . . .	55,015	0.9	79,713	0.8	124,056	0.9
Other businesses <sup>(3)</sup> . . . . .	337	0.0	7,244	0.1	36,560	0.3
<b>Total</b> . . . . .	<b><u>5,456,118</u></b>	<b><u>90.0</u></b>	<b><u>9,179,708</u></b>	<b><u>90.9</u></b>	<b><u>12,840,093</u></b>	<b><u>89.9</u></b>

*Notes:*

- (1) Cost of sales for Self-operation Business represents product procurement costs.
- (2) Cost of sales for Online Marketplace mainly represents transaction processing fees.
- (3) Cost of sales for other businesses mainly represents (i) hardware procurement costs in relation to SaaS solutions, (ii) diagnosis testing service fee paid to third-party testing agencies and costs for reagents and consumables for ClouDiagnos services, and (iii) manufacturing, shipment and installation costs for wePharmacy.

Based on our unaudited management account, the estimated overall transaction processing fee rates for all transactions on our Online Marketplace, including transactions conducted under our Self-Operation Business, during the Track Record Period was 0.28% in 2020, 0.29% in 2021 and 0.31% in 2022. Higher average overall transaction processing fee rate in 2022 was primarily resulted from a large volume of transactions were conducted in December 2022 as a result of a significant increase in demand for medicines that alleviate COVID symptoms. Transaction processing fees were charged when the buyers make the payments, but commissions are not charged until buyers accept the products. Due to the large-scale outbreak of COVID-19 across China at the end of 2022 after the Chinese government changed the pandemic response policies, logistics and shipment services were adversely affected. Delays in product shipment resulted in transaction processing fees for a large amount of transactions being charged in 2022 but commissions being charged in 2023.

### Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin for the periods indicated:

	For the Year Ended 31 December					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Self-operation Business . . . . .	290,648	5.1	496,761	5.2	839,540	6.2
Online Marketplace . . . . .	317,701	85.2	409,534	83.7	570,148	82.1
Other businesses . . . . .	440	56.6	7,535	51.0	25,029	40.6
<b>Total</b> . . . . .	<b><u>608,789</u></b>	<b><u>10.0</u></b>	<b><u>913,830</u></b>	<b><u>9.1</u></b>	<b><u>1,434,717</u></b>	<b><u>10.1</u></b>

### Other Income

Other income mainly consists of bank interest income, government grants, investment income from financial assets at fair value through profit and loss. Government grants represent the cash received from government after government approval of the applications that meet the requirements of government’s policies. There are substantial uncertainties as to whether or not and, if yes, when we will receive government grants. There is no assurance that we will continue to receive any government grants in the future.

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### Other Gains and Losses

Other gains and losses mainly consist of net foreign exchange losses or gains, donation and losses or gains on disposal of property, plant and equipment. In 2020, we made a cash donation of RMB1.0 million to Wuhan Charity Federation to support Wuhan in its pandemic response. In 2021, we also made cash donations of RMB600,000 to a student public fund in Beijing and RMB60,000 to poverty alleviation projects.

### Changes in Fair Value of Financial Liabilities at Fair Value through Profit and Loss

Changes in fair value of financial liabilities at fair value through profit and loss relates to the changes in the fair value of a series of preferred shares we issued to our pre-[REDACTED] investors. See note 29 to Accountant’s Report in Appendix I to this document.

### Impairment Losses Recognised under Expected Credit Loss Model, Net

Impairment losses recognised under expected credit loss model, net represents net impairment losses recognised under expected credit loss model in relation to our trade receivables. See note 34(b) to Accountant’s Report in Appendix I to this document.

### Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of salaries and welfare benefits for our selling and marketing personnel, marketing and promotion expenses, fulfilment expenses, and depreciation of property, plant and equipment and amortisation of intangible assets. We expect our selling and marketing expenses to increase in the foreseeable future as we continue to expand our business operations and invest in new business initiatives, such as ClouDiagnos and wePharmacy, but the selling and marketing expenses as a percentage of revenue is expected to decrease, as our buyers are getting more sticky to our platform thus less subsidies are needed to incentivise their purchase on our Online Marketplace. The following table sets forth a breakdown of our selling and marketing expenses for the periods presented:

	For the Year Ended 31 December		
	2020	2021	2022
	(RMB in thousands)		
Salaries and welfare benefits . . . . .	361,104	565,277	729,945
Marketing and promotion expenses . . . . .	174,339	186,877	205,728
Fulfilment expenses . . . . .	141,078	237,650	313,005
Logistics expenses . . . . .	91,154	160,973	222,265
Rental expenses . . . . .	38,489	64,322	69,919
Utility expenses . . . . .	11,435	12,355	20,821
Depreciation of property, plant and equipment and amortisation of intangible assets . . . . .	20,382	31,657	35,987
Others . . . . .	29,514	42,355	40,975
<b>Total . . . . .</b>	<b>726,417</b>	<b>1,063,817</b>	<b>1,325,640</b>

### Research and Development Expenses

Our research and development expenses primarily consist of salaries and welfare benefits for our research and development personnel and depreciation of property, plant and equipment and amortisation of intangible assets. We expect our research and development expenses to increase as we



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expand our research and development team, enhance our software design and engineering technologies and big data analytics capabilities, expand the applications of our other businesses, and develop new features and functionalities on our platform. The following table sets forth a breakdown of our research and development expenses for the periods presented:

	For the Year Ended 31 December		
	2020	2021	2022
	(RMB in thousands)		
Salaries and welfare benefits . . . . .	22,959	53,304	73,321
Depreciation of property, plant and equipment and amortisation of intangible assets . . . . .	1,223	2,220	3,089
Others . . . . .	542	1,087	2,736
<b>Total</b> . . . . .	<b><u>24,724</u></b>	<b><u>56,611</u></b>	<b><u>79,146</u></b>

### General and Administrative Expenses

Our general and administrative expenses primarily consist of salaries and welfare benefits for our general and administrative personnel, general corporate expenses and depreciation of property, plant and equipment and amortisation of intangible assets. We expect our general and administrative expenses to increase in the foreseeable future as we grow our business and incur increased costs related to operating as a public company, but the general and administrative expenses as a percentage of revenue is expected to decrease, as we improve our management and operating efficiency and enjoy the economies of scale as our business grows. The following table sets forth a breakdown of our general and administrative expenses for the periods presented:

	For the Year Ended 31 December		
	2020	2021	2022
	(RMB in thousands)		
Salaries and welfare benefits . . . . .	93,870	119,730	185,335
General corporate expenses . . . . .	40,906	64,542	66,156
Depreciation of property, plant and equipment and amortisation of intangible assets . . . . .	14,042	11,251	19,389
Others . . . . .	7,398	11,482	15,907
<b>Total</b> . . . . .	<b><u>156,216</u></b>	<b><u>207,005</u></b>	<b><u>286,787</u></b>

### Finance Costs

Our finance costs consist of interest expenses on lease liabilities and bank borrowings. See “—Indebtedness” for more information related to our lease liabilities and bank borrowings.

[REDACTED]

### Taxation

#### *Cayman Islands*

Under the current Laws of the Cayman Islands, we are not subject to tax on income or capital gains. Additionally, payments of dividends by us to our shareholders will not be subject to taxation in the Cayman Islands, and no withholding tax will be imposed on the payment of a dividend to any holder of our Shares.

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### *Hong Kong*

Our subsidiaries in Hong Kong are subject to the uniform tax rate of 16.5%. Under Hong Kong tax law, our subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there is no withholding tax in Hong Kong on remittance of dividends. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

### *PRC*

Generally, our subsidiaries and consolidated VIEs in China are subject to enterprise income tax on their taxable income in China at a rate of 25%, except where a special preferential rate applies. The enterprise income tax is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards.

Guangzhou Sudaο Information Technology Co., Ltd., or Guangzhou Sudaο, and Guangzhou Sudaοyi Information Technology Co., Ltd., or Guangzhou Sudaοyi, have been qualified as a “High and New Technology Enterprises” (“HNTe”), and thus Guangzhou Sudaο enjoyed a preferential income tax rate of 15% for three years from 2019 and Guangzhou Sudaοyi enjoys a preferential income tax rate of 15% for three years from 2021, to the extent these two entities have taxable income under the EIT Law, as long as they maintain the HNTe qualification and duly conduct relevant EIT filing procedures with the relevant tax authority. The HNTe certificate is subject to review and renewal every three years. In addition, Guangzhou Sudaο, Guangzhou Sudaοyi, Guangzhou Leyao Information Technology Co., Ltd., Guangzhou Yuewei Medical Laboratory Co., Ltd., Guangzhou Xiaoweicang Intelligent Pharmacy Technology Co., Ltd., Guangzhou Guangpu Health Technology Co., Ltd., and Guangzhou Yaobang Information Technology Co., Ltd. enjoyed a super deduction of 175% and 200% of qualified research and development expenses as tax deductible expenses for the period from 1 January 2020 to 30 September 2022 and for the period from 1 October 2022 to 31 December 2022, respectively, pursuant to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC.

Certain PRC entities within our Group are qualified as “small- and micro-enterprises” and thus are able to benefit from a preferential tax rate of 20% under the EIT Law. Accordingly, these entities enjoyed 75% reduction on annual taxable income on first RMB1,000,000 and 50% reduction between the annual taxable income of RMB1,000,000 to RMB3,000,000. In 2021 and 2022, these qualified entities enjoyed 87.5% reduction on annual taxable income on first RMB1,000,000 and 50% reduction between the annual taxable income of RMB1,000,000 to RMB3,000,000.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Risk Factors—Risks Relating to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavourable tax consequences to us and our non-PRC shareholders.”

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### PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### 2022 compared to 2021

##### *Revenue*

Our revenue increased by 41.4% from RMB10.1 billion in 2021 to RMB14.3 billion in 2022, mainly due to an increase in revenue from our Self-operation Business.

*Revenue from Self-operation Business.* Our revenue from Self-operation Business increased by 41.0% from RMB9.6 billion in 2021 to RMB13.5 billion in 2022, primarily attributable to enlarged buyer base and increased buyer engagement, which improved the GMV for our Self-operation Business. The average number of MPB for our Self-operation Business increased from around 185,000 in 2021 to around 234,000 in 2022. Average number of orders per paying buyer per month for our Self-operation Business also increased from 8.5 in 2021 to 11.4 in 2022. The GMV on our Self-operation Business increased from RMB10.5 billion in 2021 to RMB15.2 billion in 2022.

*Revenue from Online Marketplace.* Our revenue from Online Marketplace increased by 41.9% from RMB489.2 million in 2021 to RMB694.2 million in 2022, primarily attributable to the growth of GMV on our Online Marketplace, which in turn was driven by, among others, increased seller and buyer base and number of orders placed. The GMV on our Online Marketplace increased from RMB17.0 billion in 2021 to RMB22.6 billion in 2022. The number of sellers on our Online Marketplaces increased from 4,703 as of 31 December 2021 to 6,072 as of 31 December 2022. The number of average MPB for our Online Marketplace increased from around 207,000 in 2021 to around 269,000 in 2022. Average number of orders per paying buyer per month also increased from 15.8 in 2021 to 18.8 in 2022.

*Revenue from other businesses.* Our revenue from other businesses increased from RMB14.8 million in 2021 to RMB61.6 million in 2022, mainly due to (i) an increase in revenue from medical testing services through our ClouDiagnos services, which was launched in June 2021, and (ii) new revenue source in 2022 derived from wePharmacy, which we launched in the second half of 2021 and started to generate revenue in 2022. Growth of revenue from SaaS solutions in 2022 also contributed to the increase in revenue from other businesses.

##### *Cost of sales*

Our cost of sales increased by 39.9% from RMB9.2 billion in 2021 to RMB12.8 billion in 2022, primarily due to our revenue growth and rapid business expansion.

*Cost of sales of Self-operation Business.* Cost of sales of Self-operation Business, which primarily consist of products procurement costs, increased by 39.4% from RMB9,092.8 million in 2021 to RMB12,679.5 million in 2022, primarily due to the growth of purchase demand from buyers, as a result of which we increased the procurement of pharmaceutical products accordingly.

*Cost of sales of Online Marketplace.* Cost of sales of Online Marketplace, which primarily consists of transaction processing fees, increased by 55.6% from RMB79.7 million in 2021 to RMB124.1 million in 2022, primarily due to (i) the expansion of transaction volume on our platform, and (ii) a higher average overall transaction processing fee rate. See “—Major Components of Our Results of Operations—Cost of Sales” for more information regarding higher average overall transaction processing fee rate.

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*Cost of sales of other businesses.* Cost of sales of other businesses increased from RMB7.2 million in 2021 to RMB36.6 million in 2022, primarily due to (i) an increase in cost of sales in relation to ClouDiagnos services, which was resulted from the growth of such services, and (ii) an increase in cost of sales in relation to wePharmacy, which we launched in the second half of 2021 and started to generate revenue in 2022.

### ***Gross profit***

As a result of the foregoing, our gross profit increased by 57.0% from RMB913.8 million in 2021 to RMB1,434.7 million in 2022. Our gross profit margin increased from 9.1% to 10.1% during the same periods, 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.

Gross profit margin for our Self-operation Business increased from 5.2% in 2021 to 6.2% in 2022, primarily due to our increasing bargaining power in procurement as the operations of our Self-operation Business became more mature and our optimization of procurement channels.

Gross profit margin for our Online Marketplace declined from 83.7% in 2021 to 82.1% in 2022, primarily because a higher portion of Online Marketplace revenue generated from Self-operation Business was eliminated when reporting the revenue from Online Marketplace on a consolidated basis. The higher portion of Online Marketplace revenue being eliminated was primarily due to the overall growth of our Self-operation Business in 2022. In addition, higher average overall transaction processing fee rate in 2022 also contributed to the decline of gross profit margin. See “—Major Components of Our Results of Operations—Cost of Sales” for more information regarding higher average overall transaction processing fee rate.

Gross profit margin for our other businesses declined from 51.0% in 2021 to 40.6% in 2022, primarily because we started to generate profit from wePharmacy, which generally has a lower gross profit margin than SaaS Solutions and ClouDiagnos services. Gross profit margin for SaaS Solutions increased from 94.9% in 2021 to 99.1 % in 2022 primarily because we incurred more costs in 2021 for purchasing hardware in the early stage of development of such business.

### ***Other income***

Our other income increased from RMB62.5 million in 2021 to RMB88.9 million in 2022, primarily due to (i) an increase in bank interest income mainly resulted from more cash balances in our bank accounts as enhanced our working capital management and enjoyed higher interest rates for our demand deposits, and (ii) an increase in government grants we received in 2022 mainly in connection with increase in foreign investments.

### ***Other gains and losses***

We recorded other losses of RMB8.6 million in 2021, compared to other gains of RMB20.0 million in 2022. We recorded other gains in 2022 primarily because we had net foreign exchange gains of RMB18.7 million in connection with our cash balances in US dollars due to appreciation of US dollars against RMB in 2022.

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### *Changes in fair value of financial liabilities at fair value through profit and loss*

Changes in fair value of financial liabilities at fair value through profit and loss were RMB128.7 million in 2021 and RMB1,299.5 million in 2022. The changes were primarily due to an increase in the value of our preferred shares and appreciation of US dollars against RMB, which led to an increase in fair value of preferred shares that are denominated in US dollars. See note 29 to Accountant’s Report in Appendix I to this document.

### *Impairment losses recognised under expected credit loss model, net*

Net impairment losses we recognised under expected credit loss model for our trade receivables increased from RMB1.8 million in 2021 to RMB2.3 million in 2022, which is consistent with the growth of our Self-operation Business.

### *Selling and marketing expenses*

Our selling and marketing expenses increased by 24.6% from RMB1.1 billion in 2021 to RMB1.3 billion in 2022, primarily attributable to (i) an increase in salary and welfare expenses as we hired additional selling and marketing employees to promote our platform and our other businesses to more pharmacies and primary healthcare institutions, and (ii) an increase in fulfillment expenses along with the growth of our Self-operation Business.

### *Research and development expenses*

Our research and development expenses increased by 39.8% from RMB56.6 million in 2021 to RMB79.1 million in 2022, primarily attributable to an increase in salary and welfare expenses as we incurred more employees related expenses in our efforts to optimise and upgrade technology systems for our businesses and develop technology systems for our other businesses.

### *General and administrative expenses*

Our general and administrative expenses increased by 38.5% from RMB207.0 million in 2021 to RMB286.8 million in 2022, primarily attributable to an increase in salary and welfare expenses as we paid bonuses to our employees, including management personnel, to recognise their performance in 2022.

### *Finance costs*

Our finance costs increased by 20.4% from RMB8.5 million in 2021 to RMB10.2 million in 2022 due to an increase in interest expense on lease liabilities arising from additional office space and warehouses we leased.

### *Loss and total comprehensive expense for the year*

As a result of foregoing, our loss and total comprehensive expense for year increased by 199.0% from RMB501.6 million in 2021 to RMB1,500.0 million in 2022.

## **2021 compared to 2020**

### *Revenue*

Our revenue increased by 66.4% from RMB6,064.9 million in 2020 to RMB10,093.5 million in 2021, mainly due to an increase in revenue from our Self-operation Business.

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*Revenue from Self-operation Business.* Our revenue from Self-operation Business increased by 68.5% from RMB5,691.4 million in 2020 to RMB9,589.5 million in 2021, primarily due to enlarged buyer base and increased buyer engagement, which improved the GMV of our Self-operation Business. The average number of MPB for our Self-operation Business increased from 109,469 in 2020 to 184,746 in 2021. Average number of orders per paying buyer per month for our Self-operation Business also increased from 5.6 in 2020 to 8.5 in 2021. The GMV on our Self-operation Business increased from RMB6.1 billion in 2020 to RMB10.5 billion 2021.

*Revenue from Online Marketplace.* Our revenue from Online Marketplace increased by 31.3% from RMB372.7 million in 2020 to RMB489.2 million in 2021, primarily attributable to the growth of GMV on our Online Marketplace, which in turn was mainly driven by increased seller and buyer base and number of orders placed. The GMV on our Online Marketplace increased from RMB13.6 billion in 2020 to RMB17.0 billion 2021. The number of sellers on our Online Marketplace increased from 3,599 as of 31 December 2020 to 4,703 as of 31 December 2021. The average number of MPB for our Online Marketplace increased from 144,609 in 2020 to 206,844 in 2021. Average number of orders per paying buyer per month also increased from 9.8 in 2020 to 15.8 in 2021.

*Revenue from other businesses.* Our revenue from other businesses increased from RMB0.8 million in 2020 to RMB14.8 million in 2021, mainly due to (i) an increase in revenue from our SaaS solutions, and (ii) a new revenue source derived from medical testing services through our ClouDiagnos services in 2021.

### **Cost of sales**

Our cost of sales increased by 68.2% from RMB5,456.1 million in 2020 to RMB9,179.7 million in 2021, primarily due to our revenue growth and rapid business expansion.

*Cost of sales of Self-operation Business.* Cost of sales of Self-operation Business, which primarily consist of products procurement costs, increased by 68.4% from RMB5,400.8 million in 2020 to RMB9,092.8 million in 2021, primarily due to the increase of procurement of pharmaceutical products as a result of the expansion of our Self-operation Business.

*Cost of sales of Online Marketplace.* Cost of sales of Online Marketplace, which primarily consists of transaction processing fees, increased by 44.9% from RMB55.0 million in 2020 to RMB79.7 million in 2021, primarily due to the expansion of transaction volume on our platform.

*Cost of sales of other businesses.* Cost of sales of other businesses increased from RMB0.3 million in 2020 to RMB7.2 million in 2021, primarily because we started to incur medical testing fees paid to third-party testing agencies for our ClouDiagnos services, which we started to operate in 2021.

### **Gross profit**

As a result of the foregoing, our gross profit increased by 50.1% from RMB608.8 million in 2020 to RMB913.8 million in 2021. Our gross profit margin declined from 10.0% to 9.1% during the same periods, primarily due to the expansion of our Self-operation Business, which generally has a lower gross profit margin than other businesses.

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Gross profit margin for our Self-operation Business remained relatively stable, from 5.1% in 2020 to 5.2% in 2021, as we were still at the expansion stage of our Self-operating Business and we balanced the growth of profitability with the growth of business scale.

Gross profit margin for our Online Marketplace declined from 85.2% in 2020 to 83.7% in 2021. With the expansion of our Self-operation Business, our Online Marketplace generated more commissions from our own stores on Online Marketplace, which were eliminated when reporting the revenue from Online Marketplace on a consolidated basis. Meanwhile, the transaction processing fees corresponding to the transactions conducted by our own stores on Online Marketplace were recorded as the costs of sales of Online Marketplace. As such, the reported gross profit margin decreased from 2020 to 2021.

Gross profit margin of our other businesses declined from 56.6% in 2020 to 51.0% in 2021, primarily because we started to operate ClouDiagnos services, which had a gross profit margin of 36.2% in 2021. Compared to SaaS solutions, which had a gross profit margin of 94.9% in 2021, the lower gross profit margin of ClouDiagnos services in 2021 led to the decrease in gross profit margin for our other business in 2021. Our SaaS solutions had a gross margin of 56.6% in 2020. The substantial lower gross profit margin of our SaaS solutions in 2020 was mainly because we just started to generate revenue from SaaS solutions in 2020 and incurred a substantial amount of hardware procurement costs before we could generate more revenue in subsequent periods from charging annual subscription fees.

### ***Other income***

Our other income increased by 41.0% from RMB44.3 million in 2020 to RMB62.5 million in 2021, primarily due to (i) an increase in government grants we received in 2021, and (ii) an increase in investment income from financial assets at FVTPL, which represents investment income from wealth management products we purchased from commercial banks in China. See “—Discussion of certain key items of consolidated statements of financial position—Financial assets at fair value through profit or loss—Cash management policies.”

### ***Other gains and losses***

We recorded other losses of RMB14.2 million in 2020 and RMB8.6 million in 2021. The decrease was primarily attributable to a decrease in impairment loss on prepayment to suppliers, which decreased from RMB12.4 million in 2020 to RMB2.1 million in 2021 primarily because certain suppliers experienced sudden liquidity issues due to the outbreak of the COVID-19 pandemic in 2020. In response to suppliers’ liquidity issue, we enhanced our management on suppliers such as maintaining a blacklist of suppliers and reducing prepayments to suppliers that we do not frequently cooperate with.

### ***Changes in fair value of financial liabilities at fair value through profit and loss***

Changes in fair value of financial liabilities at fair value through profit and loss were RMB294.3 million in 2020 and RMB128.7 million in 2021. The changes were primarily due to the change of valuation of our preferred shares. See note 29 to Accountant’s Report in Appendix I to this document.

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### ***Impairment losses recognised under expected credit loss model, net***

Net impairment losses we recognised under expected credit loss model for our trade receivables decreased from RMB3.2 million in 2020 to RMB1.8 million in 2021, primarily because we enhanced our management on sales on credit.

### ***Selling and marketing expenses***

Our selling and marketing expenses increased by 46.4% from RMB726.4 million in 2020 to RMB1,063.8 million in 2021, primarily attributable to (i) an increase in salary and welfare expenses as we hired additional selling and marketing employees to promote our business, and (ii) an increase in fulfilment expenses along with the growth of our Self-operation Business.

### ***Research and development expenses***

Our research and development expenses increased by 129.0% from RMB24.7 million in 2020 to RMB56.6 million in 2021, primarily attributable to an increase in salary and welfare expenses as we incurred more employees related expenses in 2021 for research and development activities mainly in relation to our Self-operation Business and other businesses.

### ***General and administrative expenses***

Our general and administrative expenses increased by 32.5% from RMB156.2 million in 2020 to RMB207.0 million in 2021, primarily attributable to (i) an increase in salary and welfare expenses as we hired additional management personnel for the development of our business and professional staff with expertise in capital markets, and (ii) an increase in general corporate expenses as we leased more office space.

### ***Finance costs***

Our finance costs decreased by 17.5% from RMB10.3 million in 2020 to RMB8.5 million in 2021 due to a decrease in interest expense on bank borrowings as we gradually reduced our acceptance of bank acceptance bills from our offline business customers, which in turn led to a lower level bills discounted and interest expense associated therewith.

### ***Loss and total comprehensive expense for the year***

As a result of foregoing, our loss and total comprehensive expense for year decreased by 12.3% from RMB571.7 million in 2020 to RMB501.6 million in 2021.



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### DISCUSSION OF CERTAIN KEY ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	As of 31 December			As of 30 April
	2020	2021	2022	2023
	(RMB in thousands)			(Unaudited)
<b>Current assets:</b>				
Inventories	516,106	847,840	1,016,168	1,253,224
Trade and other receivables	528,420	375,118	503,460	415,527
Amount due from a shareholder	38,781	2	2	2
Financial assets at fair value through profit and loss	344,600	512,882	711,076	757,647
Time deposits	76,204	243,899	320,487	249,640
Restricted bank deposits	158,221	209,356	298,404	551,585
Bank balances and cash	130,526	383,603	835,394	485,176
<b>Total current assets</b>	<b><u>1,792,858</u></b>	<b><u>2,572,700</u></b>	<b><u>3,684,991</u></b>	<b><u>3,712,801</u></b>
<b>Current liabilities:</b>				
Trade and other payables	(1,832,620)	(1,929,826)	(2,398,078)	(2,403,601)
Contract liabilities	(39,961)	(9,373)	(24,434)	(12,762)
Lease liabilities	(47,239)	(63,945)	(81,178)	(76,406)
Bank borrowings	(96,983)	—	—	—
Financial liabilities at fair value through profit and loss	(2,931,012)	(4,222,381)	(5,872,042)	(7,455,781)
<b>Total current liabilities</b>	<b><u>(4,974,815)</u></b>	<b><u>(6,225,525)</u></b>	<b><u>(8,375,732)</u></b>	<b><u>(9,948,550)</u></b>
<b>Net current liabilities</b>	<b><u>(3,154,957)</u></b>	<b><u>(3,652,825)</u></b>	<b><u>(4,690,741)</u></b>	<b><u>(6,235,749)</u></b>

Our net current liabilities increased by 15.8% from RMB3,155.0 million as of 31 December 2020 to RMB3,652.8 million as of 31 December 2021, primarily due to an increase in financial liabilities at fair value through profit and loss. See “—Financial Liabilities at Fair Value through Profit and Loss” below for reasons of the increase.

Our net current liabilities increased by 28.4% from RMB3,652.8 million as of 31 December 2021 to RMB4,690.7 million as of 31 December 2022, primarily due to an increase in financial liabilities at fair value through profit and loss. See “—Financial Liabilities at Fair Value through Profit and Loss” below for reasons of the increase. Such increase was partially offset by an overall increase in time deposits, bank balances and cash, restricted bank deposits and financial assets at fair value through profit and loss mainly due to (i) our receipt of proceeds of US\$55.0 million from Series E-2 financing, and (ii) an increase in our cash position resulted from enhanced management on working capital.

Our net current liabilities increased by 32.9% from RMB4,690.7 million as of 31 December 2022 to RMB6,235.7 million as of 30 April 2023, primarily due to an increase in financial liabilities at fair value through profit and loss as a result of an increase in value of our preferred shares.

Our net current liabilities position is significantly affected by financial liabilities at fair value through profit and loss, which is related to preferred shares we issued to pre-[REDACTED] investors. Upon the completion of the Listing, all of the preferred shares will be automatically converted into ordinary shares and financial liabilities at fair value through profit and loss will no longer be recorded on our balance sheet as liabilities, as a result of which our current net liabilities position would turn into net assets.

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In light of our net current liabilities position as of 31 December 2022, we plan to improve net current liabilities position 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 measures will allow us to increase our revenue and manage our cost and expenses to reach profitability and realise positive operating cash flows. See “Business—Business Sustainability” for more details.

### Inventories

Our inventories represent pharmaceutical and healthcare products in stock. The following table sets forth inventories as of the dates indicated:

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
<b>Inventories:</b>			
Pharmaceutical and healthcare products .....	529,111	860,547	1,030,451
Less: impairment provision .....	(13,005)	(12,707)	(14,283)
<b>Total</b> .....	<b><u>516,106</u></b>	<b><u>847,840</u></b>	<b><u>1,016,168</u></b>

Our inventories increased by 64.3% from RMB516.1 million as of 31 December 2020 to RMB847.8 million as of 31 December 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, primarily due to the growth of our Self-operation Business.

The products we sell generally have a shelf life ranging from 12 to 60 months. Our impairment policies on inventories are formulated based on analysis of remaining shelf life of the products at the end of each year and the corresponding sales data. Based on the analysis, we generally have to sell the products with a shelf life of shorter than 9 months as of the year end with substantial discounts. As a result, we generally make impairment provision to inventories for products with a remaining shelf life of less than nine months as of the end of each year.

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

	For the Year Ended 31 December		
	2020	2021	2022
Inventory turnover days <sup>(1)</sup> .....	27.3	27.1	26.5

(1) Inventory turnover days for a period equals the average of the opening and closing inventory balance divided by cost of sales for that period and multiplied by 365 days for the year ended 31 December.

Our inventory turnover days remained stable at 27.3 days in 2020, 27.1 days in 2021 and 26.5 days in 2022.

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The following table sets forth the ageing analysis of our inventories as of the dates indicated:

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
Within 3 months .....	492,650	795,549	972,515
4 – 6 months .....	14,329	25,624	26,605
7 – 12 months .....	19,923	32,848	29,768
Over 1 year .....	2,209	6,526	1,563
<b>Total</b> .....	<b>529,111</b>	<b>860,547</b>	<b>1,030,451</b>

As of 30 April 2023, RMB985.7 million, or 95.7%, of our inventories as of 31 December 2022 had been sold or utilized.

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined based on specific identification method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sales. Costs necessary to make the sales include incremental costs directly attributable to the sales and non-incremental costs that we must incur to make the sales. Adjustments are recorded to write down the cost of inventory to the estimated net realisable value by considering (i) market price and shelf life of inventories recorded during the Track Record Period, and (ii) slow-moving merchandise and damaged goods, which are dependent on factors such as historical and forecast consumer demand, and promotional environment. Write-downs are recorded in cost of sales in the consolidated statements of profit or loss and other comprehensive income.

We believe that there is no recoverability issue for our inventories, given that (i) the provision of our inventories has been determined with reference to several factors mentioned above; and (ii) in addition to the subsequent utilisation of inventories, our inventory turnover days also provided useful information as to the overall utilisation of inventories during the Track Record Period. Our turnover days were 27.3 days in 2020, 27.1 days in 2021 and 26.5 days in 2022, indicating that inventories shall be generally sold or utilised approximately in one month and we maintained effective inventory management policy.

### Trade and Other Receivables

Our trade and other receivables primarily consist of trade receivables, note receivables, advance to suppliers and other receivables. Note receivables represent receivables to be received in bank acceptance bills. Our trade receivables and note receivables represent (i) receivables of commissions we charge to sellers for the sales they made on our Online Marketplace, and (ii) receivables of sales proceeds from our offline business customers.

We generally require sellers on our Online Marketplace to make payments to us on or before 15th day of each month for commissions arising from transactions made in the immediately preceding month. On average, the credit term we grant to sellers is approximately 30 days. With respect to offline allocation channels business, we generally allow a credit term of 30 to 90 days.

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

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
Trade receivables	104,285	116,692	139,215
Less: allowance for credit losses	(4,616)	(6,385)	(4,657)
Note receivables	260,805	11,852	29,163
Total trade and note receivables	360,474	122,159	163,721
Advance to suppliers	73,159	84,753	112,651
Other tax recoverable	15,535	15,298	4,145
Prepaid expense	3,643	19,825	12,233
Deferred issue costs	—	1,451	5,854
Receivables in custodian	3,608	35,942	119,945
Other receivables	72,001	95,690	84,911
<b>Total trade and other receivables</b>	<b><u>528,420</u></b>	<b><u>375,118</u></b>	<b><u>503,460</u></b>

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. The decrease was partially offset by an increase in receivables in custodian, which represent prepayments made by online customers of our Self-operation Business in Ping An Bank’s settlement system that are recognised as receivables after their acceptance of the products we shipped but before our withdrawal from the settlement system, as a result of our migration of settlement service on our Online Marketplace to Ping An Bank started in 2020.

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.

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

	For the Fiscal Year Ended 31 December		
	2020	2021	2022
Trade receivable turnover days <sup>(1)</sup>	7.0	3.9	3.1

(1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables divided by revenue for that period and multiplied by 365 days for the year ended 31 December.

Our trade receivable turnover days decreased from 7.0 days in 2020 to 3.9 days in 2021, primarily because we enhanced the collection of trade receivables. Our trade receivable turnover days further decreased to 3.1 days in 2022 as we further tightened our policy for granting credit terms to buyers from offline channels.

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The following table sets forth an ageing analysis of our trade receivables based on the invoice date as of the dates indicated, respectively:

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
Within 3 months .....	90,373	91,485	127,854
3 to 6 months .....	5,953	14,519	3,057
6 to 12 months .....	1,535	4,167	1,182
Over 12 months .....	6,424	6,521	7,122
<b>Total</b> .....	<b>104,285</b>	<b>116,692</b>	<b>139,215</b>

For note receivables, the average ageing is within two to 12 months based on the received date, which we believe that no impairment allowance is necessary as there is no significant change in credit quality and the balances are considered fully recoverable.

We apply the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical payment profiles and historical loss rates, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. See note 20 to the Accountant’s Report in Appendix I to this document.

As of 30 April 2023, RMB129.2 million, or 92.8%, of our trade receivables as of 31 December 2022 had been settled.

In order to minimise the credit risk, we have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. We perform impairment assessment on trade receivables, including balances aged over 90 days under expected credit loss model on a collective basis. Trade receivables are grouped by internal credit rating based on shared credit risk characteristics by reference to past due exposure for customers and adjusted by forward-looking information. After the assessment, we believe that sufficient provision has been made for our trade receivables as of the end of each year/period during the Track Record Period, including balances aged over 90 days.

### Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss represent wealth management products we purchased from commercial banks in China. The return of the wealth management products was determined by reference to the return of their underlying investments. The wealth management products as of 31 December 2020, 2021 and 2022 had no fixed contractual period and can be redeemed any time at our discretion.

Our financial assets at fair value through profit or loss increased from RMB344.6 million as of 31 December 2020 to RMB512.9 million as of 31 December 2021 and further increased to RMB711.1 million as of 31 December 2022, primarily because we invested in more wealth management products with low risks so as to generate some returns from idle fund.

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### *Fair value measurement*

Since the contractual cash flows of structured deposits do not represent solely the payments of principal and interest on the principal amount outstanding, structured deposits are measured at fair value through profit or loss. To provide an indication of the reliability of the inputs used in determining fair value, we have classified our financial instruments into three levels as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

As of 31 December 2020, 2021 and 2022, all of our financial assets at fair value through profit or loss were classified as Level 2 financial instruments and the fair value was measured by reference to quoted value from commercial banks. As of 31 December 2022, all of our financial assets at fair value through profit or loss had no fixed contractual period. The investment in these financial assets after the Listing will be subject to compliance with Chapter 14 of the Listing Rules.

### *Cash management policy*

We believe we can make better use of our cash by making appropriate investments in short-term investment products, which generate income without interfering with our business operation or capital expenditures. Our chief financial officer is responsible for overseeing cash management activities. Our investment decisions with respect to financial products are made on a case-by-case basis and after due and careful consideration of a number of factors, including, but not limited to, the market conditions, the economic developments, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment. We have established a set of internal control measures which allow us to achieve reasonable returns on our investments while mitigating our exposure to high investment risks. These policies and measures were formulated by our senior management.

According to our internal policies, a proposal to invest in financial products must be reviewed and approved by our treasury management team and the head of our finance department, and depending on the amount of investment, an approval from our chief financial officer may be required. Board approval for investing in financial products is required when the total outstanding balance of the financial products purchased by us exceeds 20% of our total assets. In assessing a proposal to invest in wealth management products, a number of criteria must be met, including, but not limited to, the following:

- we should generally invest in short-term wealth management products or long-term time deposits;
- investments in high-risk wealth management products are prohibited;
- the proposed investment must not interfere with our business operation or capital expenditures; and
- the wealth management products should be issued by a reputable bank with which we have a long-term relationship.

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We believe that our internal policies regarding wealth management products and the related risk management mechanism are adequate. We may continue to purchase wealth management products that meet the above criteria as part of our treasury management where we believe it is prudent to do so after the Listing.

### Intangible Assets

Intangible assets represent the pharmaceutical operation licence and the medical institution practicing licence held by the companies we acquired, intangible assets acquired in connection with our acquisition of the business operations of a third party’s store on our Online Marketplace, business relationship in relation to a company we acquired, and office software. See note 17 to the Accountants’ Report in Appendix I to this document for more details.

Our intangible assets increased from RMB62.7 million as of 31 December 2020 to RMB112.6 million as of 31 December 2021, primarily because we acquired (i) the right and related assets to operate a third party’s store on our Online Marketplace, and (ii) a subsidiary that held the medical institution practicing licence.

Our intangible assets decreased from RMB112.6 million as of 31 December 2021 to RMB98.9 million as of 31 December 2022, primarily due to amortisation of our intangible assets.

### Goodwill

Goodwill recorded on our balance sheet was related to our acquisition of Guangdong Dihao Pharmaceutical Co., Ltd. and Guangdong Dongjian Pharmaceutical Co., Ltd. See note 18 to the Accountants’ Report in Appendix I to this document for more details. Goodwill remained to be RMB9.3 million as of 31 December 2020, 2021 and 2022.

### Impairment Assessment

Given the continuous losses incurred in our business operations during the Track Record Period, we concluded that there was an indication for impairment and therefore performed impairment assessment on our property, plant and equipment, right-of-use assets and intangibles assets. We identified property, plant and equipment, right-of-use assets and intangibles assets of certain subsidiaries with impairment indicators at net book value amounted to nil as of 31 December 2020, RMB80.5 million as of 31 December 2021 and RMB7.3 million as of 31 December 2022.

We estimate the recoverable amount of the cash-generating unit to which the assets belong to when it is not possible to estimate the recoverable amount individually. Each subsidiary is determined as a cash-generating unit. In addition to property, plant and equipment, right-of-use assets and intangible assets, goodwill has been allocated to two individual cash-generating units, comprising two subsidiaries, Guangdong Dihao Pharmaceutical Co., Ltd. and Guangdong Dongjian Pharmaceutical Co., Ltd.

The recoverable amount of cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by our management covering the next five years with pre-tax discount rates of 16%, 16% and 16% as of 31 December 2020, 2021 and 2022, respectively. The pre-tax discount rate was derived from capital asset pricing model by considering different market data and company specific risk. We considered

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that there are no material changes in the market data and company specific risk throughout the Track Record Period, and thus we applied the same discount rate of 16% throughout the Track Record Period. The cash flows beyond the five-year period are extrapolated using a 3% growth rate. We believe that the growth rate does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the cash-generating units’ past performance and management expectations for the market development. The growth rates and discount rate as of 31 December 2020, 2021 and 2022 have been reassessed taking into consideration of the higher degree of estimation uncertainties due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of our wholesales operations.

Based on the result of the assessment, we determined that the recoverable amounts of all cash-generating units are higher than the corresponding carrying amounts as of 31 December 2020, 2021 and 2022. Therefore, no impairment loss was recognised in 2020, 2021 and 2022. We performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of long-term growth rate, which are the key assumptions for determining the recoverable amount of the cash-generating unit, with all other variables held constant. Based on the sensitivity test performed, no material impairment issue was noted throughout the Track record Period. The headroom of each cash-generating unit that was subject to impairment assessment at the end of each reporting period is not less than 16% during the Track Record Period. We believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of a cash-generating unit to exceed the recoverable amount of that cash-generating unit.

### Trade and Other Payables

Our trade payables primarily consist of trade payables, note payables, deposits received, salary and welfare payables, and other tax payables. Trade payables represent payables to suppliers of pharmaceutical products. Note payables represent bank acceptance bills paid to suppliers of pharmaceutical products. The bank acceptance bills were secured and had a maturity period from three to six months. Deposits received mainly represent sales proceeds received on behalf of sellers from buyers on our Online Marketplace, which will be released to the sellers upon buyers’ acceptance of products.

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

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
Trade payables	630,790	782,566	1,433,487
Note payables	686,491	568,535	448,797
Salary and welfare payables	64,332	101,022	168,824
Other tax payables	11,422	8,221	31,227
Other payables	137,618	211,017	299,622
Deposits to be returned to investors	—	223,338	—
Deposits received	301,967	32,270	1,069
Accrued issued costs and [REDACTED]	—	2,857	15,052
<b>Total</b>	<b><u>1,832,620</u></b>	<b><u>1,929,826</u></b>	<b><u>2,398,078</u></b>

Our trade and other 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



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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 PingAn 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 attributable to an increase in trade payables mainly as a result of the growth of our Self-operation Business.

The credit period of our trade payables generally ranges from 30 to 90 days. The following table sets forth the ageing analysis of the trade payables as of the dates indicated:

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
0-30 days .....	251,291	347,374	998,860
30-90 days .....	199,695	249,746	253,227
Over 90 days .....	179,804	185,446	181,400
<b>Total</b> .....	<b>630,790</b>	<b>782,566</b>	<b>1,433,487</b>

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

As of 30 April 2023, RMB1,342.8 million, or 93.7%, of our trade payables as of 31 December 2022 had been settled.

### Contract Liabilities

Contract liabilities represent receipts in advance from customers. We generally require advance payments from certain customers before delivery of goods.

Contract liabilities decreased from RMB40.0 million as of 31 December 2020 to RMB9.4 million as of 31 December 2021, primarily due to our migration of settlement service on our Online Marketplace to Ping An Bank, customer prepayments settled through which were no longer recorded on our balance sheet as contract liabilities. This migration started in late 2020 and was completed in 2021.

Contract liabilities increased from RMB9.4 million as of 31 December 2021 to RMB24.4 million as of 31 December 2022, primarily because certain third-party sellers on our Online Marketplace made prepayments of commissions in December 2022 so that when we charge commissions from them in January 2023 before the Chinese New Year they would have sufficient balance on their accounts.

As of 30 April 2023, RMB21.6 million, or 88.4%, of our contract liabilities as of 31 December 2022 had been recognised as revenue.

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### **Financial Liabilities at Fair Value through Profit or Loss**

Financial Liabilities at Fair Value through Profit or Loss represents the fair value of the preferred shares we issued to investors. See note 29 to the Accountants’ Report in Appendix I to this document for more details. As of 31 December 2020, 2021 and 2022, our financial liabilities at fair value through profit or loss were RMB2.9 billion, RMB4.2 billion and RMB5.9 billion. The increase as of 31 December 2021 was primarily due to our issuance of preferred shares in 2021. The increase as of 31 December 2022 was primarily due to an increase in the value of our preferred shares and appreciation of US\$ against RMB in 2022.

### ***Fair value measurement***

As of 31 December 2020, 2021 and 2022, all of our financial liabilities at fair value through profit or loss were classified as level 3 financial instruments. The fair value of the financial instruments is established by using valuation techniques, which include back-solve method and equity allocation model involving various parameters and inputs. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. See note 29 to the Accountants’ Report in Appendix I to this document for more details. Our Directors and management have reviewed the fair value measurement of level 3 financial instruments, taking into account significant unobservable inputs and applicable valuation techniques, and determined that the fair value measurement of level 3 financial instruments is made in accordance with the applicable IFRSs. In particular, in respect of the valuation of the level 3 financial instruments, our management carried out independent due diligence procedures including (i) taking all reasonable steps to verify the accuracy and reasonableness of material information that is likely to affect the valuation of the financial liabilities, including financial forecasts, business plans and assumptions; (ii) assessing the need for a valuation by a professional valuer of the financial liabilities; (iii) evaluating the scope of the valuer’s mandate to ensure that the valuation report would be relevant and useful in aiding our Directors to determine the valuation exercise for the financial liabilities are fair and reasonable, and that our Directors can reasonably rely on the valuation; (iv) providing the valuer with all relevant information that is likely to have an impact on the valuation; and (v) reviewing the valuer’s valuation analysis and results and making sure to rely on the valuation only if it is reasonable to do so under the circumstances. Based on these procedures, our management is satisfied that the valuation is considered reasonable, and our financial statements are properly prepared.

Our Directors and management are satisfied with the valuation exercise for financial liabilities categorised as level 3 financial instruments in its historical financial information for the purpose of preparing the consolidated financial statements for the Track Record Period as contained in the Accountants’ Report set out in Appendix I to this document.

The Reporting Accountant has carried out necessary audit works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on the Group’s Historical Financial Information during the Track Record Period as a whole in Appendix I to this document. The Reporting Accountant’s opinion on the Historical Financial Information of the Group during the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

In relation to the valuation of the financial liabilities categorised with level 3 of fair value measurement, the Sole Sponsor has conducted relevant due diligence work, including but not

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limited to, (i) conducted due diligence with our Company, in particular with the relevant personnel in charge of finance who is familiar with the valuation of the level 3 financial instruments, to understand (a) the nature and details of the financial instruments, and the procedures performed for such valuation, (b) the key factors, valuation methodologies, and key basis and assumptions taken into account by our Company as advised by the external valuer, and (c) the internal control process undertaken by our Company for reviewing the relevant valuation; (ii) reviewed the underlying valuation report issued by the external valuer engaged by us and conducted due diligence with the external valuer to understand, among others, (a) its work scope, (b) the valuation procedure, and (c) the key factors, valuation methodologies, and key basis and assumptions taken into account when performing the relevant work; (iii) reviewed the professional qualification and previous experience of the external valuer through desktop search; (iv) discussed with the Reporting Accountant to understand the work they have performed in relation to the valuation of level 3 financial liabilities for the purpose of reporting on the Historical Financial Information of our Group as a whole; and (v) reviewed relevant notes in the Accountants’ Report in Appendix I to this document, which include the key terms of the preferred shares of our Company. Having considered the work done by the Directors, the Reporting Accountant and the external valuer and the relevant due diligence done as stated above, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the views of the Directors and the Reporting Accountant above.

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have financed our operating and investing activities through cash generated from capital contribution from shareholders and discounts of bank acceptance bills. As of 31 December 2020, 2021 and 2022, our cash and cash equivalents were RMB130.5 million, RMB415.5 million and RMB835.4 million, respectively.

During the Track Record Period, our principal uses of cash have been for the funding of required working capital and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of cash generated from operating activities, external borrowings, [REDACTED] from the [REDACTED] and other funds raised from the capital markets from time to time.

### Cash Flows

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

	For the Year 31 December		
	2020	2021	2022
	(RMB in thousands)		
Operating cash flows before movements in working capital . . . . .	(199,584)	(275,599)	(92,151)
Changes in working capital . . . . .	75,196	(211,488)	190,351
Net cash (used in)/from operating activities . . . . .	(124,388)	(487,087)	98,200
Net cash (used in)/from investing activities . . . . .	(323,673)	(352,804)	41,070
Net cash from financing activities . . . . .	158,219	1,124,847	261,927
Net (decrease)/increase in cash and cash equivalents . . . . .	(289,842)	284,956	401,197
Cash and cash equivalents at the beginning of the year . . . . .	420,368	130,526	415,482
Effect of foreign exchange rate changes . . . . .	—	—	18,715
Cash and cash equivalents at the end of the year . . . . .	130,526	415,482	835,394

### *Net cash used in/generated from operating activities*

In 2022, net cash from operating activities was RMB98.2 million, which was primarily attributable to our loss before tax of RMB1,496.9 million, as adjusted by (i) non-cash items, which

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## FINANCIAL INFORMATION

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primarily comprised changes in fair value of financial liabilities at fair value through profit and loss of RMB1,299.5 million mainly as a result of change of valuation of our preferred shares; and (ii) changes in working capital, which primarily resulted from an increase in trade and other payables of RMB472.3 million mainly as a result of an increase in the amount of procurement and an increase in deposits received from third-party sellers on our Online Marketplace, partially offset by an increase in inventories of RMB169.9 million mainly as a result of more pharmaceutical and healthcare products in stock along with the expansion of our Self-operation Business, and an increase in trade and other receivables of RMB127.2 million primarily due to 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 an increase in trade receivables primarily as a result of the increase in commissions charged to third-party sellers on our Online Marketplace.

In 2021, net cash used in operating activities was RMB487.1 million, which was primarily attributable to our loss before tax of RMB503.1 million, as adjusted by (i) non-cash items, which primarily comprised changes in fair value of financial liabilities at fair value through profit and loss of RMB128.7 million mainly as a result of change of valuation of our preferred shares; and (ii) changes in working capital, which primarily resulted from an increase in inventories of RMB331.4 million mainly because we had more pharmaceutical and healthcare products in stock along with the expansion of our Self-operation Business, partially offset by an increase in trade and other payables of RMB97.2 million primarily due to an increase in the amount of procurement.

In 2020, net cash used in operating activities was RMB124.4 million, which was primarily attributable to our loss before tax of RMB576.3 million, as adjusted by (i) non-cash items, which primarily comprised changes in fair value of financial liabilities at fair value through profit and loss of RMB294.3 million mainly as a result of change of valuation of our preferred shares; and (ii) changes in working capital, which primarily resulted from an increase in trade and other payables of RMB584.9 million mainly as a result of increases in trade and note payables related to our procurement of pharmaceutical products and an increase in deposits received representing sales proceeds received on behalf of sellers on our Online Marketplace, partially offset by an increase in trade and other receivables of RMB250.5 million primarily due to the growth of our Online Marketplace and more payments made by our offline business customers to us through bank acceptance bills, and an increase in inventories of RMB224.7 million mainly because we had more pharmaceutical and healthcare products in stock as we expanded our Self-operation Business.

### *Net cash generated from/used in investing activities*

In 2022, net cash generated from investing activities was RMB41.1 million, which was primarily attributable to proceeds from disposal of financial assets at fair value through profit or loss of RMB8,765.7 million and withdraw of time deposits of RMB1,291.5 million, partially offset by purchase of financial assets at fair value through profit or loss of RMB8,964.4 million and placement of time deposits of RMB986.4 million.

In 2021, net cash used in investing activities was RMB352.8 million, which was mainly attributable to purchase of financial assets at fair value through profit and loss of RMB8,999.9 million and placement of time deposits of RMB2,521.1 million, partially offset by proceeds from disposal of financial assets at fair value through profit and loss of RMB8,837.1 million and withdraw of time deposits of RMB2,425.7 million.

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In 2020, net cash used in investing activities was RMB323.7 million, which was mainly attributable to purchase of financial assets at fair value through profit and loss of RMB6,592.1 million and placement of time deposits of RMB1,599.9 million, partially offset by proceeds from disposal of financial assets at fair value through profit and loss of RMB6,352.2 million and withdraw of time deposits of RMB1,506.3 million.

### *Net cash from financing activities*

In 2022, net cash generated from financing activities was RMB261.9 million, which primarily attributable to proceeds on issuance of preferred shares of RMB350.2 million, partially offset by repayment of lease liabilities of RMB75.3 million.

In 2021, net cash generated from financing activities was RMB1,124.8 million, which primarily comprised proceeds on issuance of preferred shares of RMB1,162.7 million, partially offset by repayment of lease liabilities of RMB53.5 million.

In 2020, net cash generated from financing activities was RMB158.2 million, which primarily comprised new bank borrowings raised through discounting bills of RMB210.5 million, partially offset by repayment of lease liabilities of RMB44.6 million.

### **Working Capital**

We intend to continue to finance our working capital with cash generated from our operations, external borrowings, the [REDACTED] from the [REDACTED] and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our business and further enhance our existing operations. Our future working capital requirements will depend on a number of factors, including, but not limited to, our operating income, our business expansion plan for our business operations.

Based on our available cash balance, the anticipated cash flow from operations, available banking facilities and the [REDACTED] from the [REDACTED], our Directors are of the view that we will have sufficient funds to meet our working capital and capital expenditure requirements for at least the next 12 months from the date of this document.

Based on the review of financial documents and other due diligence documents, discussion with the Directors and the Directors’ confirmation, the Sole Sponsor concurs with the Directors’ view.

### **KEY FINANCIAL RATIOS**

	<b>For the Year Ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Gross profit margin <sup>(1)</sup> .....	10.0%	9.1%	10.1%
Current ratio <sup>(2)</sup> .....	36.2%	41.3%	44.0%

*Notes:*

(1) Gross profit margin is calculated by dividing gross profit by our total revenue for the applicable period.

(2) Current ratio is calculated by dividing current assets by current liabilities as of the end of the period.

See “—Period-to-Period Comparison of Results of Operations” above for the discussion of changes of our gross profit margin during the Track Record Period.

## FINANCIAL INFORMATION

The current ratio increased from 36.2% as of 31 December 2020 to 41.3% as of 31 December 2021, primarily due to (i) increases in time deposits and bank balances and cash mainly as we received pre-[REDACTED] investments from investors, and (ii) an increase in inventories mainly as a result of the expansion of our Self-operation Business.

The current ratio increased from 41.3% as of 31 December 2021 to 44.0% as of 31 December 2022, primarily due to an overall increase in time deposits, bank balances and cash, restricted bank deposits and financial assets at fair value through profit and loss mainly due to (i) our receipt of proceeds of US\$55.0 million from Series E-2 financing, and (ii) an increase in our cash position resulted from enhanced management on working capital.

Our current ratio is significantly affected by financial liabilities at fair value through profit and loss, which is related to preferred shares we issued to pre-[REDACTED] investors and will not continue to be recorded as liabilities on our balance sheet upon the conversion to ordinary shares upon the completion of the Listing.

### INDEBTEDNESS

The following table sets forth the breakdown of our indebtedness as of the dates indicated:

	As of 31 December			As of 30 April
	2020	2021	2022	2023
	(RMB in thousands)			(Unaudited)
Bank borrowings . . . . .	96,983	—	—	—
Lease liabilities . . . . .	151,882	181,729	180,548	189,840
Convertible redeemable preferred shares . . . . .	2,931,012	4,222,381	5,872,042	7,455,781
<b>Total</b> . . . . .	<b><u>3,179,877</u></b>	<b><u>4,404,110</u></b>	<b><u>6,052,590</u></b>	<b><u>7,645,621</u></b>

### Bank Borrowings

The following table sets forth the breakdown of our bank borrowings as of the dates indicated:

	As of 31 December			As of 30 April
	2020	2021	2022	2023
	(RMB in thousands)			(Unaudited)
Bank loan . . . . .	6,000	—	—	—
Advance from banks on discounted note receivables with recourse repayable within one year . . . . .	90,983	—	—	—
<b>Total</b> . . . . .	<b><u>96,983</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>

The bank loan was unsecured and carried a fixed interest rate of 3.05%. Advance from banks on discounted note receivables carried interests ranging from 2.05% to 2.50%. All of our bank borrowings are denominated in RMB.

As of 30 April 2023, our unutilised banking facilities amounted to RMB144.5 million.

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### Lease Liabilities

Our lease liabilities are related to properties that we lease primarily for our office premises and warehouses. The following table sets forth our lease liabilities as of the dates indicated:

	As of 31 December			As of 30 April
	2020	2021	2022	2023
	(RMB in thousands)			(Unaudited)
Current .....	47,239	63,945	81,178	76,406
Non-current .....	104,643	117,784	99,370	113,434
<b>Total</b> .....	<b>151,882</b>	<b>181,729</b>	<b>180,548</b>	<b>189,840</b>

When recognising lease liabilities for leases, we applied incremental borrowing rates of the relevant entities in our Group at the leases commencement/modification dates. The weighted average incremental borrowing rate applied by the relevant entities in our Group is 4.75% per annum.

### Convertible Redeemable Preferred Shares

As of 31 December 2020, 2021 and 2022, our convertible redeemable preferred shares had fair value of RMB2.9 billion, RMB4.2 billion and RMB5.9 billion, respectively. As of 30 April 2023, being the latest practicable date for our indebtedness statement, our convertible redeemable preferred shares had fair value of RMB7.5 billion. For further information regarding our convertible redeemable preferred shares and its maturity analysis, see notes 29 and 34(b) to the Accountant’s Report in Appendix I to this document.

Except as discussed above, as of 31 January 2023, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities.

### CONTINGENT LIABILITIES

As of 31 December 2020, 2021 and 2022, we did not have any material contingent liabilities or guarantees.

### CAPITAL EXPENDITURES

Our capital expenditures are primarily incurred for purchases of property and equipment, which mainly represent refurbishment of warehouses and offices, purchases of warehouse and transportation equipments as well as office equipments, and intangible assets, which mainly represent software, franchises, goodwill and licences, i.e. pharmaceutical distribution and health inspection licences and the medical institution practice licence for the medical testing business that we acquired through acquiring subsidiaries. The following table sets forth our capital expenditures for the periods indicated:

	For the Year Ended 31 December		
	2020	2021	2022
	(RMB in thousands)		
Purchase of intangible assets .....	1,413	53,502	4,861
Purchase of property, plant and equipment .....	22,354	66,996	38,848
<b>Total</b> .....	<b>23,767</b>	<b>120,498</b>	<b>43,709</b>

## FINANCIAL INFORMATION

The increase in 2021 was primarily due to our acquisition of franchise and the medical institution practice license for the medical testing business through acquisition of subsidiaries. The decrease in 2022 was primarily because we established more warehouses across China in 2021 to support the rapid growth of our Self-operation Business and acquired more franchise and licenses in 2021. See note 17 to Accountant’s Report in Appendix I to this document. We expect that our capital expenditures in 2023 will primarily consist of purchases of property and equipment and intangible assets. We intend to fund our future capital expenditures and long-term investments with our existing cash balance and [REDACTED] from the [REDACTED]. See the section headed “[REDACTED]” for more details. We may reallocate the fund to be utilised on capital expenditure and long-term investments based on our ongoing business needs.

### CONTRACTUAL OBLIGATIONS

#### Capital commitments

The following table sets forth our capital commitments as of the dates indicated.

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information . . . . .	2,445	8,741	3,788

#### Operating leases commitment

We lease various offices, pharmacies and warehouses under operating leases for a fix term of two to six years with fixed payments. We have recognised right-of-use assets for these leases, except for short-term and low-value leases. See note 27 to the Accountant’s Report in Appendix I to this document for more information. The following table sets forth our operating leases commitment as of the dates indicated.

	As of 31 December		
	2020	2021	2022
	(RMB in thousands)		
Within one year . . . . .	47,239	63,945	81,178
Within a period of more than one year but not more than two years . . . . .	45,932	65,091	50,711
Within a period of more than two years but not more than five years . . . . .	57,492	52,693	48,659
More than five years . . . . .	1,219	—	—
<b>Total</b> . . . . .	<b>151,882</b>	<b>181,729</b>	<b>180,548</b>

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

### MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. For details of our related party transactions, see notes 22 and 39 to the Accountant’s Report in Appendix I to this document. Amounts due from a shareholder as of each balance sheet date represent the balance of cash advances that are interest-free, non-trade related, unsecured and repayable on demand. These balances will be settled upon the Listing.



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## FINANCIAL INFORMATION

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

### FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risks (currency risk and interest rate risk), credit risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. Risk management is carried out by our senior management. See note 34 to the Accountant’s Report in Appendix I to this document for a detailed description of our financial risk management.

#### Currency Risk

Certain bank balances, time deposits and financial liabilities at FVTPL denominated in foreign currency expose us to foreign currency risk. We currently do not have a foreign currency hedging policy. However, we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure if the need to do so arises. See note 34 to the Accountant’s Report in Appendix I to this document for our exposure to currency risk and a sensitivity analysis.

#### Interest Rate Risk

We are exposed to fair value interest rate risk in relation to our fixed-rate bank borrowings and lease liabilities. We are also exposed to cash flow interest rate risk in relation to our variable-rate time deposits, restricted bank deposits, bank balances and bank borrowings. Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on time deposits, restricted bank deposits and bank balances and PRC prime rate arising from our RMB denominated bank borrowings.

We currently do not have an interest rate hedging policy. We manage our interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and future prospects. We will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

We consider our exposure of the time deposits, restricted bank deposits, bank balances and bank borrowings to interest rate risk is insignificant as the fluctuation of market interest rate is not expected to be significant, no sensitivity analysis is presented accordingly.

#### Credit Risk

Credit risk refers to the risk that our counterparties default on their contractual obligations resulting in our financial losses. Our credit risk exposures are primarily attributable to trade and other receivables, time deposits, restricted bank deposits and bank balances. We do not hold any collateral or other credit enhancements to cover our credit risks associated with these financial assets.

We perform impairment assessment for financial assets under expected credit loss model. See note 34(b) to Accountant’s Report in Appendix I to this document for a detailed discussion of our credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable.

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### Liquidity Risk

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

As of 31 December 2020, 2021 and 2022, we had net liabilities of approximately RMB2,462.2 million, RMB2,908.5 million and RMB4,369.7 million, respectively. Having taken into account what has been disclosed in note 2 to Accountant’s Report in Appendix I to this document, our Directors consider that we will have sufficient financial resources to meet in full our working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

See note 34(b) to Accountant’s Report in Appendix I to this document for details of remaining contractual maturity of our financial liabilities based on the agreed repayment terms.

### DIVIDEND

We are a holding company incorporated under the Laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC Laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles. PRC Laws also require companies to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognised as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends were paid or declared by us. As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account. Even if there are accumulated losses, a dividend may be paid out of the share premium account, provided that the memorandum and articles of association do not prohibit such payment. In no circumstances may a dividend be declared or paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

### DISTRIBUTABLE RESERVES

As of 31 December 2022, we did not have any distributable reserves.

[REDACTED]

## FINANCIAL INFORMATION

[REDACTED]

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS LESS LIABILITIES OF THE GROUP ATTRIBUTABLE TO OWNERS OF OUR COMPANY

The unaudited pro forma statement of adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company prepared in accordance with Rule 4.29(7) of the Listing Rules is set out below to illustrate the effect of the [REDACTED] on our audited consolidated tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022, as if the [REDACTED] had taken place on that date.

The unaudited pro forma statement of our adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022 has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group as of 31 December 2022 or any future dates following the [REDACTED].

The following unaudited pro forma statement of our adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company is prepared based on our audited consolidated tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022 as derived from the Accountant’s Report in Appendix I to this document, and adjusted as described below.

	Audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as of 31 December 2022 (Note 1)	Estimated [REDACTED] from the [REDACTED] (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as of 31 December 2022	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as of 31 December 2022 per Share (Note 3) (Note 4)	
	RMB’000	RMB’000	RMB’000	RMB	HK\$
Based on an [REDACTED] of [REDACTED] per [REDACTED] . . . . .	(4,458,936)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of [REDACTED] per [REDACTED] . . . . .	(4,458,936)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

*Notes:*

- (1) The audited consolidated tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022 is arrived at after deducting intangible assets of RMB98,903,000 and goodwill of RMB9,252,000 from the audited consolidated net liabilities attributable to owners of our Company of RMB4,350,781,000 from the consolidated statements of financial position set out in Appendix I to this document.
- (2) The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] new shares to be issued at the [REDACTED] of [REDACTED] and [REDACTED] per [REDACTED], being the [REDACTED] and [REDACTED] of the stated [REDACTED], respectively, after deduction of the estimated [REDACTED] fees and [REDACTED] and other related expenses paid/payable by the Group (excluding [REDACTED] charged to profit or loss up to 31 December 2022). It does not take into account any shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or options which may be granted under the Share Option Scheme or any shares which may be

## **FINANCIAL INFORMATION**

issued or repurchased by our Company pursuant to our Company’s general mandate or the conversion of all preferred shares existing on 31 December 2022 into ordinary shares of our Company.

For the purpose of the estimated [REDACTED] from the [REDACTED], the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.89706, which was the exchange rate prevailing on [22 May 2023] with reference to the rate published by the People’s Bank of China. No representation is made that the HK\$ denominated amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.

- (3) The unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company per share is arrived at on the basis of [REDACTED] shares were in issue, assuming that the Share Subdivision and [REDACTED] had been completed on 31 December 2022. It does not take into account any shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or options which may be granted under the Share Option Scheme or any shares which may be issued or repurchased by our Company pursuant to our Company’s general mandate or the conversion of all preferred shares existing on 31 December 2022 into ordinary shares of our Company.
- (4) For the purpose of unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company per share, the amount denominated in RMB has been converted into HK\$ at the rate of RMB1 to HK\$1.11475, which was the exchange rate prevailing on [22 May 2023] with reference to the rate published by the People’s Bank of China. No representation is made that the RMB denominated amounts have been, would have been or may be converted to HK\$, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022 to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2022. In particular, the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company as shown on Page II-1 have not been adjusted to illustrate the effect of the following:

Upon completion of the [REDACTED], the conversion of all preferred shares existing on 31 December 2022 would have reclassified the carrying amount of all preferred shares existing on 31 December 2022 of RMB[REDACTED], assuming no further changes in fair values of all preferred shares existing on 31 December 2022 upon [REDACTED], to ordinary shares under equity. The conversion of all preferred shares existing on 31 December 2022 would have increased the total number of shares in issue assumption stated in Note 3 by [491,225,068] shares (after the effect of Share Subdivision) and would have adjusted the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022 by RMB[REDACTED].

The effect of the conversion of preferred shares into ordinary shares of our Company (the “Subsequent Transactions”) would have adjusted the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company as of 31 December 2022 by RMB[REDACTED] to unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of our Company of RMB[REDACTED] based on an [REDACTED] of HK\$[REDACTED] per Share and unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of our Company of RMB[REDACTED] based on an [REDACTED] of HK\$[REDACTED] per Share and would have increased the total Shares in issue by [491,225,068] Shares to a total of [REDACTED] Shares in issue. Had the Subsequent Transactions been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of our Company as of 31 December 2022 per Share would be RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per Share and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per Share, respectively.

For the purpose of unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of our Company per share, the amount denominated in RMB has been converted into HK\$ at the rate of RMB1 to HK\$1.11475, which was the exchange rate prevailing on [22 May 2023] with reference to the rate published by the People’s Bank of China. No representation is made that the RMB denominated amounts have been, could have been or may be converted to HK\$, or vice versa, at that rate or any other rates or at all.

### **NO MATERIAL ADVERSE CHANGE**

After performing sufficient due diligence work, which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, save for the recent developments as described in “Summary—Recent Developments”, there has been no material adverse change in our financial or trading position or prospects since 31 December 2022, which is the end date of the periods reported on in the Accountant’s Report included in Appendix I to this document, and there has been no event since 31 December 2022 that would materially affect the information as set out in the Accountant’s Report included in Appendix I to this document.

### **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

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

## REGULATIONS

### PRC REGULATIONS

#### Regulations Relating to Foreign Investment

The establishment, operation and management of companies in the PRC are mainly governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**Company Law**”), which was issued by the SCNPC and was last amended in October 2018. The Company Law applies to both PRC domestic companies and foreign-invested companies. The investment activities in the PRC of foreign investors are also governed by the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”), which was approved by the National People’s Congress of China in March 2019 and took effect on 1 January 2020. Along with the Foreign Investment Law, the Implementing Rules of Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) promulgated by the State Council and the Interpretation of the Supreme People’s Court on Several Issues Concerning the Application of the Foreign Investment Law 《最高人民法院關於適用〈中華人民共和國外商投資法〉若干問題的解釋》) promulgated by the Supreme People’s Court became effective on 1 January 2020. Pursuant to the Foreign Investment Law, the term “foreign investments” refers to any direct or indirect investment activities conducted by any foreign investor in the PRC, including foreign individuals, enterprises or organisations; such investment includes any of the following circumstances: (i) any foreign investor establishing foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) any foreign investor acquiring shares, equity interests, property portions or other similar rights and interests thereof within the PRC, (iii) any foreign investor investing in new projects in the PRC solely or jointly with other investors, and (iv) other forms of investments as defined by laws, regulations, or as otherwise stipulated by the State Council.

Pursuant to the Foreign Investment Law, the State Council shall promulgate or approve a list of special administrative measures for access of foreign investments. The Foreign Investment Law grants treatment to foreign investors and their investments at the market access stage which is no less favourable than that given to domestic investors and their investments, except for the investments of foreign investors in industries deemed to be either “restricted” or “prohibited”. The list of industries in these two categories is sometimes referred to as the “negative list”. The Foreign Investment Law provides that foreign investors may not invest in the prohibited industries and must meet such requirements as stipulated for making investment in restricted industries. The most recent list of restricted and prohibited industries can be found in the Special Management Measures (Negative List) for the Access of Foreign Investment (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**2021 Negative List**”), which was promulgated by the NDRC and the MOFCOM and took effect from 1 January 2022. Industries that are not restricted or prohibited are generally open for foreign investments unless specifically restricted by other PRC Laws. Compared with the Special Management Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單)(2020年版)》), or the 2020 Negative List, the main changes under the 2021 Negative List include, among other things, the overseas securities [REDACTED] and listing of a domestic enterprise shall be subject to the review and approval by the relevant regulatory authorities, if such domestic enterprise engages in the business area prohibited from foreign investment under the 2021 Negative List. Article 6 of the Interpretation Note of the 2021 Negative List (the “**Article 6 of the 2021 Negative List**”), which is newly promulgated, provides that, if a domestic company conducts business in the prohibited areas from foreign investment under the 2021 Negative List seeks to issue and list its shares overseas, (i) it shall complete the examination process and obtain approval by the relevant competent authorities; (ii) foreign investors shall not participate in the operation and management of such company; and (iii) foreign investors’ shareholding percentage shall be subject to the relevant provisions on the administration or regulation of domestic securities investment by foreign

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investors. In a press conference held by the NDRC on January 18, 2022, a spokesperson made it clear that Article 6 of the 2021 Negative list shall only apply to the situations where a domestic enterprise seeks a direct overseas securities [REDACTED] and listing. Therefore, our Directors and our PRC Legal Adviser are of the view that the requirements stipulated in Article 6 of the 2021 Negative list are currently not applicable to the overseas listing by an overseas company with a VIE structure. Taking into account the above, as well as based on the independent due diligence conducted by the Sole Sponsor, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the Directors’ view.

The Foreign Investment Law and its implementing rules also provide several protective rules and principles for foreign investors and their investments in the PRC, including, among others, local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner; expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licencing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within the PRC, may be freely remitted inward and outward in RMB or a foreign currency. Also, foreign investors or the foreign investment enterprise will have legal liabilities imposed for failing to report investment information in accordance with the requirements. Furthermore, the Foreign Investment Law provides that foreign-invested enterprises established prior to the effectiveness of the Foreign Investment Law may maintain their legal form and structure of corporate governance within five years after 1 January 2020.

Pursuant to the Foreign Investment Law and the implementing rules, and the Information Reporting Measures for Foreign Investment (《外商投資信息報告辦法》) jointly promulgated by the MOFCOM and the SAMR, which took effect on 1 January 2020, a foreign investment information reporting system shall be established and foreign investors or foreign-invested enterprises shall report investment information to competent commerce departments of the government through the enterprise registration system and the enterprise credit information publicity system, and the administration for market regulation shall forward the above investment information to the competent commerce departments in a timely manner.

On 19 December 2020, the NDRC and the MOFCOM promulgated the Security Review Measures for Foreign Investments (《外商投資安全審查辦法》), which took effect on 18 January 2021. Under the Foreign Investment Security Review Measures, foreign investments in military, national defence-related areas or in locations in proximity to military facilities, or foreign investments that would result in acquiring the actual control of assets in certain key sectors, including cultural products and services, IT, Internet products and services, financial services and technology sectors etc., are required to obtain approval from designated governmental authorities in advance. Although the term “actual control” is not clearly defined under the Foreign Investment Security Review Measures, it is possible that control through contractual arrangement may be regarded as a form of actual control and therefore requires approval from the competent governmental authority. As the Foreign Investment Security Review Measures were recently promulgated, there are great uncertainties with respect to its interpretation and implementation. Accordingly, there are substantial uncertainties as to whether our Contractual Arrangements may be deemed as a method of foreign investment in the future.

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### Regulations Relating to Value-Added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), promulgated on 25 September 2000 by the State Council and last amended in February 2016, provides the regulatory framework for telecommunications service providers in China. Under the Telecommunications Regulations, a telecommunications service provider is required to procure operating licences from the MIIT, or its provincial counterparts, prior to the commencement of its operations, otherwise such operator might be subject to sanctions, including corrective orders and warnings from the competent administration authority, fines and confiscation of illegal gains. In the case of serious violations, the operator’s websites may be ordered to be closed.

The Telecommunications Regulations categorise the telecommunication services in the PRC as either basic telecommunications services or value-added telecommunications services, and value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The Administrative Measures for Telecommunications Business Operating Licence (《電信業務經營許可管理辦法》), promulgated by the MIIT in July 2017, set forth more specific provisions regarding the types of licences required to operate value-added telecommunications services (the “**VAT Licence**”), the qualifications and procedures for obtaining the licences, and the administration and supervision of these licences. A commercial operator of value-added telecommunication services must first obtain a VAT Licence. There are two varieties of VAT Licence, one for services within a single province and one for services across multiple provinces. Furthermore, any telecommunication services operator may only conduct a telecommunication business of the type and within the scope of business as specified in its VAT Licence.

Pursuant to a catalogue that was issued as an appendix to the Telecommunications Regulations (《電信業務分類目錄》), as last amended by the MIIT in June 2019, the first category of value-added telecommunications services is divided into four subcategories: the Internet Data Centre Services, the Content Delivery Network Services, the Domestic Internet Protocol Virtual Private Network Services and the Internet Access Services. The second category of value-added telecommunications services includes, among others, the online data processing and transaction processing services and internet information services. Telecommunication services operators engaged in different categories of value-added telecommunications services must obtain the corresponding VATS Licences.

In addition, the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “**Internet Measures**”), which were promulgated by the State Council in September 2000 and amended in January 2011, classify internet information services into commercial internet information services, which refers to the provision, with charge of payment, of information or website production or other service activities to online users via the internet, and non-commercial internet information services, which refers to the provision, free of charge, of information that is in the public domain and openly accessible to online users via the internet. The measures require that a provider of commercial internet information services shall obtain a VAT Licence for internet information services, often referred to as an ICP Licence, and a provider of non-commercial internet information services shall carry out record-filing procedures with the provincial level counterparts of the MIIT.

According to the 2021 Negative List and the Administrative Regulations on the Foreign-invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which were most recently amended by the State Council on 29 March 2022, officially promulgated on 7 April 2022, and took effect from May 1, 2022, as for the value-added telecommunications business types which fall within

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PRC’s commitment to the WTO, the ultimate capital contribution percentage by foreign investor(s) in a foreign-invested value-added telecommunications enterprise shall not exceed 50%, except as otherwise stipulated by the state. In particular, from May 1, 2022, the amended Administrative Regulations on Foreign-Invested Telecommunications Enterprises cancelled the qualification requirement on the primary foreign investor in a foreign invested value-added telecommunications enterprise for having a good track record and operational experience in the value-added telecommunications industry as stipulated in the previous version.

In addition, the provision of commercial internet information services on mobile internet applications is regulated by the Administrative Provisions on Information Services of Mobile Internet Applications (《移動互聯網應用程序信息服務管理規定》), which was promulgated by the CAC on 28 June 2016 and amended on 1 August 2022. The information service providers of mobile internet applications are subject to requirements under these provisions, including acquiring the qualifications required by laws and regulations and being responsible for information security.

### Regulations Relating to Pharmaceutical Operation

In September 1984, the SCNPC promulgated the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) (the “**Drug Administration Law**”), which was amended in 2001, 2013, 2015 and 2019 respectively to regulate all entities or individuals engaging in research, manufacture, operation, use, supervision and management of drugs within the PRC. According to the Drug Administration Law, no pharmaceutical operation, including pharmaceutical whole sale and pharmaceutical retail business, is permitted without obtaining the Pharmaceutical Operation Licence. If the trading of drugs is conducted without a Pharmaceutical Operation Licence, the illegal incomes by selling drugs shall be confiscated and the local Food and Drug Administration (the “**FDA**”, which is now known as the Medical Products Administration, or the “**MPA**”), shall impose the fine ranging from 15 to 30 times of the value of the illegally sold drugs (including sold or unsold drugs). The Implementation Rules for the Drug Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》), was promulgated by the State Council in August 2002 and amended in 2016 and 2019, which emphasised the detailed implementation rules of drugs administration. The SFDA promulgated the Measures for the Administration of Pharmaceutical Operation Licence (《藥品經營許可證管理辦法》) in February 2004 as amended in 2017, which stipulates the procedures for applying the Pharmaceutical Operation Licence and the requirements and qualifications for pharmaceutical wholesalers or pharmaceutical retailers with respect to their management system, personnel, facilities and etc. The valid term of the Pharmaceutical Operation Licence is five years and shall be renewed through application six months prior to its expiration date. On 9 May 2022, the NMPA published the draft Implementation Rules for the Drug Administration Law of the PRC (Draft for Comments) 《中華人民共和國藥品管理法實施條例（修訂草案徵求意見稿）》 for public comments. Pursuant to such draft rules, an enterprise engaged in drug online sales activities be a legally established drug marketing authorisation holder or a licensed drug distributor, and a third-party platform operator shall not directly participate in online drug sales activities. As of the Latest Practicable Date, there have been no further clarifications from the PRC governmental authorities as to the standards for determining or interpreting the direct participation of third-party platforms in online drug sales activities. It is still uncertain when the final version of such draft rules will be issued and take effect, how they will be enacted, interpreted or implemented, and whether they will affect us at that time.

According to the Measures on Prescription Drugs and OTC Drugs Classification Management (Trial) (《處方藥與非處方藥分類管理辦法(試行)》) and the Interim Provisions on the Circulation of



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Prescription and OTC Drugs (《處方藥與非處方藥流通管理暫行規定》), which were both promulgated by the State Drug Administration, which was restructured and integrated into the SFDA, and became effective in January 2000, drugs are divided into prescription drugs and over-the-counter drugs, or OTC drugs. For prescription drugs, the dispensing, purchase and use can only be based on the prescription issued by the certified medical practitioner or certified medical assistant practitioner. In addition, the prescription drugs can only be advertised and promoted in professional medical magazines. OTC drugs, on the other hand, are further divided into Class A and Class B and they both can be purchased and used without a prescription and promoted in public upon approval by the relevant governmental authorities. The pharmaceutical wholesale enterprises distributing prescription drugs and/or OTC drugs, as well as pharmaceutical retail enterprises selling prescription drugs and/or Class-A OTC drugs are required to obtain the Pharmaceutical Operation Licence.

According to the Administrative Measures for the Supervision and Administration of Circulation of Pharmaceuticals (《藥品流通監督管理辦法》), promulgated by the SFDA in January 2007 and effective in May 2007, pharmaceutical manufacture and operation enterprises and medical institutions shall be responsible for the quality of pharmaceuticals they manufacture, provide or use. The operation of prescription drugs is highly regulated under these rules. Prescription drugs may not be sold by pharmaceutical retail enterprises without valid prescriptions and an enterprise in violation of such restriction will be instructed to rectify any violation, given a disciplinary warning, and/or imposed a fine of no more than RMB1,000.

On 26 December 2016, eight government departments (including the CFDA) issued the Notice on Opinions on the Implementation of the “Two Invoice System” in Drug Procurement by Public Medical Institutions (Trial) (《關於在公立醫療機構藥品採購中推行“兩票制”的實施意見(試行)》) (the “**Two Invoice System Notice**”). On 24 January 2017, the General Office of the State Council further promulgated the Several Opinions on Further Reform and Improvement in Policies of Drug Production, Circulation and Use (《關於進一步改革完善藥品生產流通使用政策的若干意見》). According to these rules, a two-invoice system is encouraged to be gradually and fully adopted for drug procurement by 2018. The two-invoice system generally requires a drug manufacturer to issue only one invoice to its distributor, followed by the distributor issuing a second invoice directly to the end customer hospital. Only one distributor is permitted to distribute drug products between the manufacturer and the hospital. The system also encourages manufacturers to sell drug products directly to hospitals. Pharmaceutical manufacturers and distributors who fail to implement the two-invoice system may be disqualified from attending future bidding events or providing distribution for hospitals and blacklisted for drug procurement practices. Public medical institutions undertake the obligation to verify the consistency between invoices, goods and records before they store and use drugs. Furthermore, On 5 March 2018, the National Health and Family Planning Commission and five other government organisations promulgated the Notice on Consolidating the Achievements of Cancelling Drug Markups and Deepening Comprehensive Reforms in Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》). On 19 July 2019, the General Office of the State Council further promulgated the Reform Plan for the Control of High-value Medical Consumables (《治理高值醫用耗材改革方案》). According to these rules, the two-invoice system is encouraged to be gradually adopted for high-value medical consumables to promote openness and transparency of purchases and sales. Currently, the “two-invoice system” in China is strictly implemented and followed for the sales of drugs to public medical institutions at a national level; however, a clear, nation-wide implementation of the “two-invoice system” for medical devices and other medical consumables has not been established, and the application of the policy for these products differs among provinces in China. In particular, “two-invoice system” for medical devices and consumables has not been implemented in

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some provinces, and in those provinces that have implemented it, some only apply to sales of high-value medical consumables to public medical institutions, while a limited number of provinces more generally regulate sales of medical consumables to public medical institutions. Our business mainly focuses on the outside-of-hospital pharmaceutical circulation market and the sales of pharmaceuticals and medical devices to non-public medical institutions or pharmacies is not subject to the “Two Invoice System”. Our public primary healthcare institution customers represent a small percentage of total registered customers on *Yaoshibang* platform, and according to Frost & Sullivan, the implementation of the “Two Invoice System” focuses on the procurement by the public medical institutions of in-hospital market rather than the procurement by primary healthcare institutions of outside-of-hospital market. As advised by our PRC Legal Adviser, there had been no specific legal obligations and responsibilities imposed on the pharmaceutical platform operator under the current effective PRC laws and regulations, and therefore, any non-compliance relating to the “Two Invoice System” by the pharmaceutical sellers or public primary healthcare institution will not subject us to any legal liabilities. Since we are not subject to specific legal obligations and responsibilities under the regulations relating to the Two Invoice System Notice, we have not put in place any internal control measures with respect to the “Two Invoice System”. As of the date of this document, we have not received any warning or sanction from any PRC governmental authorities nor been involved in any investigations made by any PRC governmental authorities in relation to the compliance with the “Two Invoice System”, and we will closely monitor and assess any new regulatory requirements with respect to the “Two Invoice System”.

### **Regulations relating to Pharmacists**

On 18 June 2021, the NMPA promulgated the Administrative Measures for the Registration of Licenced Pharmacists (《執業藥師註冊管理辦法》) (the “**Licenced Pharmacists Administrative Measures**”), which came into effect since 18 June 2021, and repealed the Interim Administrative Measures for the Registration of Licenced Pharmacists (《執業藥師註冊管理暫行辦法》) issued by the former State Drug Administration, the Supplementary Opinions on the Interim Administrative Measures for the Registration of Licenced Pharmacists (《關於〈執業藥師註冊管理暫行辦法〉的補充意見》) and several other regulations issued by the SFDA. The Licenced Pharmacists Administrative Measures shall apply to the registration of licenced pharmacists and related supervision and administration, pursuant to which, a person may practise as a licenced pharmacist only after being registered and having obtained a Licenced Pharmacist Registration Certificate of the PRC. Licenced pharmacists shall be responsible for drug administration, prescription verification and dispensing, guidance on rational drug use, and other work in accordance with the Licenced Pharmacists Administrative Measures.

### **Regulations Relating to Internet Pharmaceutical Transaction Services**

According to Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (《互聯網藥品交易服務審批暫行規定》), promulgated by SFDA on 29 September 2005 and effective since 1 December 2005, the enterprises engaging in the Internet pharmaceutical transaction service shall be subject to examination and acceptance, and obtain the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services. The Qualification Certificate for Providing Internet Pharmaceutical Dealing Services shall be valid for five years. The SFDA is in charge of examination and approval of the services provided for Internet pharmaceutical transactions between pharmaceutical production enterprises, pharmaceutical marketing enterprises and medical institutions, and the provincial FDA shall implement the examination and approval of the services provided for

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Internet pharmaceutical transactions with third-party enterprises engaged by pharmaceutical production enterprises, pharmaceutical wholesales enterprises on their own websites, as well as Internet pharmaceutical transactions services to individual consumers. After obtaining the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services issued by the competent food and drug supervision and administration authority, the applicant shall obtain the permit for operation of telecommunications services as required by the Internet Measures, or go through the formalities for record-filing. According to the Decision on the Cancellation of the Third Batch of Items Subject to Administrative Permission by Local Governments Designated by the Central Government (《國務院關於第三批取消中央指定地方實施行政許可事項的決定》), promulgated by the State Council on 12 January 2017, except for the third-party platform, all the examination and approval of Internet drug trading service company implemented by the CFDA or provincial FDAs are cancelled. According to the Decision on the Cancellation of Various Items Subject to Administrative Permission (《國務院關於取消一批行政許可事項的決定》) by the State Council, on 22 September 2017, the CFDA shall no longer accept applications for examination and approval of Internet drug transaction service enterprises engaging the business as the third-party platform. After the approval is cancelled, the CFDA shall strengthen interim and ex-post supervision by taking the following measures: (i) developing the relevant administrative provisions, requiring local FDA to include platforms and websites into the scope of supervision and inspection, specifying that those engaging in activities through platforms must be enterprises and medical institutions which have obtained the Pharmaceutical Operation Licence or Pharmaceutical Manufacture Licence and ensuring that platforms effectively perform their primary responsibility; (ii) establishing a monitoring mechanism for online drug trading, keeping channels for filing complaints and tip-offs unimpeded, and establishing a blacklist system; and (iii) intensifying supervision and inspection, strengthening the regulation of online drug trading, and severely punishing illegal online drug trading.

According to the Drug Administration Law amended in 2019, third-party platform provider for internet drug transaction, (the “**Platform Provider**”), shall file with the provincial MPA for the record subject to provisions of NMPA. The Platform Provider shall review and check the qualifications of drug marketing licence holders and pharmaceutical operation enterprises that apply to do business on the platform, ensure that the applicants meet the statutory requirements and manage the pharmaceutical operation activities carried out on the platform. If the Platform Provider discovers that a drug marketing licence holder or a pharmaceutical operation enterprise on the platform involves any violation of the Drug Administration Law, the Platform Provider shall promptly stop the violator’s behaviour, immediately report the situation to the competent local MPA and further stop providing the online trading platform services to those involving serious violations of the Drug Administration Law. The Platform Provider in violations of such provisions will be instructed to rectify any violation, confiscated of illegal gains, concurrently imposed a fine of no more than RMB 2,000,000 in normal cases and ordered to suspend business for rectification, concurrently imposed with a fine of no more than RMB 5,000,000 in serious cases.

On 1 September 2022, SAMR published the Supervision and Administration Measures of Online Pharmaceuticals Sales (《藥品網絡銷售監督管理辦法》) (the “**Measures for Online Pharmaceuticals Sales**”), which took effect on 1 December 2022, aiming to enhance the supervision of online pharmaceutical sales and related third-party platform services. The Measures for Online Pharmaceuticals Sales provide that, among others, each online drug seller shall (i) operate its business within the approved business mode and business scope, (ii) file with the local MPA for its information including company name, website name, APP name, IP address, network domain name and the information of Pharmaceutical Operation License or Pharmaceutical Manufacture License, and report

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any changes in the filed information to the local MPA within ten working days, (iii) display its Pharmaceutical Operation License or Pharmaceutical Manufacture License on visible place of its homepage, (iv) retain the qualification documents of its suppliers and electronic transaction records of its online pharmaceuticals sales, and (v) take corresponding control and handling measures in accordance with the national regulations in respect of emergency response, in the event of any public health emergencies or any other emergency that seriously threatens the public health. The Measures for Online Pharmaceuticals Sales also specify the filing requirements for the Platform Provider and imposes certain obligations on the Platform Provider, including, among others, that each Platform Provider shall (i) establish drug quality and safety management institutions, and equip pharmaceutical technicians to undertake drug quality and safety management, (ii) enhance the scrutiny on the required licenses and permits of online pharmaceutical merchants for online pharmaceuticals sales, (iii) file with the provincial MPA for its information including company name, legal representative, unified social credit code, website name and network domain name, (iv) enter into agreements with online pharmaceutical merchants to specify responsibilities for quality and safety of drugs, (v) establish the examination and inspection system for online pharmaceuticals sales activities and stop the discovered online pharmaceutical merchants’ illegal acts without delay and immediately report to competent governmental authorities, and (vi) take corresponding control and handling measures in accordance with the national regulations in respect of emergency response, in the event of any public health emergencies or any other emergency that seriously threatens the public health.

For the purpose of the implementation of the Drug Administration Law and the Measures for Online Pharmaceuticals Sales, and the safety use of drugs by the public, on 30 November 2022, NMPA published the first version of Prohibited List of Online Drug Sales (《藥品網絡銷售禁止清單(第一版)》) (the “Prohibited List”). The Prohibited List specifies the detailed categories of the drugs prohibited from selling online (the “Prohibited Pharmaceuticals”), including the following two main categories: (i) drugs that are prohibited from selling by laws and regulations, including vaccines, blood products, anaesthetics, psychotropic drugs, toxic drugs for medical use, radiopharmaceuticals, pharmaceutical precursor chemicals, medicinal preparations of medical institutions and traditional Chinese medicine granules; and (ii) other drugs that are prohibited from online retailing.

### **Regulations Relating to Online Drug Information Services**

According to the Measures Regarding the Administration of Drug Information Service over the Internet (《互聯網藥品信息服務管理辦法》), promulgated by SFDA on 8 July 2004 and amended on 17 November 2017, the Internet drug information service refers to the activities of providing medical information (including medical devices) and other services to Internet users through the Internet, and where any website intends to provide Internet drug information services, it shall, prior to applying for an operation permit or record-filing from the State Council’s department in charge of information industry or the telecom administrative authority at the provincial level, file an application with the provincial FDA, and shall be subject to the examination and approval thereof for obtaining the qualifications for providing Internet drug information services. The validity term for a Qualification Certificate for Internet Drug Information Services is five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority. Pursuant to the Measures Regarding the Administration of Drug Information Service over the Internet, the Internet drug information services are classified into two categories, namely, profit-making services and non-profit making services. Profit-making services refer to that of providing Internet users with drug information in return for service fees whilst non-profit-making services refers to that of providing Internet users with drug information which is shared and accessible by the public through the Internet free of charge.

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Furthermore, the information relating to drugs shall be accurate and scientific in nature, and its provision shall comply with the relevant laws and regulations. No product information of stupeficient, psychotropic drugs, medicinal toxic drugs, radiopharmaceutical, detoxification drugs and pharmaceuticals made by medical institutes shall be distributed on the website. In addition, advertisements relating to drugs (including medical devices) shall be approved by the CFDA or its competent branches, and shall specify the approval document number.

### **Regulations Relating to Medical Devices Operation**

The Measures on the Supervision and Administration of the Business Operations of Medical Devices (《醫療器械經營監督管理辦法》) (the “**Measures on Medical Devices**”), which was promulgated by SAMR on 10 March 2022 and took effect on 1 May 2022, applies to any business activities of medical devices as well as the supervision and administration thereof conducted within the territory of the PRC. Pursuant to the Measures on Medical Devices, NMPA shall be responsible for the supervision and administration of nationwide business operations concerning medical devices. Medical devices are divided into three classes depending on the degree of risks of medical devices. Entities engaged in distribution of Class III medical devices shall obtain a medical device operating licence and entities engaged in distribution of Class II medical devices shall complete filings with the competent local MPA, while entities engaged in distribution of medical devices of Class I are not required to conduct any filing or obtain any licence. In addition, in accordance with Regulations on Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), promulgated by the State Council on 9 February 2021 and effective as of 1 June 2021, Class II and Class III medical devices shall be registered with the NMPA or its local branches, while Class I medical devices shall be filed with the competent local MPA. In the event that the business operator in distribution of Class III medical devices without a medical device operating licence or the business operator in distribution of Class II or Class III medical devices that are not registered with the NMPA or its local branches, the business operator may be imposed fine or be shut down by the authorities.

### **Regulations Relating to Online Sales of Medical Device**

On 20 December 2017, the CFDA promulgated the Administration and Supervision Measures of Online Sales of Medical Devices (《醫療器械網絡銷售監督管理辦法》) (the “**Online Medical Devices Sales Measures**”), which became effective on 1 March 2018. According to the Online Medical Devices Sales Measures, enterprises engaged in online sales of medical devices must be medical device manufacture and operation enterprises with medical devices production licences or operation licences or being filed for record in accordance with laws and regulations, unless such licences or record-filing is not required by laws and regulations. Pursuant to the Online Medical Devices Sales Measures, an enterprise engaging in online sales of medical devices shall carry out online sale of medical devices through its own website or a third-party platform for online trading services for medical devices. An enterprise engaging in online sale of medical devices through its own website shall obtain a Qualification Licence for Internet Drug Information Services. Either enterprises engaging in online sales of medical devices or enterprises to provide a third-party platform for provision of medical devices online transaction services shall take technical measures to ensure the data and materials of medical devices online sales are authentic, completed and retrospective, for example, the records of sale information of medical devices shall be kept for two years after the valid period of the medical devices, and for no less than five years in case of no valid period, or be kept permanently in case of implanted medical devices. For the enterprises engaging in online sales of medical devices, such enterprises shall display its medical device production and operation licence or

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record-filing certificate on visible place of its homepage, and the information of the medical devices published on the website shall be consistent with the related contents registered or filed for record; in addition, the business scope shall not exceed the scope of its production and operation licence or the scope filed for record. For the enterprises to provide a third-party platform for provision of medical devices online transaction services, such enterprises shall be filed for record with the local provincial FDA, and shall verify the materials submitted by any enterprise applying for entering the platform.

### **Regulations Relating to Healthcare Services**

According to the Administrative Regulations on Medical Institutions (《醫療機構管理條例》) (the “**Regulations on Medical Institutions**”), promulgated by the State Council, effective on 1 September 1994, and revised on 6 February 2016 and 29 March 2022 and took effect from 1 May 2022, hospitals, health centres, sanatoriums, out-patient departments, clinics, health clinics, health posts (rooms) and first aid stations are medical institutions. The health administrative departments of the local people’s governments at or above the county level shall be responsible for the supervision and administration of the medical institutions within their respective administrative regions. The establishment of medical institutions by entities or individuals shall be subject to the examination and approval of the health administrative department of the local people’s governments at or above the county level and obtain the written approval for the establishment of medical institutions. Furthermore, according to the Regulations on Medical Institutions, the practise of medical institutions shall complete the registration and obtain Practising Licences for Medical Institution.

### **Regulations Relating to Online Private Education**

The principal laws and regulations governing the private education industry in the PRC are the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), promulgated by the SCNPC, on 28 December 2002, last amended and became effective on 29 December 2018, and the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》), promulgated by the State Council on 5 March 2004, last amended on 7 April 2021 and became effective on 1 September 2021, or collectively, the Private Education Law and Implementation Rules. Under the Private Education Law and Implementation Rules, “private schools” are schools established by non-governmental organisations or individuals using non-government funds. Private schools providing certifications, pre-school education, self-study aid and other academic education are subject to approval by the education authorities, while private schools engaging in vocational qualification training and vocational skill training are subject to approval by the authorities in charge of labour and social welfare. Private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education that are of a special nature. In addition, online education activities using internet technology are encouraged by the regulatory authorities and shall comply with the laws and regulations related to internet management. A private school engaging in online education activities using internet technology shall obtain the relevant operating permits. It shall also establish and implement internet security management systems and take technical security measures. Upon discovery of any information whose release or transmission is prohibited by applicable laws or regulations, the private school shall immediately cease the transmission of that information and take further remedial actions, such as deleting that information, to prevent it from spreading. Records pertaining to the situation shall be kept and reported to the appropriate authorities.

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### Regulations Relating to Human Genetic Resources

The Regulation for the Administration of Human Genetic Resources of the PRC (《中華人民共和國人類遺傳資源管理條例》) (the “**HGR Regulation**”), promulgated by the State Council on May 28, 2019, and effective from 1 July 2019, regulates entities engaging in collection, preservation, utilisation and outbound provision of human genetic resources. Human genetic resources include (i) human genetic resources materials, such as organs, tissues and cells that contain hereditary substances such as human genomes genes, and (ii) human genetic resources information, such as data generated from human genetic resources.

Pursuant to the HGR Regulation, collection and preservation of human substances such as organs, tissues and cells and carrying out related activities for the purposes of clinical diagnosis and treatment, blood collection and supply services, crime investigation, doping detection and funeral and interment shall be subject to other applicable laws and regulations.

According to the 2021 Negative List, foreign investment is prohibited in the development and application of human stem cells and genes diagnosis and treatment technologies.

### Regulations relating to Product Quality and Consumer Protection

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated by SCNPC on 22 February 1993 and most recently amended on 29 December 2018, applies to all production and sale activities in China. Pursuant to this law, products offered for sale must satisfy relevant quality and safety standards. Enterprises may not produce or sell counterfeit products in any fashion, including forging brand labels or giving false information regarding a product’s manufacturer. Violations of state or industrial standards for health and safety and any other related violations may result in civil liabilities and administrative penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced and sold and the proceeds from such sales. Severe violations may subject the responsible individual or enterprise to criminal liabilities. Where a defective product causes physical injury to a person or damage to another person’s property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

Pursuant to the Civil Code of the PRC (《中華人民共和國民法典》) (the “**Civil Code**”), which was promulgated on 28 May 2020, and became effective on 1 January 2021, the infringed party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage. Where the product defects are caused by the producers, the sellers shall have the right to recover the same from the producers after paying compensation. If the products are defective due to the fault of the seller, the producer may, after paying compensation, claim the same from the seller.

### Regulations Relating to Cybersecurity and Information Security

The Decision Regarding the Protection of Internet Security (《關於維護互聯網安全的決定》), enacted by the SCNPC, on 28 December 2000 and amended on 27 August 2009, provides, among other things, that the following activities conducted through the internet, if constituting a crime under

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PRC laws, are subject to criminal punishment: (i) hacking into a computer or system of strategic importance; (ii) intentionally inventing and spreading destructive programmes such as computer viruses to attack computer systems and communications networks, thus damaging the computer systems and the communications networks; (iii) in violation of national regulations, discontinuing computer network or the communications service without authorisation; (iv) disseminating politically disruptive information or leaking state secrets; (v) spreading false commercial information; or (vi) infringing intellectual property rights.

On 1 July 2015, the SCNPC issued the National Security Law of the PRC (《中華人民共和國國家安全法》), which came into effect on the same day. The National Security Law provides that the state shall safeguard the sovereignty, security and cyber security development interests of the state, and that the state shall establish a national security review and supervision system to review, among other things, foreign investment, key technologies, internet and information technology products and services, and other important activities that are likely to impact the national security of the PRC.

On 7 November 2016, the SCNPC issued the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), which came into effect on 1 June 2017. The Cybersecurity Law provides that network operators must set up internal security management systems that meet the requirements of a multi-level protection system for cyber security, including appointing dedicated cyber security personnel, taking technical measures to prevent computer viruses, network attacks and intrusions, taking technical measures to monitor and record network operation status and cyber security incidents, and taking data security measures such as data classification, backups and encryption. The Cybersecurity Law also imposes a relatively vague but broad obligation to provide technical support and assistance to the public and state security authorities in connection with criminal investigations or for reasons of national security. The Cybersecurity Law also requires network operators that provide network access or domain name registration services, landline or mobile phone network access, or that provide users with information publication or instant messaging services, to require users to provide a real identity when they sign up. The Cybersecurity Law sets high requirements for the operational security of facilities deemed to be part of the PRC’s “critical information infrastructure”. These requirements include data localisation, i.e., storing personal information and important data in the PRC, and national security review requirements for any network products or services that may impact national security. Among other factors, “critical information infrastructure” is defined as information infrastructure, that will, in the event of destruction, loss of function or data leak, result in serious damage to national security, the national economy and people’s livelihoods, or the public interest. Specific reference is made to key sectors such as public communication and information services, energy, transportation, water-resources, finance, public services and e-government.

On 13 March 2019, the CAC and the SAMR jointly issued the Notice on the Implementation of App Security Certification (《關於開展App安全認證工作的公告》), which encourages mobile application operators to voluntarily obtain app security certification, and search engines and app stores are encouraged to recommend certified applications to users. The institution designated for this certification is the China Cybersecurity Review Technology and Certification Centre. The China Cybersecurity Review Technology and Certification Centre has the right to appoint testing agencies to inspect technical capabilities and business operations for the certification.

On 13 April 2020, the CAC and certain other PRC governmental authorities jointly promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》), effective from 1 June 2020, which provide that a critical information infrastructure operator, when purchasing network



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products and services, shall prejudice the national security risks that may arise after the products and services are put into use, and shall apply for the cybersecurity review to the cybersecurity review office if such products and services will or may affect national security. On 28 December 2021, the CAC, together with certain other PRC governmental authorities, promulgated the revised Measures for Cybersecurity Review (《網絡安全審查辦法》), or the Measures for Cybersecurity Review 2022, which replaced the previous version and took effect from 15 February 2022. Pursuant to these measures, the purchase of network products and services by an operator of critical information infrastructure or the data processing activities of a network platform operator that affect or may affect national security will be subject to a cybersecurity review. In addition, any network platform operator possessing over one million users’ individual information must apply for a cybersecurity review before listing abroad. The competent governmental authorities may also initiate a cybersecurity review against the operators if the authorities believe that the network product or service or data processing activities of such operators affect or may affect national security.

Article 10 of the Measures for Cybersecurity Review 2022 also set out certain general factors which would be the focus in assessing the national security risk during a cybersecurity review, including (i) risks of critical information infrastructure being illegally controlled or subject to interference or destruction; (ii) the harm caused by the disruption of the supply of the product or service to the business continuity of critical information infrastructure; (iii) the security, openness, transparency and diversity of sources of the product or service, the reliability of supply channels, and risks of supply disruption due to political, diplomatic, trade and other factors; (iv) compliance with PRC Laws, administrative regulations and departmental rules by the provider of the product or service; (v) the risk of core data, important data or a large amount of personal information being stolen, leaked, damaged, illegally used, or illegally transmitted overseas; (vi) the risk that critical information infrastructure, core data, important data or a large amount of personal information being affected, controlled, and maliciously used by foreign governments for a listing, as well as network information security risks; and (vii) other factors that may endanger the security of critical information infrastructure, cybersecurity and data security.

On 10 June 2021, the SCNPC promulgated the Data Security Law of PRC (《中華人民共和國數據安全法》), which took effect on 1 September 2021. The Data Security Law provides for data security obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organisations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data shall designate the personnel and the management body responsible for data security, carry out risk assessments for its data processing activities and file the risk assessment reports with the competent authorities. In addition, the Data Security Law provides a national security review procedure for those data activities which may affect national security and imposes export restrictions on certain data and information.

On 30 July 2021, the State Council promulgated the Regulations on Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), which took effect on 1 September 2021. According to the Regulations on Security Protection of Critical Information Infrastructure, a “critical information infrastructure” refers to an important network facility and information system in important industries such as, among others, public communications and

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information services, as well as other important network facilities and information systems that may seriously endanger national security, the national economy, the people’s livelihood, or the public interests in the event of damage, loss of function, or data leakage. The competent governmental authorities of the aforementioned important industries will be responsible for (i) organising the identification of critical information infrastructures in their respective industries in accordance with certain identification rules, and (ii) promptly notifying the identified operators and the public security department of the State Council of the identification results.

The Administrative Provisions on Security Vulnerability of Network Products (《網絡產品安全漏洞管理規定》) were jointly promulgated by the MIIT, the CAC and the Ministry of Public Security (the “MPS”) on 12 July 2021 and took effect on 1 September 2021. Network product providers, network operators as well as organisations or individuals engaging in the discovery, collection, release and other activities of network product security vulnerability are subject to these provisions and shall establish channels to receive information of security vulnerability of their respective network products and shall examine and fix such security vulnerability in a timely manner. Network product providers are required to report relevant information of security vulnerability of network products with the MIIT within two days and to provide technical support for network product users. Network operators shall take measures to examine and fix security vulnerability after discovering or acknowledging that their networks, information systems or equipment have security loopholes. According to these provisions, the breaching parties may be subject to administrative penalty as regulated in accordance with the Cybersecurity Law.

On 14 November 2021, the CAC published a draft of the Administrative Regulations for Internet Data Security (《網絡數據安全管理條例(徵求意見稿)》) (the “**Draft Internet Data Security Regulations**”), for public comment until 13 December 2021, which provides that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganisation or division of internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) listing abroad of data processors processing over one million users’ personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. The draft regulations also provide that operators of large internet platforms that set up headquarters, operation centres or R&D centres overseas shall report to the national cyberspace administration and competent authorities. In addition, the Draft Internet Data Security Regulations also require that data processors processing important data or going public overseas shall conduct an annual data security self-assessment or entrust a data security service institution to do so, and submit the data security assessment report of the previous year to the local branch of the CAC before January 31 each year. As of the Latest Practicable Date, this draft has not been formally adopted, and substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation. We believe there is no material impediment for us to comply with the Draft Internet Data Security Regulations, if being implemented in its current form, in all material respects on the basis that: (i) we have implemented comprehensive policies and measures to ensure users’ data privacy and security and to comply with applicable cybersecurity and data privacy laws and regulations; (ii) during the Track Record Period, we had not been subject to any pending inquiry, notice, warning or sanction regarding cybersecurity from any PRC governmental authorities nor been involved in any investigations on cybersecurity review made by any PRC governmental authorities; (iii) during the Track Record Period, we had not been subject to any material fines or other material penalties due to non-compliance with applicable cybersecurity and data privacy laws and regulations; (iv) we do not possess over one million users’ personal information; and (v) we will

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closely monitor and assess further regulatory developments regarding applicable cybersecurity and data privacy laws and regulations, including the development on cybersecurity review, and comply with the latest regulatory requirements. Considering that (i) we have implemented comprehensive policies and measures to ensure users’ data privacy and security and to comply with applicable cybersecurity and data privacy laws and regulations; (ii) we had not experienced any data breach or violation of applicable cybersecurity and data privacy laws and regulations that has a material adverse effect on business operations; (iii) we have never been designated by any PRC governmental authorities as an operator of critical information infrastructure; (iv) we do not process any data that falls into the scope of important data or core data under the effective cybersecurity and data privacy laws and regulations that are applicable to us; and (v) we had not received any inquiry or notice from any PRC governmental authorities that the Group engages in any data processing activities that affect or may affect national security nor been involved in any investigations on cybersecurity review made by any PRC governmental authorities, our PRC Legal Adviser is of the view that we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Measures for Cybersecurity Review 2022, during the Track Record Period and up to the Latest Practicable Date. However, it is noted that there is still uncertainty about the meaning of “affect or may affect the national security” and the PRC government authorities have the discretion to determine the scope of “national security”, and we will closely monitor and assess further regulatory developments to comply with the latest regulatory requirements.

In the meantime, the governmental authorities have also enhanced the supervision and regulation on cross-border data transfer. For example, on 7 July 2022, the Measures for the Security Assessment of Cross-border Data Transfer (《數據出境安全評估辦法》) (the “**Measures for Cross-border Data Transfer**”) were issued by the CAC, which require that any data processor providing important data collected and generated during operations within the PRC or personal information that should be subject to security assessment according to law to an overseas recipient shall conduct security assessment. The Measures for Cross-border Data Transfer provide four circumstances, under any of which data processors shall, through the local cyberspace administration at the provincial level, apply to the national cyberspace administration for security assessment of data cross-border transfer. These circumstances include: (i) where a data processor transfers important data across the border; (ii) where an operator of critical information infrastructure and a personal information processor that processes personal information of more than one million individuals transfer personal information across the border; (iii) where a data processor that has transferred personal information of more than 100,000 individuals or sensitive personal information of more than 10,000 individuals cumulatively as of January 1 of the previous year transfers personal information across the border; or (iv) other circumstances under which security assessment of cross-border data transfer is required as prescribed by the CAC. The Measures for Cross-border Data Transfer has come into force on 1 September 2022. Based on the Company’s confirmation and as advised by our PRC Legal Adviser, we do not fall under any of the four circumstances of the Measures for Cross-border Data Transfer and is not subject to security assessment of cross-border data transfer as (i) we have not been designated by any PRC governmental authorities as an operator of critical information infrastructure; (ii) the information systems used by us are all deployed on servers within the PRC; (iii) we do not provide any users outside of the PRC with remote access to the personal information stored within the PRC and therefore our business does not involve the cross-border transfer of personal information; and (iv) the Group does not fall into other circumstances as prescribed by the CAC which the CAC has not yet made further rules or guidance outside of the Measures for Cross-border Data Transfer. Another example is that, on 24 February 2023, the Measures for the Prescribed Agreement on Cross-border Transfer of

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Personal Information (《個人信息出境標準合同辦法》) (the “**Measures for Prescribed Agreement**”) were released by the CAC, which came into force on 1 June 2023. The Measures for Prescribed Agreement attach the prescribed agreement template that could be used to satisfy one of the conditions for cross-border transfer of personal information under Article 38 of the Personal Information Protection Law. Based on the Company’s confirmation and as advised by our PRC Legal Adviser, we are not subject to the Measures for Prescribed Agreement as our business does not involve the cross-border transfer of personal information.

### **Regulations Relating to Personal Information Protection**

In recent years, the PRC government authorities have enacted laws and regulations to protect personal information from any illegal use and unauthorised disclosure. The Cybersecurity Law imposes certain data protection obligations on network operators, including that network operators may not disclose, tamper with, or damage users’ personal information that they have collected, or provide users’ personal information to others without consent. Moreover, network operators are obligated to delete unlawfully collected information and to amend incorrect information.

The Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), which was issued by the MIIT on 29 December 2011 and took effect on 15 March 2012, stipulate that internet information service providers may not collect any user personal information or provide any such information to third parties without the consent of a user, unless otherwise stipulated by laws and administrative regulations. “User personal information” is defined as information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information. An internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information as necessary for the provision of its services. An internet information service provider is also required to properly store user personal information, and in case of any leak or likely leak of the user personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

The Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》), which was issued by the SCNPC on 28 December 2012 and took effect on the same day, and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》), which was issued by the MIIT on 16 July 2013 and take effect on 1 September 2013, stipulate that any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scope. An internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering with or destroying any such information, or selling or illegally providing such information to other parties. An internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorised disclosure, damage or loss. Any violation of the above decision or order may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licences, cancellation of filings, closedown of websites or even criminal liabilities.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal

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Information by Apps (《關於開展App違法違規收集使用個人信息專項治理的公告》), which was issued by the CAC, the MIIT, the MPS, and the SAMR on 23 January 2019, app operators shall collect and use personal information in compliance with the Cybersecurity Law and shall be responsible for the security of personal information obtained from users and take effective measures to strengthen personal information protection. Furthermore, app operators shall not force their users to make authorisation by means of default settings, bundling, suspending installation or use of the app or other similar means and shall not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasised by the Notice on the Special Rectification of Apps Infringing upon User’s Personal Rights and Interests (《關於開展APP侵害用戶權益專項整治工作的通知》), which was issued by MIIT on 31 October 2019. On 28 November 2019, the CAC, the MIIT, the MPS and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information (《App違法違規收集使用個人信息行為認定方法》). This regulation further illustrates certain commonly seen illegal practises of app operators in terms of personal information protection and specifies acts of app operators that will be considered as “collection and use of personal information without users’ consent”.

Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organisation or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or disclose personal information of others.

On 20 August 2021, the SCNPC promulgated the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), which took effect on 1 November 2021. Pursuant to the Personal Information Protection Law, “personal information” refers to any kind of information related to an identified or identifiable individual as electronically or otherwise recorded but excluding the anonymised information. The processing of personal information includes the collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information. The Personal Information Protection Law applies to the processing of personal information of individuals within the territory of the PRC, as well as personal information processing activities outside the territory of PRC, for the purpose of providing products or services to natural persons located within China, for analysing or evaluating the behaviours of natural persons located within China, or for other circumstances as prescribed by laws and administrative regulations. A personal information processor may process the personal information of this individual only under the following circumstances: (i) where consent is obtained from the individual; (ii) where it is necessary for the execution or performance of a contract to which the individual is a party, or where it is necessary for carrying out human resource management pursuant to employment rules legally adopted or a collective contract legally concluded; (iii) where it is necessary for performing a statutory responsibility or statutory obligation; (iv) where it is necessary in response to a public health emergency, or for protecting the life, health or property safety of a natural person in the case of an emergency; (v) where the personal information is processed within a reasonable scope to carry out any news reporting, supervision by public opinions or any other activity for public interest purposes; (vi) where the personal information, which has already been disclosed by an individual or otherwise legally disclosed, is processed within a reasonable scope; or (vii) any other circumstance as provided by laws or administrative regulations. In principle, the consent of an individual must be obtained for the processing of his or her personal information, except under the circumstances of the aforementioned items (ii) to (vii). Where personal information is to be processed based on the consent of an individual, such consent shall be a voluntary and explicit indication of intent given by such individual on a fully informed basis. If laws or administrative regulations provide

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that the processing of personal information shall be subject to the separate consent or written consent of the individual concerned, such provisions shall prevail. In addition, the processing of the personal information of a minor under 14 years old must obtain the consent by a parent or a guardian of such minor and the personal information processors must adopt special rules for processing personal information of minors under 14 years old.

Furthermore, the Personal Information Protection Law stipulates the rules for cross-border transfer of personal information. Any cross-border transfer of personal information is subject to the condition that it is necessary to provide the personal information to a recipient outside the territory of the PRC due to any business need or any other need, as well as the satisfaction of at least one of the following conditions: (i) where a security assessment organised by the national cyberspace administration has been passed; (ii) where a certification of personal information protection has been passed from a professional institution in accordance with the provisions issued by the national cyberspace administration; (iii) where a standard contract formulated by the national cyberspace administration has been entered into with the overseas recipient; or (iv) any other condition prescribed by laws, administrative regulations or any other requirements by the national cyberspace administration. Critical information infrastructure operators and personal information processors who have processed personal information in an amount reaching a threshold prescribed by the national cyberspace administration, must store in the territory of the PRC the personal information collected or generated within the territory of the PRC. If it is necessary to provide such information to an overseas recipient, a security assessment organised by the national cyberspace administration must be passed.

### **Regulations Relating to Online Trading**

The MOFCOM promulgated the Provisions on the Procedures for Formulating Transaction Rules of Third-Party Online Retail Platforms (Trial) (《網絡零售第三方平臺交易規則制定程序規定(試行)》) in December 2014, which became effective in April 2015, to guide and regulate the formulation, revision and enforcement of transaction rules by online retail third-party platforms operators.

In August 2018, the SCNPC promulgated the E-Commerce Law of the PRC (《中華人民共和國電子商務法》), effective on 1 January 2019, which aims to regulate the e-commerce activities conducted within the territory of the PRC. Pursuant to the E-Commerce Law, an e-commerce platform operator shall (i) collect, verify and register the truthful information submitted by the third-party merchants that apply to sell products or provide services on its platform, including the identities, addresses, contacts and licences, establish registration archives and update such information on a regular basis; (ii) submit the identification information of the third-party merchants on its platform to market regulatory administrative department as required and remind the third-party merchants to complete the registration with market regulatory administrative department; (iii) submit identification information and tax-related information to tax authorities as required in accordance with the laws and regulations regarding the administration of tax collection and remind the individual third-party merchants to complete the tax registration; (iv) record and retain the information of the products and services and the transaction information for no less than three years; (v) display the platform service agreement and the transaction rules or links to such information on the homepage of the platform; (vi) display the noticeable labels regarding the self-operation products, and take liabilities for such products and services; (vii) establish a credit evaluation system, display the credit evaluation rules, provide consumers with accesses to make comments on the products and services provided on its platform, and restrain from deleting such comments; and (viii) establish intellectual property protection

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rules, and take necessary measures when any intellectual property holder notify the platform operator that his intellectual property rights have been infringed. An e-commerce platform operator shall take joint liabilities with the relevant third-party merchants on its platform and may be subject to warnings and fines up to RMB2,000,000 where (i) it fails to take necessary measures when it knows or should have known that the products or services provided by the third-party merchants on its platform do not meet the personal or property safety requirements or such third-party merchants’ other acts may infringe on the lawful rights and interests of the consumers; or (ii) it fails to take necessary measures, such as deleting and blocking information, disconnecting, terminating transactions and services, when it knows or should have known that the third-party merchants on its platform infringe any intellectual property rights of any other third party. With respect to products or services affecting the consumers’ life and health, if an e-commerce platform operator fails to verify the third-party merchants’ qualification or fails to fulfil its obligations to safeguard the safety of consumers, which results in damages to the consumers, it shall take corresponding liabilities and may be subject to warnings and fines up to RMB2,000,000.

In March 2021, the SAMR promulgated the Measures for the Supervision and Administration of Online Trading (《網絡交易監督管理辦法》), effective on 1 May 2021, which aims to regulate business activities involving the sale of commodities or provision of services through Internet and other information networks. Pursuant to the Measures for the Supervision and Administration of Online Trading, an online trading business shall continuously publicise the information of business entities or a link to such information in a prominent position on the homepage of its website or the main page of its business activities. An online trading business is encouraged to link to the electronic business licence display system of the SAMR and publicise its business licence information. An online trading platform operator shall require a business that applies for selling commodities or providing services on the platform to submit true information on its identity, address, contact information, and administrative licencing, among others, conduct verification and registration, establish registration archives, and verify and update relevant information once at least every six months.

### **Regulations Relating to Internet Advertising**

The SCNPC released the Advertising Law of the PRC (《中華人民共和國廣告法》) on 27 October 1994 and latest amended on 29 April 2021, which provides that the Internet information service providers shall not publish medical, drugs, medical machinery or health food advertisements in disguised form of introduction of healthcare and wellness knowledge.

The Interim Measures for Administration of Internet Advertising (《互聯網廣告管理暫行辦法》) (the “**Interim Internet Advertising Measures**”), regulating the Internet-based advertising activities, were adopted by the SAIC on 4 July 2016. According to the Interim Internet Advertising Measures, Internet advertisers are responsible for the authenticity of the advertisements content. Publishing and circulating advertisements through the Internet shall not affect the normal use of the Internet by users. It is not allowed to induce users to click on the content of advertisements by any fraudulent means, or to attach advertisements or advertising links in the emails without permission. On 24 March 2023, the State Administration for Market Regulation promulgated the Measures for Administration of Internet Advertising (《互聯網廣告管理辦法》) (the “**Internet Advertising Measures**”), which replaced the Interim Internet Advertising Measures, and came into effect as of 1 May 2023. Pursuant to the Internet Advertising Measures, Internet advertisers are prohibited from publishing advertisements of prescription drugs on the Internet. Besides, Internet advertisers are prohibited from publishing advertisements for medical treatment, drugs, medical devices, health food

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and formula food for special medical purposes in disguised form by way of introducing knowledge on health or health maintenance. When introducing knowledge on health or health maintenance, the address, contact information, shopping links and other contents of sellers or service providers of relevant medical treatment, drugs, medical devices, health food, or formula food for special medical purposes shall not be presented on the same page or together with other contents.

Pursuant to the Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), which were promulgated by the State Administration for Market Regulation on 24 December 2019, effective on 1 March 2020, an enterprise seeking to advertise its drugs, medical devices, dietary supplement or food for special medical purpose must apply for an advertisement approval number. The validity period of the advertisement approval number concerning a drug, medical device, dietary supplement or food for special medical purpose shall be consistent with that of the registration certificate or record-filing certificate or the production licence of the product, whichever is the shortest. Where no validity period is set forth in the registration certificate, record-filing certificate or the production licence of the product, the advertisement approval number shall be valid for two years. The content of an approved advertisement may not be altered without prior approval. Where any alteration to the advertisement is needed, a new advertisement approval shall be obtained.

### Regulations Relating to Food Safety

In accordance with the Food Safety Law of the PRC (《中華人民共和國食品安全法》) (the “**Food Safety Law**”), promulgated on 28 February 2009 and latest amended on 29 April 2021, and the Implementation Regulations of the Food Safety Law’ of the PRC (《中華人民共和國食品安全法實施條例》), issued on 20 July 2009 and latest amended on 11 October 2019 and effective on 1 December 2019, with the purpose of guaranteeing food safety and safe guarding the health and life safety of the public, the PRC sets up a system of the supervision, monitoring and appraisal on the food safety risks, compulsory adoption of food safety standards. To engage in food production, sale or catering services, the business operators shall obtain a licence in accordance with the laws and regulations. Furthermore, the State Council implements strict supervision and administration for special categories of foods such as healthcare food, special formula foods for medical purposes and infant formula.

Administrative Measures for Food Operation Licencing (《食品經營許可管理辦法》) promulgated by CFDA on 31 August 2015 and amended on 17 November 2017, regulates the food operation licencing activities, strengthens supervision and management of food operation, and ensures food safety. Food operation operators shall obtain the food operation licence for each business venue where they engage in food operation activities. The food operation licence is valid for five years.

### Regulations Relating to Anti-Monopoly

The Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》), as promulgated by the SCNPC in 2007, prohibits monopolistic conduct such as entering into monopoly agreements, abuse of dominant market position and concentration of undertakings that have the effect of eliminating or restricting competition. On 24 June 2022, the SCNPC promulgated the Anti-monopoly Law of the PRC (Amended in 2022) (《中華人民共和國反壟斷法 (2022年修正) 》) (the “**Amended Anti-monopoly Law**”), which took effect on 1 August 2022.



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Pursuant to the Amended Anti-Monopoly Law, competing business operators may not enter into monopoly agreements that eliminate or restrict competition, such as by boycotting transactions, fixing or changing the price of commodities, limiting the output of commodities, or fixing the price of commodities for resale to third parties, among other actions, unless the agreement will satisfy the exemptions under the Amended Anti-monopoly Law, such as improving technologies, increasing the efficiency and competitiveness of small and medium-sized undertakings, or safeguarding legitimate interests in cross-border trade and economic cooperation with foreign counterparts. Violations of the Amended Anti-Monopoly Law may be subject to an order to cease the relevant activities, and confiscation of illegal gains and fines ranging from 1% to 10% of sales revenues for the previous year, if the monopoly agreement has been concluded and performed, or fines of up to RMB3,000,000, if the intended monopoly agreement has not been performed, and the legal representative, person chiefly in charge and directly liable personnel who are personally accountable for conclusion of the monopoly agreement may be subject to a fine of up to RMB1,000,000. On 26 June 2019, the State Administration for Market Regulation further issued the Interim Provisions on the Prohibitions of Monopoly Agreements (《禁止壟斷協議暫行規定》) which took effect on 1 September 2019 and was last amended on 24 March 2022, superseding certain anti-monopoly rules and regulations. On 10 March 2023, the State Administration for Market Regulation issued the Provisions on the Prohibitions of Monopoly Agreements (《禁止壟斷協議規定》), which came into effect on 15 April 2023, to get those provisions aligned with the Amended Anti-Monopoly Law.

In addition, as required by the Amended Anti-Monopoly Law, a business operator with a dominant market position may not abuse its dominant market position to conduct acts, such as selling commodities at unfairly high prices or buying commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, and refusing to trade with a trading party without any justifiable cause. Sanctions for violation of the prohibition on the abuse of dominant market position include an order to cease the relevant activities, confiscation of the illegal gains and fines (from 1% to 10% of sales revenues from the previous year). On 26 June 2019, the State Administration for Market Regulation issued the Interim Provisions on the Prohibitions of Acts of Abuse of Dominant Market Positions (《禁止濫用市場支配地位行為暫行規定》), which took effect on 1 September 2019 and was last amended on 24 March 2022, to further prevent and prohibit the abuse of dominant market positions. On 10 March 2023, the State Administration for Market Regulation issued the Provisions on the Prohibitions of Acts of Abuse of Dominant Market Positions (《禁止濫用市場支配地位行為規定》), which came into effect on 15 April 2023, to get those provisions aligned with the Amended Anti-Monopoly Law.

Furthermore, where a concentration of undertakings reaches the declaration threshold stipulated by the State Council, a declaration must be approved by the anti-monopoly authority before the parties implement the concentration. Concentration refers to (i) a merger of undertakings; (ii) acquiring control over other undertakings by acquiring equities or assets; or (iii) acquisition of control over, or the possibility of exercising decisive influence on, an undertaking by contract or by any other means. If business operators fail to comply with the mandatory declaration requirement, the anti-monopoly authority is empowered to terminate and/or unwind the transaction, dispose of relevant assets and shares or businesses within certain periods, and impose fines up to 10% of sales revenues for the previous year, if the concentration has or may have the effect of eliminating or restricting competition, or fines of up to RMB5,000,000, if the concentration has no effect of eliminating or restricting competition.

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On 11 September 2020, the Anti-Monopoly Commission of the State Council issued Anti-Monopoly Compliance Guideline for Operators (《經營者反壟斷合規指南》), which requires operators to establish anti-monopoly compliance management systems under the Amended Anti-Monopoly Law to manage anti-monopoly compliance risks. On 7 February 2021, the Anti-Monopoly Committee of the State Council promulgated the Anti-Monopoly Guidelines for the Internet Platform Economy Sector (《國務院反壟斷委員會關於平臺經濟領域的反壟斷指南》), aiming to provide guidelines for supervising and prohibiting monopolistic conduct in connection with the internet platform business operations and further elaborate on the factors for recognising such monopolistic conduct in the internet platform industry as well as concentration filing procedures for business operators, including those involving variable interest entities. Pursuant to these guidelines, the methods of an internet platform collecting or using the privacy information of internet users may also be one of the factors to be considered for analysing and recognising monopolistic conducts in the internet platform industry. For example, whether the relevant business operator compulsorily collects unnecessary user information may be considered to analyse whether there is a bundled sale or additional unreasonable trading condition, which is one of the behaviours constituting abuse of dominant market position. In addition, factors including, among others, providing differentiated transaction prices or other transaction conditions for consumers with different payment ability based on consumption preferences and usage habits analysed using big data and algorithms is also one of the behaviours constituting abuse of dominant market position. Furthermore, whether the relevant business operators are required to “choose one” among the internet platform and its competitive platforms may be considered to analyse whether such internet platform operator with dominant market position abuses its dominant market position and excludes or restricts market competition. As these guidelines were only issued recently, there are still substantial uncertainties as to their interpretation and implementation in practise. Our PRC Legal Adviser is of the view that, as of the Latest Practicable Date, there have not been any material non-compliance incidents occurring on us discovered in relation to the business operation in all material respects under the PRC Anti-Monopoly laws, including the Anti-Monopoly Guidelines for the Internet Platform Economy Sector promulgated by the Anti-Monopoly Committee of the State Council (《國務院反壟斷委員會關於平臺經濟領域的反壟斷指南》). In light of the foregoing, our Directors are of the view that the guidelines do not have impact on our business operation in material respects. Taking into account the above, as well as based on the independent due diligence conducted by the Sole Sponsor, nothing has come to the Sole Sponsor’s attention that would cause the Sole Sponsor to disagree with the Directors’ view.

### **Regulations Relating to Anti-Unfair Competition**

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) promulgated by the SCNPC on 2 September 1993 and most recently amended on 23 April 2019, operators are prohibited from engaging in unfair competition activities including market confusion, commercial bribery, misleading false publicity, infringement on trade secrets, illegitimate premium sales, etc. Any operator in violation of the Anti-Unfair Competition Law may be ordered to cease illegal activities, eliminate the adverse effect thereof or compensate for the damages caused to any other party. The competent authorities may also confiscate any illegal gains or impose fines on these operators.

On 17 August 2021, the State Administration for Market Regulation issued a discussion draft of Provisions on the Prohibition of Unfair Competition on the Internet (《禁止網絡不正當競爭行為規定(公開徵求意見稿)》), under which business operators should not hijack traffic by using data or algorithms or influencing users’ choices, or use technical means to illegally capture or use other business

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operators’ data. Furthermore, business operators are not allowed to (i) fabricate or spread misleading information to damage the reputation of competitors, or (ii) employ marketing practises such as fake reviews or use coupons or “red envelopes” to entice positive ratings.

### **Regulations Relating to Algorithms**

On 17 September 2021, the CAC, together with certain other governmental authorities, jointly issued the Guidelines on Strengthening the Comprehensive Regulation of Algorithm for Internet Information Services (《關於加強互聯網信息服務算法綜合治理的指導意見》), which provide that, daily monitoring of data use, application scenarios and effects of algorithms shall be carried out by the relevant regulators, and security assessments of algorithm shall be conducted by the relevant regulators, and an algorithm filing system shall be established and classified security management of algorithms shall be promoted.

On 31 December 2021, the CAC and certain other PRC governmental authorities promulgated the Provisions on the Administration of Algorithm Recommendation for Internet Information Services (《互聯網信息服務算法推薦管理規定》), which took effect on 1 March 2022. These provisions require that algorithmic recommendation service providers shall inform users in a conspicuous manner of their provision of algorithmic recommendation services, and publicise the basic principles, purposes, and main operating mechanisms of algorithmic recommendation services in an appropriate manner. Where algorithm recommendation service providers sell goods or provide services to consumers, they shall protect consumers’ rights to fair transactions, and shall not use algorithms to implement unreasonably differential treatment in transaction prices and other transaction conditions based on consumers’ preferences, transaction habits, and other characteristics and other illegal acts.

### **Regulations Relating to Intellectual Property**

#### ***Patent***

Patents in the PRC are principally protected under the Patent Law of the PRC (《中華人民共和國專利法》). The Chinese patent system adopts a first-to-file principle. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. The duration of a patent right is either 10 years, 15 years or 20 years from the date of application, depending on the type of patent right.

#### ***Copyright***

Copyrights in the PRC, including software copyrights, are principally protected under the Copyright Law of the PRC (《中華人民共和國著作權法》) and related rules and regulations. Under the Copyright Law of the PRC, the term of protection for software copyrights is 50 years. The Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks (《信息網絡傳播權保護條例》), as last amended on 30 January 2013, provides specific rules on fair use, statutory licence, and a safe harbour for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》), promulgated by the National Copyright Administration on 20 February 2002, regulate registrations of software copyrights, exclusive licencing contracts for software copyrights and assignment agreements.

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The National Copyright Administration administers software copyright registration and the Copyright Protection Centre of China is designated as the software registration authority. The Copyright Protection Centre of China grants registration certificates to the computer software copyrights applicants which meet the relevant requirements.

### *Trademark*

Registered trademarks are protected under the Trademark Law of the PRC (《中華人民共和國商標法》) and related rules and regulations. Trademarks are registered with the Trademark office of National Intellectual Property Administration under the State Administration for Market Regulation, formerly the Trademark Office of the State Administration of Industry and Commerce. Where registration is sought for a trademark that is identical or similar to another trademark which has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of this trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

### *Domain Name*

Domain names are protected under the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT on 24 August 2017 and effective as of 1 November 2017. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

### **Regulations Relating to Employment and Social Welfare**

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》) and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), employers must execute written labour contracts with full-time employees. All employers must comply with local minimum wage standards. Violations of the Labour Contract Law of the PRC and the Labour Law of the PRC may result in the imposition of fines and other administrative and criminal liability in the case of serious violations.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated by the SCNPC on 28 October 2010 and became effective on 1 July 2011 and as amended on 29 December 2018, an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated time limit and be subject to a daily 0.05% late fee since the payment is due. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times of the amount overdue. In accordance with the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated by the State Council on 22 January 1999, and amended on 24 March 2019, social insurance premiums that should be paid by employees will be withheld and paid by the employer. An employer that fails to withhold and pay the social insurance premiums may be ordered to withhold and pay the required contributions within a prescribed time limit and be subject to a daily 0.2% late fee since the payment is due.

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According to the Regulations on Management of Housing Fund (《住房公積金管理條例》) which was promulgated by the State Council on 3 April 1999 and became effective on 3 April 1999 and as amended on 24 March 2019, an employer that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated time limit; otherwise, an application may be made to a local court for compulsory enforcement.

### **Regulations relating to Leasing**

Pursuant to the Law of the PRC on Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to the Civil Code, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid. Where the mortgaged property has been leased and the possession thereof has been transferred before the creation of mortgage, the original lease relations shall not be affected by the mortgage.

### **Regulations Relating to Foreign Exchange and Dividend Distribution**

#### ***Regulations Relating to Foreign Currency Exchange***

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administration Regulations of the PRC (《中國人民共和國外匯管理條例》), which was last amended in 2008. Under PRC foreign exchange regulations, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital account items, such as direct investments, repayment of foreign currency-denominated loans, repatriation of investments and investments in securities outside of the PRC.

In 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》), which substantially amends and simplifies the foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of Renminbi proceeds derived by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In 2013, SAFE specified that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC must be conducted by way of registration and banks must process foreign exchange business relating to

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the direct investment in the PRC based on the registration information provided by SAFE and its branches. In February 2015, SAFE issued the Circular on Further Simplifying and Improving the Policies for Foreign Exchange Administration for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》)(the “**SAFE Circular 13**”), which took effect on 1 June 2015. Instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration.

In March 2015, SAFE promulgated the Circular Concerning Reform of the Administrative Approaches to the Settlement of Foreign Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》)(the “**SAFE Circular 19**”), which expands a pilot reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises nationwide. SAFE Circular 19 replaced both the Circular on Issues Relating to the Improvement of Business Operations with Respect to the Administration of Foreign Exchange Capital Payment and Settlement of Foreign-invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》)(the “**SAFE Circular 142**”), and the Circular on Issues concerning the Pilot Reform of the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises in Certain Areas (《關於在部分地區開展外商投資企業外匯資本金結匯管理方式改革試點有關問題的通知》). SAFE Circular 19 allows all foreign-invested enterprises established in the PRC to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation, provides the procedures for foreign invested companies to use Renminbi converted from foreign currency-denominated capital for equity investments and removes certain other restrictions that had been provided in SAFE Circular 142. However, SAFE Circular 19 continues to prohibit foreign-invested enterprises from, among other things, using Renminbi funds converted from their foreign exchange capital for expenditure beyond their business scope and providing entrusted loans or repaying loans between non-financial enterprises. SAFE promulgated the Circular on Reforming and Standardising the Foreign Exchange Settlement Management Policy of Capital Account (《關於改革和規範資本項目結匯管理政策的通知》)( the “**SAFE Circular 16**”) effective in June 2016, which reiterates some of the rules set forth in SAFE Circular 19. SAFE Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding Renminbi capital converted from foreign exchange may be used to extend loans to related parties or repay inter-company loans (including advances by third parties). However, there are substantial uncertainties with respect to SAFE Circular 16’s interpretation and implementation in practise.

In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimising Genuineness and Compliance Verification (《關於進一步推進外匯管理改革完善真實合規性審核的通知》)(the “**SAFE Circular 3**”), which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) banks must check whether the transaction is genuine by reviewing board resolutions regarding profit distribution, original copies of tax filing records and audited financial statements, and (ii) domestic entities must retain income to account for previous years’ losses before remitting any profits. Moreover, pursuant to SAFE Circular 3, domestic entities must explain in detail the sources of capital and how the capital will be used, and provide board resolutions, contracts and other proof as a part of the registration procedure for outbound investment.

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On 23 October 2019, SAFE promulgated the Circular on Further Promoting the Cross-border Trade and Investment Facilitation (《關於進一步促進跨境貿易投資便利化的通知》), which permits non-investment foreign-invested enterprises to use their capital funds to make equity investments in the PRC, with genuine investment projects and in compliance with effective foreign investment restrictions and other applicable laws. However, there are still substantial uncertainties as to its interpretation and implementations in practise.

According to the Circular on Optimising Foreign Exchange Administration to Support the Development of Foreign-related Business (《關於優化外匯管理支持涉外業務發展的通知》) promulgated and effective on 10 April 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

### ***Regulations Relating to Dividend Distribution***

The principal regulations governing distribution of dividends of foreign-invested enterprises is the Company Law. Under this laws and its regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated after-tax profits, if any, determined in accordance with China’s accounting standards and regulations. In addition, a PRC company, including a foreign-invested enterprise in China, is required to allocate at least 10% of its accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprise. A PRC company may, at its discretion, allocate a portion of its after-tax profits based on China accounting standards to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

### ***Regulations Relating to Foreign Exchange Registration of Overseas Investment by PRC Residents***

In 2014, SAFE issued the Circular on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”). SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in the PRC. Under SAFE Circular 37, a “special purpose vehicle” refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate onshore or offshore assets or interests, while “round trip investment” refers to direct investment in the PRC by PRC residents or entities through special purpose vehicles, namely, establishing foreign-invested enterprises to obtain ownership, control rights and management rights. SAFE Circular 37 provides that, before making a contribution into a special purpose vehicle, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch.

In 2015, SAFE Circular 13 amended SAFE Circular 37 by requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or

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financing. PRC residents or entities who had contributed legitimate onshore or offshore interests or assets to special purpose vehicles but had not registered as required before the implementation of SAFE Circular 37 must register their ownership interests or control in the special purpose vehicles with qualified banks. An amendment to the registration is required if there is a material change with respect to the special purpose vehicle registered, such as any change of basic information (including change of the PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, and mergers or divisions. Failure to comply with SAFE registration requirements described above, or making misrepresentations or failing to disclose the control of the foreign-invested enterprise that is established through round-trip investment, may result in restrictions being imposed on the foreign exchange activities of the relevant foreign-invested enterprise, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent or affiliate, and the capital inflow from the offshore parent, and may also subject relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

### **Regulation Relating to Stock Incentive Plans**

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration over Involvement of Domestic Individuals in Equity Incentive Plans of Overseas Listed Companies (《關於境內個人參與境外上市公司股權激勵計畫外匯管理有關問題的通知》) in February 2012. Pursuant to this circular and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants in a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of the participants.

In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan or the PRC agent or any other material changes. The PRC agent must apply to SAFE or its local branches on behalf of the PRC residents who have the right to exercise the employee share options for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

### **Regulations Relating to Taxation**

#### ***Enterprise Income Tax***

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which was promulgated by the National People's Congress on 16 March 2007, took effect on 1 January 2008 and was last amended on 29 December 2018, and its implementing rules, enterprises are classified into resident enterprises and non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25% while non-PRC resident enterprises without any branches in the PRC should pay an enterprise income tax in connection with their income from the PRC at the tax rate of 10%. The Enterprise Income Tax Law and its implementation rules permit certain High and



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New Technologies Enterprises to enjoy a reduced 15% enterprise income tax rate subject to these enterprises meeting certain qualification criteria.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the State Administration of Taxation, on 22 April 2009, taking effect on 1 January 2008, and last amended on 29 December 2017, sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups is located within mainland China. On 27 July 2011, the State Administration of Taxation issued a trial version of the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (《境外註冊中資控股居民企業所得稅管理辦法(試行)》), which took effect on 1 September 2011 and was last amended in June 2018, to clarify certain issues in the areas of resident status determination, post-determination administration and competent tax authorities’ procedures. The PRC Enterprise Income Tax Law and the implementation rules provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “non-resident enterprises,” and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between the PRC and other jurisdictions. Pursuant to the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), promulgated by the State Administration of Taxation on 21 August 2006, and other applicable PRC Laws, if a Hong Kong resident enterprise is the beneficial owner of the dividends and is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) promulgated by the State Administration of Taxation and taking effect on 20 February 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. The State Administration of Taxation promulgated the Notice on Issues Concerning “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) in February 2018, which took effect in April 2018 and provided that in determining whether a non-resident enterprise has the status as a beneficial owner, comprehensive analysis shall be conducted based on the factors listed therein and the actual circumstances of the specific case shall be taken into consideration.

### *Value-added Tax*

According to the Provisional Regulations on Value-added Tax (《增值稅暫行條例》) promulgated by the State Council on 13 December 1993 and last amended on 19 November 2017, and the Implementing Rules of the Provisional Regulations on Value-added Tax (《增值稅暫行條例實施細則》) promulgated by the Ministry of Finance on 25 December 1993 and last amended on 28 October 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing

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goods within the PRC shall pay VAT. On 4 April 2018, the Ministry of Finance and the State Administration of Taxation issued the Circular on Adjustment of VAT Rates (《關於調整增值稅稅率的通知》), which took effect on 1 May 2018. According to the abovementioned circular, the taxable goods previously subject to VAT rates of 17% and 11% respectively became subject to lower VAT rates of 16% and 10% respectively starting from 1 May 2018. Furthermore, according to the Announcement on Relevant Policies for Deepening VAT Reform (《關於深化增值稅改革有關政策的公告》) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, which took effect on 1 April 2019, the taxable goods previously subject to VAT rates of 16% and 10% respectively became subject to lower VAT rates of 13% and 9% respectively starting from 1 April 2019.

### Regulations Relating to M&A Rules and Overseas Listings

On 8 August 2006, six PRC regulatory agencies including the MOFCOM and the CSRC adopted the M&A Rules, which took effect on 8 September 2006 and were amended on 22 June 2009. Pursuant to the M&A Rules, the approval of the MOFCOM must be obtained if overseas companies established or controlled by PRC enterprises or residents acquire domestic companies affiliated with such PRC enterprises or residents. In addition, the M&A Rules require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC enterprises or residents to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

Furthermore, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities (《關於依法從嚴打擊證券違法活動的意見》), which were available to the public on 6 July 2021 and emphasised the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies, and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies, and provided that the Special Provisions of the State Council on Overseas Offering and Listing by Those Companies Limited by Shares will be revised and therefore the duties of domestic industry competent authorities and regulatory authorities will be clarified.

On 17 February 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”), and relevant five guidelines, which came into effect as of 31 March 2023. According to the Overseas Listing Trial Measures, PRC domestic enterprises that seek to [REDACTED] and list securities in overseas markets, either in direct or indirect means (the “**Overseas [REDACTED] and Listing**”), are required to fulfil the filing procedure with the CSRC and submit filing reports, legal opinions, and other relevant documents.

Under the Overseas Listing Trial Measures, a filing-based regulatory regime shall be applied to both “direct overseas [REDACTED] and listing” and “indirect overseas [REDACTED] and listing” of PRC domestic companies. The “indirect overseas [REDACTED] and listing” of PRC domestic companies refers to such securities [REDACTED] and listing in an overseas market made in the name of an offshore entity, but based on the underlying equity, assets, earnings or other similar rights of a domestic company which operates its main business domestically. If the issuer meets the following conditions, the [REDACTED] and listing shall be determined as an indirect overseas [REDACTED] and listing by a PRC domestic company: (i) the total assets, net assets, revenues or profits of the domestic operating entity or entities of the issuer in

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the most recent accounting year account for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; (ii) most of the senior managers in charge of business operation and management of the issuer are Chinese citizens or have domicile in China, and its main places of business are located in China or main business activities are conducted in China. Domestic companies that seek to [REDACTED] and list securities in overseas markets shall fulfil the filing procedure with the CSRC, and, among others, shall strictly comply with laws and regulations and relevant provisions concerning national security in spheres of foreign investment, cybersecurity, and data security, and earnestly fulfil their obligations to protect national security.

The Overseas Listing Trial Measures provide that an overseas [REDACTED] and listing is prohibited under any of the following circumstances: (i) if the intended securities [REDACTED] and listing falls under specific clauses in national laws and regulations and relevant provisions prohibiting such financing activities; (ii) if the intended securities [REDACTED] and listing in overseas market may constitute a threat to or endanger national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) if, in recent three years, the domestic company or its controlling shareholders and actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offences disruptive to the order of the socialist market economy; (iv) if the domestic company is currently under judicial investigations for suspicion of criminal offences or under investigations for suspicion of major violations; or (v) if there are material ownership disputes over the equities of the domestic company held by the domestic company’s controlling shareholders or the shareholders whose actions are controlled by the controlling shareholders or actual controllers.

The Overseas Listing Trial Measures and relevant five guidelines require that where an issuer makes an application for [REDACTED] and listing in an overseas market, the filing entity shall submit to the CSRC filing documents, which include but are not limited to those specified below, within three working days after such application is submitted: (i) filing reports and associated undertakings; (ii) regulatory opinions, filings or approval and related documents issued by competent industry authorities (where applicable); (iii) opinions issued by competent authorities under the State Council on security assessment and review of the issuer (where applicable); (iv) legal opinions provided by a domestic law firm; and (v) a [REDACTED] or listing documents. For violations of these provisions or measures thereof, the CSRC and other competent authorities under the State Council may impose administrative regulatory measures on the issuer and securities companies, securities service institutions and relevant practitioners providing corresponding services in China, such as order for correction, regulatory talks and warning letters, proportionate to the severity of the violations.

The Overseas Listing Trial Measures also set forth the issuer’s reporting obligations in the event of occurrence of material events (the “**Material Events**”) after the Overseas [REDACTED] and Listing. In the event of the occurrence of any of the following Material Events, the issuer shall make a detailed report to the CSRC within three working days after the occurrence and public announcement of the relevant event: (i) change in controlling rights; (ii) being subject to investigation, punishment or other measures by overseas securities regulatory authorities or the relevant authorities; (iii) changing listing status or changing the listing board; or (iv) voluntary or compulsory termination of listing. Besides, if any material change in the principal business and operation of the issuer after its Overseas [REDACTED] and Listing makes the issuer no longer within the scope of record-filing, the issuer shall submit a special report and a legal opinion issued by a PRC domestic law firm to the CSRC within three working days after the occurrence of the relevant change to provide an explanation of the relevant situation.

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According to the Notice on Arrangements for Record Filing Administration of Overseas Offering and Listing of Domestic Enterprises (《關於境內企業境外發行上市備案管理安排的通知》) and the relevant replies by the officials from CSRC which are both promulgated with the Overseas Listing Trial Measures simultaneously, the PRC domestic companies that have already been listed overseas or meet all of the following conditions shall be deemed as existing issuers (存量企業) (the “**Existing Issuers**”): (1) before the effective date of the Overseas Listing Trial Measures (i.e. 31 March 2023), the PRC domestic company’s application for its indirect Overseas [REDACTED] and Listing has been approved by the relevant overseas regulatory authorities or securities exchanges (for example, a listing hearing has been passed by the Stock Exchange) and do not need to re-obtain the approval from the relevant overseas regulatory authorities or securities exchanges for their indirect overseas [REDACTED] and listing prior to the effective date of the Overseas Listing Trial Measures (i.e. 31 March 2023) and do not need to re-perform the regulatory procedures for [REDACTED] and listing with the overseas regulatory authorities or overseas stock exchanges (for example, a new listing hearing is required by the Stock Exchange); and (2) the PRC domestic enterprise completes the Overseas [REDACTED] and Listing on or prior to 30 September 2023. The Existing Issuers are not required to complete the filing procedures immediately, and they shall be required to file with the CSRC when subsequent matters such as refinancing are involved.

## SUBSTANTIAL SHAREHOLDERS

The following table (together with its notes) sets out, so far as our Directors are aware, persons who will have interests and/or short positions (as applicable) in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

Name of substantial shareholders	Capacity/ Nature of Interest	Number of Shares <sup>(1)</sup>	Approximate percentage of interest our Company immediately upon the Listing <sup>(1)</sup>
MIYT Holdings Limited <sup>(2)</sup> . . . . .	Beneficial interest	125,316,184	[REDACTED]
Buzhen Zhang <sup>(2)</sup> . . . . .	Interest in controlled corporations	125,316,184	[REDACTED]
	Interest in options	4,800,000	[REDACTED]
Million Surplus Developments Limited <sup>(3)</sup> . . . . .	Beneficial interest	81,938,584	[REDACTED]
Internet Fund V Pte. Ltd. <sup>(4)</sup> . . . . .	Beneficial interest	80,000,000	[REDACTED]
H Capital V, L.P. <sup>(5)</sup> . . . . .	Beneficial interest	59,588,244	[REDACTED]
Shanghai Fosun Pharmaceutical Development Co., Ltd. <sup>(6)</sup> . . . . .	Beneficial interest	55,341,760	[REDACTED]
DCM Investments (DE 5), LLC <sup>(7)</sup> . . . . .	Beneficial interest	53,323,236	[REDACTED]
Green Pine Capital Partners <sup>(8)</sup> . . . . .	Interest in controlled corporations	43,209,656	[REDACTED]

*Notes:*

- (1) The figures above are subject to the Assumptions.
- (2) MIYT Holdings Limited is controlled by MIYT Worldwide Limited, which in turn is wholly owned by a trust for the benefit of Mr. Buzhen Zhang, our Director. Under the SFO, Mr. Buzhen Zhang is deemed to be interested in all of the interests in our Company held by MIYT Holdings Limited. Additionally, Mr. Zhang is deemed to be interested in 1,200,000 Shares underlying options granted under the 2019 Share Incentive Plan; see “Statutory and general information—Further information about our Directors—Disclosure of interests” in Appendix IV for further information.
- (3) Million Surplus Developments Limited is wholly owned by Meta Group Limited, which is ultimately controlled as to one-third or more by Mr. Chu Mang Yee through his controlled corporations (as defined under the SFO), which include among others, Sounda Properties Limited and Sounda Hopson Investment Holdings Limited. Under the SFO, each of Mr. Chu Mang Yee and the controlled corporations through which Mr. Chu Mang Yee controls Million Surplus Developments Limited is deemed to be interested in all of the interests in our Company held by Million Surplus Developments Limited.
- (4) Internet Fund V Pte. Ltd. is managed by Tiger Global Singapore Pte. Ltd., which is an affiliate of Tiger Global Management, LLC, a Delaware limited liability company. All such shares are controlled by Chase Coleman and Scott Shleifer.
- (5) H Capital V, L.P. is a limited partnership, the general partner of which is ultimately controlled by Ms. Xiaohong Chen through her controlled corporations (as defined under the SFO), H Capital V GP, Ltd. and H Capital V GP, L.P. Under the SFO, each of Ms. Xiaohong Chen and her controlled corporations through which Ms. Xiaohong Chen controls H Capital V, L.P. is deemed to be interested in all of the interests in our Company held by H Capital V, L.P..
- (6) Shanghai Fosun Pharmaceutical Development Co., Ltd. is a wholly owned subsidiary of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed on the Stock Exchange (stock code: 2196) and Shanghai Stock Exchange (stock code: 600196). Under the SFO, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. is deemed to be interested in all of the interests in our Company held by Shanghai Fosun Pharmaceutical Development Co., Ltd.
- (7) DCM Investments (DE 5), LLC is ultimately controlled as to one-third or more by DCM International IX, Ltd. Under the SFO, each of DCM International IX, Ltd. and its controlled corporations (as defined under the SFO) through which it controls DCM Investments (DE 5), LLC is deemed to be interested in all of the interests in our Company held by DCM Investments (DE 5), LLC.
- (8) Represents (i) 8,465,995 ordinary shares held by Genius II Found Limited; (ii) 1,157,188 ordinary shares held by Genius V Found Limited; and (iii) 1,179,231 ordinary shares held by Shanghai Jixu Information Technology Partnership (Limited Partnership). These shareholders are part of the Green Pine Capital Partners group. Genius II Found Limited and Shanghai Jixu Information Technology Partnership are ultimately controlled by Shenzhen Songhe International Capital Management Partnership (Limited Partnership) (深圳市松禾國際資本管理合夥企業(有限合夥)), the general partner of which is Fei Luo (羅飛). Under the SFO, Fei Luo and his controlled corporations (as defined under the SFO) through which they control, and any other person that controls, Genius II Found Limited and Shanghai Jixu Information Technology Partnership (Limited Partnership), on an aggregated basis, are deemed to be interested in all of the interests in our Company held by these shareholders.

Save as disclosed above and in “Statutory and general information—Further information about our Directors—Disclosure of interests” in Appendix IV, our Directors are not aware of any other person who will, immediately upon Listing (subject to the Assumptions), have any interest and/or short positions in our Shares or underlying Shares which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

## SHARE CAPITAL

### AUTHORISED AND ISSUED SHARE CAPITAL

The two tables below provides a description of the authorised and issued share capital of our Company immediately following the [REDACTED] and upon Listing (subject to the Assumptions, including following the Share Subdivision):

#### *Authorised share capital*

Number of Shares	Description of Shares	Aggregate nominal value of Shares
20,000,000,000 . . . . .	Ordinary shares of a par value of US\$[0.0000025] each	US\$50,000

#### *Issued share capital*

Number of Shares	Description of Shares	Aggregate nominal value of Shares
616,541,252 . . . . .	Shares of a par value of US\$[0.0000025] each in issue as at the date of this document	US\$1,541.35
[REDACTED] . . . . .	Shares of a par value of US\$[0.0000025] each to be issued pursuant to the [REDACTED]	<u>US\$[REDACTED]</u>
[REDACTED] . . . . .	Shares in issue immediately following the [REDACTED] and upon Listing	<u>US\$[REDACTED]</u>

### CONVERSION OF PREFERRED SHARES UPON LISTING

As at the date of this document and prior to Listing, our issued share capital comprised 491,225,068 Preferred Shares and 125,316,184 ordinary Shares (for the avoidance of doubt, these Share numbers are after the Share Subdivision and represent a Share of par value US\$0.0000025 each). See “History, reorganization and corporate structure—Capitalisation” for further details. Pursuant to the shareholders’ agreement currently in effect and which shall terminate upon Listing, and our Company’s articles of association currently in effect and which shall be replaced in its entirety with the Articles of Association upon Listing, all Preferred Shares shall be automatically and immediately converted into ordinary shares on a one-to-one basis. Following this conversion, our Company will have in issue 491,225,068 additional ordinary Shares (being those converted from Preferred Shares), representing approximately [REDACTED]% of the total number of issued Shares immediately before the [REDACTED] and approximately [REDACTED]% of the total number of issued Shares immediately following the [REDACTED] (subject to the Assumptions).

### RANKING

The [REDACTED] are ordinary shares and will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this document. Upon Listing, our Company will have one class of issued Shares and each issued Share shall entitle its holder to one vote at a general meeting of our Company.

### POTENTIAL CHANGES TO SHARE CAPITAL

#### **Circumstances under which general meetings and class meetings are required**

Pursuant to the Cayman Companies Act and the terms of the Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its share capital by

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## SHARE CAPITAL

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the creation of new shares; (ii) consolidate and divide its capital into shares of larger amount than its existing shares; (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person. In addition, our Company may, subject to the provisions of the Cayman Companies Act, reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See “Summary of the constitution of our Company and Cayman Islands company law—Summary of the constitution of our Company—Articles of Association—1. Shares—(c) Alteration of capital” in Appendix III for further details.

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Act, be materially adversely varied only with (in addition to a special resolution to amend the Memorandum or the Articles) the consent in writing of the holders of all of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. See “Summary of the constitution of our Company and Cayman Islands company law—Summary of the constitution of our Company—Articles of Association—1. Shares—(b) Variation of rights of existing shares or classes of shares” in Appendix III for further details.

### General mandate to issue Shares

Subject to the [REDACTED] becoming unconditional, our Directors [have been granted] a general mandate to allot, issue and deal with Shares or securities convertible into Shares of not more than the sum of:

- (a) 20% of the total number of the Shares in issue immediately following the completion of the [REDACTED] (subject to the Assumptions); and
- (b) the total number of Shares repurchased by our Company under the authority referred to in “—General mandate to repurchase Shares”.

This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum and Articles of Association or any other applicable Laws of the Cayman Islands to be held; or
- (c) the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See “Statutory and general information—Further information about our Group—Resolutions of our Shareholders dated [●]” in Appendix IV for further details of this general mandate.

### General mandate to repurchase Shares

Subject to the [REDACTED] becoming unconditional, our Directors [have been granted] a general mandate to exercise all the powers of our Company to repurchase our own securities of up to 10% of the total number of our Shares in issue immediately following the completion of the [REDACTED] (subject to the Assumptions).

## SHARE CAPITAL

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This repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time.

This general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company’s next annual general meeting is required by the Memorandum and Articles of Association or any other applicable Laws of the Cayman Islands to be held; or
- (c) the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See “Statutory and general information—Further information about our Group—Explanatory statement on repurchase of our own securities” in Appendix IV for further details of this repurchase mandate.

### **Share Incentive Plans**

We have adopted the Share Incentive Plans, pursuant to which further Shares may be issued. See “Statutory and general information—Share Incentive Plans” in Appendix IV for further details.

### **Share Subdivision**

Our Shareholders have approved the Share Subdivision. See “Statutory and general information—Further information about our Group—Changes in share capital of our Company” in Appendix IV for further details.



[REDACTED]

## FUTURE PLANS

See “Business — Our Strategies” in this [REDACTED] for a detailed description of our future plans.

## USE OF [REDACTED]

Assuming the [REDACTED] is not exercised, after deducting the [REDACTED] and other estimated [REDACTED] payable by us in connection with the [REDACTED], and assuming an [REDACTED] of HK\$[REDACTED] per Share (being the [REDACTED] of the [REDACTED]), we estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] million from the [REDACTED]. We intend to use the [REDACTED] from the [REDACTED] for the following purposes:

1. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for further developing our pharmaceutical circulation business, including:
  - [REDACTED]%, or approximately HK\$[REDACTED] million, for leveraging market insights accumulated through our platform to engage more qualified upstream participants and diversify our SKU offerings, making our platform a more attractive go-to platform for our buyers. Specifically, we plan to (i) engage more sellers who sell and promote the new categories of products, such as medical devices and Chinese medicine, through increased resources for sales and marketing forces and more marketing campaigns to attract sellers to join our platform, in order to further diversify and optimise the offerings on our Online Marketplace; (ii) establish cooperative partnerships with more suppliers, especially the pharmaceutical companies, to expand our sourcing channels and options, and guarantee the diversity and the adequacy of high-quality SKUs, connect our suppliers with our wide network of buyers and provide them with digital marketing solutions; and (iii) invest in marketing and promotion of products sold through our Targeted Product Launch Business;
  - [REDACTED]%, or approximately HK\$[REDACTED] million, for improving our BD capabilities and efficiencies with our dedicated digital tools. Specifically, we plan to (i) advance our centralised and digitalised BD management system to expand our information database and improve our feedback system in terms of cycle time and quality of recommendations; (ii) invest into the academic and on-the-job training of BD team to equip BD personnel with latest professional knowledge in pharmacology and industry best-practise in order to upgrade the overall quality of our BD teams; (iii) attract and retain, through providing competitive compensation with effective incentive structures, seasoned BD executives to manage, lead and coach regional BD teams; and (iv) strategically expand the BD team to align with our expansion plan, including our strategy to increase our coverage of large-chain pharmacies; and
  - [REDACTED]%, or approximately HK\$[REDACTED] million, for strengthening our supply chain capability to make it smarter, more digitalised and more efficient. Specifically, we plan to (i) enhance the automation of facilities and machinery to improve the efficiency of our self-operated supply chain. For example, we plan to procure and upgrade our automated sorting equipment to help us sort through a vast range of SKUs more quickly and effectively; (ii) selectively open more self-operated warehouses in areas currently not covered by our warehousing network to expand our

[REDACTED]

sales reach into new markets, or in areas currently covered by our warehousing network in order to further penetrate existing markets.

2. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for further developing our other businesses, including:
  - [REDACTED]%, or approximately HK\$[REDACTED] million, expanding the geographical coverage of our ClouDiagnos services to cover more primary healthcare institutions, especially in the Southern, Eastern and Central regions of China. We plan to procure more equipment to be provided to primary healthcare institutions to improve their diagnostic quality, and invest into optimising an integrated end-to-end process of diagnostic testing services and improving efficiency and service quality of ClouDiagnos;
  - [REDACTED]%, or approximately HK\$[REDACTED] million, promoting market awareness and popularity of our wePharmacy, including educating downstream pharmacies on the benefits of wePharmacy and launching marketing campaigns. We plan to further penetrate our extensive network of pharmacies and help them extend operation hours as well as enhance operating efficiencies.
3. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for research and development, primarily by recruiting and retaining high quality software engineers, data scientists, AI experts and other R&D talents with competitive remunerations. The R&D talents will dedicate to elevating our technological capability and digitalising the experience of our ecosystem participants, from the perspective of:
  - upgrading our platform’s overall technology and infrastructure as well as data analytics capabilities and improving our smart recommendations for the sellers and buyers on our Online Marketplace;
  - advancing our smart supply chain capabilities with digital solutions. Specifically, we plan to improve the machine intelligence of our warehouse management systems, and optimise algorithms, in order to optimise the costs of internal supply chain processes, increase the efficiency of storage, quality control and fulfilment, and improve the overall experience of our buyers;
  - enhancing the functionality of our SaaS solutions, creating more user-friendly and effective functions to satisfy the evolving needs of our ecosystem participants, increasing the monetisation potential of our overall SaaS offering;
  - improving the design, functions and connectivity of our wePharmacy booths, by continuously investing into algorithm optimisation and virtual recognition techniques, to help increase the store management efficiency of downstream pharmacies and improve their service quality towards end customers;
  - optimising the service quality and capabilities of ClouDiagnos, by continuously improving the traceability of testing results, expanding the disease categories coverage and enhancing the analytical quality of our ClouDiagnos report, to help medical professionals at primary healthcare institutions make informed recommendations and improve their diagnostic quality.
4. Approximately [REDACTED]% of the [REDACTED], or approximately HK\$[REDACTED] million, is expected to be used for working capital and general corporate purposes.

[REDACTED]

The following table sets forth the implementation plans, expected timeframe and the amount and percentage of [REDACTED] in respect of our developing of pharmaceutical circulation business, developing of other businesses and research and development.

<u>A</u> Further developing our pharmaceutical circulation business	Amount and percentage of [REDACTED] (approximately HK\$[REDACTED] million)
<b>Implementation plan</b>	<b>Implementation plan</b>
(i) We will intensify our marketing efforts such as marketing and promotion campaigns and coupons offering to grow our brand equity and raise our brand awareness among sellers and buyers, thus attracting more of them to join our platform and expand our network. Our marketing events and discounts/coupons would be designed to encourage repeat purchase, build strong user loyalty, and develop incremental revenue opportunities. We will also invest in digital promotion campaigns for products sold through our Targeted Product Launch Business. In addition, we will spend efforts on launching and promoting the in-app links, such as <i>Medical Devices</i> and <i>Chinese Medicine</i> , to further diversify the SKUs offered on our platform. For Chinese medicines, we plan to actively expand the network with upstream sellers by leveraging our deep-dive experience and well-established brand image, with the goal of more than doubling the number of active sellers of Chinese medicines on our Online Marketplace to achieve 400 in the next three years. For medical devices, they are currently mainly distributed by third-party merchants on our Online Marketplace. We plan to spend more efforts in the future on developing medical device-related SKUs under our Self-operation Business, in particular, expanding this category into Targeted Product Launch Business. In addition, we also plan to further diversify the SKUs offered under the <i>Medical Devices</i> , including but not limited to dental devices, aesthetic devices, and physical therapy equipment. We will take relevant measures to avoid potential reputational and noncompliance risks when expanding our product categories.	Before December 2025  [REDACTED]% of [REDACTED], or approximately HK\$[REDACTED] million
(ii) We will additionally hire approximately 150 to 200 in-house business development staff, with experience in sales function and/or in the pharmaceutical industry to be dedicated to the expansion of our buyer base. We are dedicated to achieve a nationwide buyer network with consistent service standard across China. We will continue to adopt a performance-based rewarding mechanism including commission,	Before December 2025  [REDACTED]% of [REDACTED], or approximately HK\$[REDACTED] million

[REDACTED]

A	Further developing our pharmaceutical circulation business	Amount and percentage of [REDACTED] (approximately HK\$[REDACTED] million)
	<p>bonuses and annual increment plan to attract and retain more high-performance sales staff, who are experienced in originating new accounts, coaching and leading regional BD teams. As some of our newly hired business development staff will focus on developing large-chained pharmacies clients, we expect junior BD staff to have sales experience in pharmaceutical, internet or consumer and retail industries and senior BD staff to own bachelor degree and sales experience at mature internet companies with O2O (online to offline) local services business. We also plan to establish dedicated and professional business development staff to onboard more primary healthcare institutions in lower-tiered cities. We will also provide them with constant trainings to improve their sales skills and pharmaceutical knowledge, so they can better address the needs of large-chained pharmacies and primary healthcare institutions with the most up-to-date knowledge. We also will constantly upgrade our in-house digital BD management tools for our BD team to effectuate their sales efforts.</p>	
(iii)	<p>We will open six more new smart warehouses, with an average of two warehouses in a year since 2023 and expected initial investment of RMB15 million for each warehouse, in Eastern, Southern and Northern regions of China, where we already have brand awareness and strong business growth momentum. We also plan to upgrade our existing warehouse facilities including process automation and equipment renewal. This can further optimize our supply chain network and capabilities to expand our services and improve our service quality for buyers.</p>	<p>Before December 2025 [REDACTED]% of [REDACTED], or approximately HK\$[REDACTED] million</p>

[REDACTED]

<b>B</b> Further developing our other businesses	Amount and percentage of [REDACTED] (approximately HK\$[REDACTED] million)
<b>Implementation plan</b>	<b>Implementation plan</b>
(i) We will procure testing equipment such as point-of-care testing equipment for blood tests and selectively place them at the primary healthcare institutions we are serving and working with, across China. We will hire approximately 40-60 dedicated business development staff and testing equipment technicians to expand and operate our ClouDiagnos business. We will also invest into marketing campaigns and workshops to promote our CloudDiagnos services and expand the geographical coverage and increase the awareness of such services.	Before December 2025 [REDACTED]% of [REDACTED], or approximately HK\$[REDACTED] million
(ii) We will invest into marketing campaigns and educational seminars and workshops to promote market awareness and the use of unmanned pharmaceutical booths for our wePharmacy business. We will also hire approximately 20-30 dedicated business development staff and booth technicians to promote and operate our wePharmacy business.	Before December 2025 [REDACTED]% of [REDACTED], or approximately HK\$[REDACTED] million
<b>C</b> Research and development	Amount and percentage of [REDACTED] (approximately HK\$[REDACTED] million)
<b>Implementation plan</b>	<b>Implementation plan</b>
(i) We will hire approximately 200 to 250 in-house research and development personnel, including software developers, software engineers, data scientists and AI experts dedicated to improve our platform’s overall technological capabilities, upgrade the e-Commerce platform, intelligentize supply chain capabilities including design and functions of warehouse logistics, payment and security, optimize SaaS functionalities and digitalization of all our other businesses. We plan to offer competitive compensation packages to attract and retain top-notch research and development personnel.	Before December 2025 [REDACTED]% of [REDACTED], or approximately HK\$[REDACTED] million

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[REDACTED]

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In the event that the [REDACTED] is set at the maximum [REDACTED] or the minimum [REDACTED] of the indicative [REDACTED], the [REDACTED] of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED] million, respectively. If we make an upward or downward [REDACTED] adjustment to set the final [REDACTED] to be above or below the [REDACTED] of the [REDACTED], we will increase or decrease the allocation of the [REDACTED] to the above purposes on a *pro rata* basis.

The [REDACTED] that we would receive if the [REDACTED] were exercised in full would be (i) HK\$[REDACTED] million (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the maximum [REDACTED]), (ii) HK\$[REDACTED] million (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the [REDACTED] of the [REDACTED]) and (iii) HK\$[REDACTED] million (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the minimum [REDACTED]).

To the extent that the [REDACTED] from the [REDACTED] (including the [REDACTED] from the exercise of the [REDACTED]) are either more or less than expected, we may adjust our allocation of the [REDACTED] for the above purposes on a *pro rata* basis.

To the extent that the [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, the [REDACTED] which are not immediately applied will only be deposited into short-term demand deposits with licensed banks or authorized financial institutions primarily located in Hong Kong (as defined under the Securities and Futures Ordinance), as well as other licensed banks or authorized financial institutions in Guangdong province where we have accounts with (as defined under applicable laws in the PRC).

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**[REDACTED]**

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[REDACTED]

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## STRUCTURE OF THE [REDACTED]

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[REDACTED]



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[REDACTED]

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[REDACTED]

*The following is the text of a report set out on pages I-1 to [I-87], received from the Company’s reporting accountants, [Deloitte Touche Tohmatsu], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this [REDACTED].*

**ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YSB INC. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED**

***Introduction***

We report on the historical financial information of YSB Inc. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to [I-87], which comprises the consolidated statements of financial position of the Group as at 31 December 2020, 2021 and 2022, the statements of financial position of the Company as at 31 December 2020, 2021 and 2022, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to [I-87] forms an integral part of this report, which has been prepared for inclusion in the [REDACTED] of the Company dated [Date] (the “[REDACTED]”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

***Directors’ responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

***Reporting accountants’ responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “*Accountants’ Reports on Historical Financial Information in Investment Circulars*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2

to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Opinion***

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s financial position as at 31 December 2020, 2021 and 2022, of the Company’s financial position as at 31 December 2020, 2021 and 2022 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

***Dividends***

We refer to Note 13 to the Historical Financial Information which states that no dividend was declared or paid by the Company or its subsidiaries in respect of the Track Record Period.

**[Deloitte Touche Tohmatsu]**

Certified Public Accountants

Hong Kong

[Date]

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (the “IASB”) and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2020	2021	2022
		RMB’000	RMB’000	RMB’000
Revenue	6	6,064,907	10,093,538	14,274,810
Cost of sales		(5,456,118)	(9,179,708)	(12,840,093)
<b>Gross profit</b>		608,789	913,830	1,434,717
Other income	7	44,296	62,465	88,920
Other gains and losses	8	(14,217)	(8,623)	19,965
Changes in fair value of financial liabilities at fair value through profit or loss (“FVTPL”)	29	(294,331)	(128,696)	(1,299,500)
Impairment losses recognised under expected credit loss model, net	34	(3,151)	(1,769)	(2,300)
Selling and marketing expenses		(726,417)	(1,063,817)	(1,325,640)
Research and development expenses		(24,724)	(56,611)	(79,146)
General and administrative expenses		(156,216)	(207,005)	(286,787)
Finance costs	9	(10,301)	(8,494)	(10,231)
<b>[REDACTED]</b>		—	(4,354)	(36,865)
<b>Loss before tax</b>		(576,272)	(503,074)	(1,496,867)
Income tax credit (expense)	10a	4,561	1,454	(3,171)
Loss for the year		(571,711)	(501,620)	(1,500,038)
Other comprehensive expense for the year		—	—	—
<b>Loss and total comprehensive expense for the year</b>	11	<u>(571,711)</u>	<u>(501,620)</u>	<u>(1,500,038)</u>
Loss and total comprehensive expense for the year attributable to:				
Owners of the Company		(571,711)	(494,041)	(1,488,688)
Non-controlling interests		—	(7,579)	(11,350)
		<u>(571,711)</u>	<u>(501,620)</u>	<u>(1,500,038)</u>
<b>Loss per share</b>				
Basic and diluted (RMB)	14	<u>[(4.56)]</u>	<u>[(3.94)]</u>	<u>[(11.88)]</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment, net	15	78,691	107,125	98,261
Right-of-use assets	16	141,514	168,216	165,749
Intangible assets	17	62,684	112,567	98,903
Goodwill	18	9,252	9,252	9,252
Deferred tax assets	10b	1,775	3,152	1,584
Time deposits	23	503,960	463,553	50,000
		<u>797,876</u>	<u>863,865</u>	<u>423,749</u>
<b>Current assets</b>				
Inventories	19	516,106	847,840	1,016,168
Trade and other receivables	20	528,420	375,118	503,460
Amount due from a shareholder	22	38,781	2	2
Financial assets at FVTPL	21	344,600	512,882	711,076
Time deposits	23	76,204	243,899	320,487
Restricted bank deposits	24	158,221	209,356	298,404
Bank balances and cash	24	130,526	383,603	835,394
		<u>1,792,858</u>	<u>2,572,700</u>	<u>3,684,991</u>
<b>Current liabilities</b>				
Trade and other payables	25	(1,832,620)	(1,929,826)	(2,398,078)
Contract liabilities	26	(39,961)	(9,373)	(24,434)
Lease liabilities	27	(47,239)	(63,945)	(81,178)
Bank borrowings	28	(96,983)	—	—
Financial liabilities at FVTPL	29	(2,931,012)	(4,222,381)	(5,872,042)
		<u>(4,947,815)</u>	<u>(6,225,525)</u>	<u>(8,375,732)</u>
Net current liabilities		<u>(3,154,957)</u>	<u>(3,652,825)</u>	<u>(4,690,741)</u>
Total assets less current liabilities		<u>(2,357,081)</u>	<u>(2,788,960)</u>	<u>(4,266,992)</u>
<b>Non-current liabilities</b>				
Lease liabilities	27	(104,643)	(117,784)	(99,370)
Deferred tax liabilities	10b	(432)	(1,745)	(3,348)
		<u>(105,075)</u>	<u>(119,529)</u>	<u>(102,718)</u>
Net liabilities		<u>(2,462,156)</u>	<u>(2,908,489)</u>	<u>(4,369,710)</u>
<b>Capital and deficits</b>				
Share capital	30	2	2	2
Deficits		<u>(2,462,158)</u>	<u>(2,900,912)</u>	<u>(4,350,783)</u>
<b>Deficits attributable to owners of the Company</b>		<u>(2,462,156)</u>	<u>(2,900,910)</u>	<u>(4,350,781)</u>
Non-controlling interests		—	(7,579)	(18,929)
<b>Total deficits</b>		<u>(2,462,156)</u>	<u>(2,908,489)</u>	<u>(4,369,710)</u>



APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December		
		2020	2021	2022
		RMB’000	RMB’000	RMB’000
<b>Non-current asset</b>				
Investments in subsidiaries . . . . .	40	1,525,650	2,444,719	2,950,495
<b>Current assets</b>				
Other receivables . . . . .	20	—	1,485	6,421
Amount due from a shareholder . . . . .	22	2	2	2
Financial assets at FVTPL . . . . .	21	—	242,276	60,654
Time deposits . . . . .	23	16,312	—	—
Bank balances and cash . . . . .	24	730	3,593	6,904
		<u>17,044</u>	<u>247,356</u>	<u>73,981</u>
<b>Current liabilities</b>				
Other payables . . . . .	25	—	(2,857)	(15,455)
Financial liabilities at FVTPL . . . . .	29	(2,931,012)	(4,222,381)	(5,872,042)
		<u>(2,931,012)</u>	<u>(4,225,238)</u>	<u>(5,887,497)</u>
Net current liabilities . . . . .		<u>(2,913,968)</u>	<u>(3,977,882)</u>	<u>(5,813,516)</u>
Net liabilities . . . . .		<u>(1,388,318)</u>	<u>(1,533,163)</u>	<u>(2,863,021)</u>
<b>Capital and deficits</b>				
Share capital . . . . .	30	2	2	2
Deficits . . . . .	41	(1,388,320)	(1,533,165)	(2,863,023)
Total deficits . . . . .		<u>(1,388,318)</u>	<u>(1,533,163)</u>	<u>(2,863,021)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attribute to the owners of the Company						
	Share capital	Capital reserves	Share-based payments reserve	Accumulated losses	Subtotal	Non-controlling interests	Total deficits
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at 1 January 2020 .....	2	8,965	—	(1,899,412)	(1,890,445)	—	(1,890,445)
Loss and total comprehensive expense for the year .....	—	—	—	(571,711)	(571,711)	—	(571,711)
As at 31 December 2020 .....	2	8,965	—	(2,471,123)	(2,462,156)	—	(2,462,156)
Loss and total comprehensive expense for the year .....	—	—	—	(494,041)	(494,041)	(7,579)	(501,620)
Deemed contribution from a shareholder (Note) .....	—	30,925	—	—	30,925	—	30,925
Recognition of equity-settled share-based payments (Note 31) .....	—	—	24,362	—	24,362	—	24,362
Transfer forfeited equity-settled share-based payments to accumulated losses (Note 31) .....	—	—	(322)	322	—	—	—
As at 31 December 2021 .....	2	39,890	24,040	(2,964,842)	(2,900,910)	(7,579)	(2,908,489)
Loss and total comprehensive expense for the year .....	—	—	—	(1,488,688)	(1,488,688)	(11,350)	(1,500,038)
Recognition of equity-settled share-based payments (Note 31) .....	—	—	38,817	—	38,817	—	38,817
Transfer forfeited equity-settled share-based payments to accumulated losses (Note 31) .....	—	—	(3,683)	3,683	—	—	—
As at 31 December 2022 .....	2	39,890	59,174	(4,449,847)	(4,350,781)	(18,929)	(4,369,710)

Note: As at 31 December 2021, a shareholder waived the amount of approximately RMB30,925,000 due from the Group and is accounted for as deemed contribution from a shareholder in the year ended 31 December 2021.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Loss before tax . . . . .	(576,272)	(503,074)	(1,496,867)
Adjustments for:			
Finance costs . . . . .	10,301	8,494	10,231
Bank interest income . . . . .	(25,307)	(27,900)	(42,657)
Investment income from financial assets at FVTPL . . . . .	(11,372)	(17,870)	(19,981)
Gain on disposal of subsidiaries . . . . .	—	—	(1,344)
Depreciation of property, plant and equipment . . . . .	27,838	35,951	43,429
Depreciation of right-of-use assets . . . . .	46,753	57,131	76,562
Amortisation of intangible assets . . . . .	7,809	9,177	15,036
Write down (reversal of write down) for obsolete inventories . . . . .	9,967	(298)	1,576
Changes in fair value of financial liabilities at FVTPL . . . . .	294,331	128,696	1,299,500
Impairment losses recognised under expected credit loss model, net . . . . .	3,151	1,769	2,300
Share-based payment expense . . . . .	—	24,362	38,817
Impairment loss on prepayment to suppliers . . . . .	12,376	2,075	—
Losses (gains) on disposal of property, plant and equipment . . . . .	99	(12)	(38)
Net foreign exchange losses (gains) . . . . .	742	5,900	(18,715)
Operating cash flows before movements in working capital . . . . .	<u>(199,584)</u>	<u>(275,599)</u>	<u>(92,151)</u>
Increase in inventories . . . . .	(224,653)	(331,435)	(169,904)
(Increase) decrease in trade and other receivables . . . . .	(250,548)	53,336	(127,188)
Increase in trade and other payables . . . . .	584,914	97,199	472,349
(Decrease) increase in contract liabilities . . . . .	<u>(34,517)</u>	<u>(30,588)</u>	<u>15,094</u>
Cash (used in) from operations . . . . .	(124,388)	(487,087)	98,200
Income taxes paid . . . . .	—	—	—
NET CASH (USED IN) FROM OPERATING ACTIVITIES . . . . .	<u>(124,388)</u>	<u>(487,087)</u>	<u>98,200</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment . . . . .	(22,354)	(66,996)	(38,848)
Proceeds on disposal of property, plant and equipment . . . . .	645	3,445	3,686
Net cash inflow on disposal of subsidiaries . . . . .	—	—	1,141
Purchase of intangible assets . . . . .	(1,413)	(53,502)	(4,861)
Placement of time deposits . . . . .	(1,599,854)	(2,521,121)	(986,419)
Withdraw of time deposits . . . . .	1,506,251	2,425,703	1,291,505
Purchase of financial assets at FVTPL . . . . .	(6,592,119)	(8,999,900)	(8,964,437)
Proceeds from disposal of financial assets at FVTPL . . . . .	6,352,249	8,837,118	8,765,713
Payments for rental deposits . . . . .	(1,841)	(475)	—
Investment income received from financial assets at FVTPL . . . . .	11,372	17,870	19,981
Bank interest income received . . . . .	25,307	27,900	42,657
Proceeds on disposal of intangible assets . . . . .	204	—	—
Repayment from a shareholder . . . . .	—	38,779	—
Net cash outflow on acquisition of subsidiaries . . . . .	—	(10,490)	—
Advance to a shareholder . . . . .	(1,022)	—	—
Cash outflow on acquisition of assets . . . . .	(5,130)	—	—
Placement of restricted bank deposits . . . . .	(888,734)	(498,492)	(558,822)
Withdraw of restricted bank deposits . . . . .	892,766	447,357	469,774
NET CASH (USED IN) FROM INVESTING ACTIVITIES . . . . .	<u>(323,673)</u>	<u>(352,804)</u>	<u>41,070</u>
FINANCING ACTIVITIES			
Advance from a shareholder . . . . .	—	30,925	—
Repayment of lease liabilities . . . . .	(44,586)	(53,511)	(75,276)
New bank borrowings raised . . . . .	210,516	—	4,448
Repayment of bank borrowings . . . . .	—	(6,000)	(4,448)
Interest paid . . . . .	(7,711)	(8,494)	(10,231)
Proceeds on issue of preferred shares . . . . .	—	1,162,673	350,161
Share issue cost paid . . . . .	—	(746)	(2,727)
NET CASH FROM FINANCING ACTIVITIES . . . . .	<u>158,219</u>	<u>1,124,847</u>	<u>261,927</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS . . . . .	(289,842)	284,956	401,197
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR . . . . .	420,368	130,526	415,482
Effect of foreign exchange rate changes . . . . .	—	—	18,715
CASH AND CASH EQUIVALENTS AT END OF THE YEAR . . . . .	<u>130,526</u>	<u>415,482</u>	<u>835,394</u>
Represented by			
Bank balances and cash . . . . .	130,526	383,603	835,394
Time deposits with original maturity of three months or less . . . . .	—	31,879	—
	<u>130,526</u>	<u>415,482</u>	<u>835,394</u>

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands with limited liability on 27 August 2018 under the Company laws of the Cayman Islands. Its immediate holding company is MIYT Holdings Limited, a company incorporated in the British Virgin Islands (the “BVI”).

The addresses of the registered office and principal place of business of the Company are set out in “Corporate Information” of the [REDACTED].

The Company is an investment holding company. The Group mainly operates online platform that provide wholesale and retail of pharmaceutical and healthcare products and online marketplace service to the pharmaceutical and healthcare manufacturers. The Group’s principal operations and geographic markets are in the People’s Republic of China (the “PRC”).

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company.

### 2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in the Note 4 which conform with IFRSs issued by the IASB.

As at 31 December 2022, the Group was in net liabilities position of RMB4,369,710,000 and net current liabilities position of RMB4,690,741,000 in which the balances consist of financial liabilities at FVTPL of RMB5,872,042,000 that are originally redeemable at the request of the shareholders of preferred shares. In April 2022, the Group passed a shareholder’s resolution to terminate all shareholders’ redemption or divestment rights (including the shareholders of preferred shares) against and with respect to the Company, and such terminated redemption or divestment right shall automatically revert and be reinstated in full should a qualified [REDACTED] not close on or before 31 December 2023 (the “Maturity Date”) or the shareholders unanimously decide to terminate the application of a qualified [REDACTED], whichever is earlier. In November 2022, the Group passed a shareholder’s resolution to extend the above Maturity Date to 31 December 2024. The directors of the Company believe there would be no material cash flow impact of the preferred shares before 31 December 2023. After taking into account the above and the Group’s cashflow projection and the expected working capital requirements, the directors of the Company are satisfied that the Group is able to meet in full its financial obligations as they fall due for a period of twelve months from 31 December 2022 and it is appropriate to prepare the Historical Financial Information on a going concern basis.

### 3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied IFRSs, International Accounting Standards (“IASs”), amendments and interpretations issued by the IASB that are effective for the accounting period beginning on 1 January 2022 throughout the Track Record Period.

At the date of this report, IASB has issued the following new and amendments to IFRSs that are not yet effective. The Group has not early adopted these new and amendments to IFRSs.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs—continued

*New and amendments to IFRSs in issue but not yet effective*

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to IFRS 16	Lease liability in a Sale and Leaseback <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1	Non-current Liabilities with Covenants <sup>3</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2024.

The management of the Group considers that the application of all the new and amendments to IFRSs will have no material impact on the Group’s financial position and performance as well as disclosure in foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with IFRSs issued by IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities (including the Consolidated Affiliated Entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Basis of consolidation—continued

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

**Changes in the Group’s interests in existing subsidiaries**

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

Business combinations or asset acquisitions

**Optional concentration test**

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the optional concentration test for acquisitions occurred since 1 January 2019. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

**Asset acquisitions**

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets / financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

**Business combinations**

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Business combinations or asset acquisitions—continued

**Business combinations—continued**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combination in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the “Conceptual Framework”) except for transactions and events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

Investments in subsidiaries

Investments in subsidiaries are stated in the statements of financial position of the Company at cost less identified impairment loss, if any.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customers.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**4. SIGNIFICANT ACCOUNTING POLICIES—continued**

Revenue from contracts with customers—continued

The Group mainly engaged in wholesales of pharmaceutical and healthcare products offline or online through its online platform. The Group also engaged in retail of pharmaceutical and healthcare products through its retail shops. In addition, the Group operates online platform that enable the pharmaceutical distributors and vendors to sell their own pharmaceutical and healthcare products using the Group’s online platform.

The Group evaluates whether it is appropriate to record the gross amounts of product sales or services provided and related costs, or the net amount earned as commissions. When the Group is a principal, that the Group obtains control of the specified goods or services before they are transferred to the customers, the revenue should be recognised in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When the Group is an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, in which case the Group does not control the specified goods or services provided by third parties before those goods or services are transferred to the customer, the revenue should be recognised in the net amount for the amount of commission which the Group earns in exchange for arranging for the specified goods or services to be provided by other parties.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Timing of revenue recognition may differ from the timing of invoicing to customers. Trade receivables represent amounts invoiced and revenue recognised prior to invoicing when the Group has satisfied the Group’s performance obligation and has the unconditional right to payment.

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

- (a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);
- (b) a refund liability/contract liability; and
- (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers and are presented as right to returned goods asset.

**Contracts with multiple performance obligations (including allocation of transaction price)**

For contracts that contain more than one performance obligations (i.e. contracts related to the software and service), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Revenue from contracts with customers—continued

**Contracts with multiple performance obligations (including allocation of transaction price)—continued**

allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Specifically, revenue is recognised as follows:

**Product Revenue**

The Group mainly engaged in wholesales of pharmaceutical and healthcare products offline or online through its online platform. The Group also engaged in retail of pharmaceutical and healthcare products through its retail shops. The Group recognises product revenue on a gross basis as the Group is acting as a principal in these transactions and is responsible for fulfilling the promise to provide the specified goods. Product revenue is recognised upon customers’ acceptance of product delivery, net of discounts and return allowances. Transportation and handling activities that occur before customers obtain control are considered as fulfilment activities.

The Group also sells smart unmanned pharmaceutical booth to third-party pharmacies and the revenue is recognised upon customers’ acceptance of product delivery and installation.

**Service Revenue**

The service revenue primarily consists of i) commission fees charged to pharmaceutical distributors and vendors participating on the online marketplace through the Group’s online platform; ii) service revenue received from third-party pharmacies for the access right granted to them for use of the Group’s software; iii) service revenue received from provision of medical testing services to primary healthcare institutions; and iv) service revenue from third-party pharmacies for provision of maintenance and technical support services in relation to the smart unmanned pharmaceutical booth.

As for the commission charged related to the online platform, the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those pharmaceutical distributors and vendors. Upon successful sales, the Group charges the pharmaceutical distributors and vendors commission fee revenue based on a certain percentage of sales, net of discounts and return allowances. Commission fee revenue is recognised upon end customers’ acceptance of product delivery on a net basis.

As for the service revenue charged related to the one-time usage fee and service fee for the inventory management related SaaS solution provided to the downstream pharmacies, the Group is acting as a principal and its performance obligation is to provide the access right to pharmacies to use the Group’s software. Since the pharmacies simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs, revenue from the software services therefore are recognised over time on the straight-line base during the service period which less than one year.

As for the service revenue charged related to the medical testing services, the Group is acting as a principal and its performance obligation is to perform the testing and generate testing results to the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Revenue from contracts with customers—continued

**Service Revenue—continued**

primary healthcare institutions. The Group recognises revenue at a point in time when the Group delivers the testing results to the primary healthcare institutions.

As for the service revenue charged related to the provision of maintenance and technical support services in relation to the smart unmaned pharmaceutical booth, the Group is acting as a principal and its performance obligation is to provide technical support service. Since the pharmacies simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs, revenue are recognised over time on the straight-line base during the service period.

Cost of sales

Cost of sales consists primarily of purchase price of products, transaction processing fees and write-downs of inventories.

The Group periodically receives considerations from certain vendors, representing rebates for products purchased. The rebates are not sufficiently separable from the Group’s purchase of the vendors’ products and they do not represent a reimbursement of costs incurred by the Group to sell vendors’ products. The Group accounts for the rebates received from its vendors as a reduction to the prices it pays for the products purchased and therefore the Group records such amounts as a reduction of carrying value of the inventories for inventories still held by the Group at the end of each reporting period or as a reduction of cost of sales for inventories sold before the end of each reporting period.

Leases

**Definition of a lease**

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

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

**The Group as a lessee**

Short-term leases

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

**The Group as a lessee—continued**

*Right-of-use assets*

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

*Refundable rental deposits*

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

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

**The Group as a lessee—continued**

Lease liabilities—continued

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

**The Group as a lessee—continued**

Lease modifications—continued

Borrowing costs—continued

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payments

**Equity-settled share-based payments transactions**

Share options granted to employees

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed using graded vesting method over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest,



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Share-based payments—continued

**Equity-settled share-based payments transactions—continued**

Share options granted to employees—continued

with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payments reserve will continue to be held in share-based payments reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to accumulated losses.

When shares granted are vested, the amount previously recognised in share-based payments reserves will continue to be held in share-based payments reserve.

Modification to the terms and conditions of the share-based payment arrangements

When the terms and conditions of an equity-settled share-based payment arrangement are modified, the Group recognises, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, if the Group modifies the vesting conditions (other than a market condition) in a manner that is beneficial to the employees, for example, by reducing the vesting period, the Group takes the modified vesting conditions into consideration over the remaining vesting period.

The incremental fair value granted, if any, is the difference between the fair value of the modified equity instruments and that of the original equity instruments, both estimated as at the date of modification.

If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from modification date until the date when the modified equity instruments are vested, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

If the modification reduces the total fair value of the share-based arrangement, or is not otherwise beneficial to the employee, the Group continues to account for the original equity instruments granted as if that modification had not occurred.

Taxation

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Taxation—continued

The current tax is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Taxation—continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress). Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives (as below), using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	<u>Useful lives</u>
Leasehold improvement	Over the term of the lease
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Office equipment	3 to 5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

**Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives (a below).

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Intangible assets—continued

**Intangible assets acquired separately—continued**

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

	<u>Useful lives</u>
Licences and franchise	10 years
Business relationship	10 years
Office software	3 to 10 years

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Internally-generated intangible assets—research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Intangible assets—continued

**Internally-generated intangible assets—research and development expenditure—continued**

above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill—continued

carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on specific identification method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sales. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial instruments—continued

acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Financial assets**

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial assets—continued

*Classification and subsequent measurement of financial assets—continued*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of each reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in “other income” line item.

*Impairment of financial assets subject to impairment assessment under IFRS 9*

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables, amount due from a shareholder, time deposits, restricted bank deposits and bank balances), which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial assets—continued

*Impairment of financial assets subject to impairment assessment under IFRS 9—continued*

Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial assets—continued

*Impairment of financial assets subject to impairment assessment under IFRS 9—continued*

(ii) Definition of default—continued

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

**Financial assets—continued**

*Impairment of financial assets subject to impairment assessment under IFRS 9—continued*

(v) **Measurement and recognition of ECL—continued**

Lifetime ECL for trade and note receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the directors of the Company to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and note receivables where the corresponding adjustment is recognised through a loss allowance account.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

**Financial liabilities and equity**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

**Financial liabilities and equity—continued**

Classification as debt or equity—continued

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

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

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

The convertible preferred shares contain redemption features and/or other embedded derivatives, are designated as financial liabilities at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4. SIGNIFICANT ACCOUNTING POLICIES—continued

Financial instruments—continued

**Financial liabilities and equity—continued**

Classification as debt or equity—continued

other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible preferred shares, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability’s credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability. Fair value is determined in the manner described in Note 29.

*Financial liabilities at amortised cost*

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in Note 4, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY—continued

*Critical judgement in applying accounting policies*

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

*Consolidation of affiliated entities*

The Group obtained control over PRC domestic companies, Guangzhou Sudaο Information Technology Co., Ltd. (“Guangzhou Sudaο”) and Guangzhou Yaοbang Information Technology Co., Ltd. (“Guangzhou Yaοbang”), by entering into a series of the contractual arrangements with the PRC domestic companies and their respective Nominee Shareholders (collectively, the “Contractual Arrangements”). Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the PRC domestic companies and uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the PRC domestic companies. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among PRC domestic companies and their respective Nominee Shareholders are in compliance with the relevant PRC Laws and are legally enforceable.

*Key sources of estimation uncertainty*

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

*Impairment of property, plant and equipment, right-of-use assets and intangible assets*

Property, plant and equipment, right-of-use assets and intangible assets are carried at cost less accumulated depreciation and impairment, if any. In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the management of the Group has to exercise judgement and make assumptions, particularly when assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the value in use included in the cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating-unit to which the assets belong, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the underlying assumptions and key inputs, including but not limited to the forecasted revenue, gross profit margins and discount rates, in the cash flow projections, could materially affect the estimated recoverable amounts.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY—continued

*Key sources of estimation uncertainty—continued*

*Impairment of property, plant and equipment, right-of-use assets and intangible assets—continued*

Determining whether property, plant and equipment, right-of-use assets and intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which property, plant and equipment, right-of-use assets and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties due to uncertainty on how the Covid-19 pandemic may progress and evolve.

During the Track Record Period, no impairment loss was recognised for property, plant and equipment, right-of-use assets and intangible assets. As at 31 December 2020, 2021 and 2022, the aggregate carrying amounts of property, plant and equipment, right-of-use assets and intangible assets are approximately RMB282,889,000, RMB387,908,000 and RMB362,913,000. Details of the recoverable amount calculation are disclosed in Note 15.

*Fair value of financial liabilities at FVTPL*

The Group has issued a series of preferred shares to certain investors prior to and during the Track Record Period as set out in Note 29. The Group recognised the preferred shares as financial liabilities at FVTPL and the fair value is determined based on significant unobservable inputs using valuation techniques. The fair value of the financial instruments is established by using valuation techniques, which include back-solve method and equity allocation based on the Black-Scholes Option Pricing Model (“OPM”) involving various parameters and inputs. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group’s specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares of the Company, possibilities under different scenarios, such as qualified [REDACTED], redemption, liquidation and other inputs, such as time to liquidation or redemption, risk-free interest rate, expected volatility value and dividend yield, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

Should any of the estimates and assumptions change, it may lead to material adjustments in the fair value of financial liabilities at FVTPL. The fair value of the financial liabilities at FVTPL of the Group as at 31 December 2020, 2021 and 2022 are approximately RMB2,931,012,000, RMB4,222,381,000 and RMB5,872,042,000, respectively.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. REVENUE AND SEGMENT INFORMATION

The Group engaged in i) wholesales of pharmaceutical and healthcare products offline or online through its online platform; ii) retail of pharmaceutical and healthcare products through its retail shops; iii) operating online platform that enable the pharmaceutical distributors and vendors to sell their own pharmaceutical and healthcare products using the Group’s online platform; iv) providing SaaS solution to downstream pharmacies to streamline their inventory management; v) providing medical testing services to primary healthcare institutions; vi) selling smart unmanned pharmaceutical booth to third-party pharmacies; and vii) providing maintenance and technical support services in relation to the smart unmanned pharmaceutical booth to third-party pharmacies.

(a) Disaggregation of revenue from contracts with customers

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
<b>Type of goods or services:</b>			
Self-operation business (Note (i))	5,691,414	9,589,512	13,519,017
Online marketplace services (Note (ii))	372,716	489,247	694,204
Others (Note (iii))	777	14,779	61,589
Total	<u>6,064,907</u>	<u>10,093,538</u>	<u>14,274,810</u>
<b>Timing of revenue recognition:</b>			
At a point in time	6,064,130	10,089,821	14,268,376
Over-time	777	3,717	6,434
Total	<u>6,064,907</u>	<u>10,093,538</u>	<u>14,274,810</u>

Notes:

- i) The Group sells pharmaceutical and healthcare products mainly to pharmacies and primary healthcare institutions.
- ii) The marketplace services revenue represents the commission received by the Group from distributors and vendors using the Group’s online platform, which is recognised upon end customers’ acceptance and is charged based on a certain percentage of sales, net of discounts and return allowances made by the distributors and vendors through the Group’s online platform.
- iii) Others includes -
  - 1) The Group collects one-time usage fee and service fee for the inventory management related to the SaaS solution provided to the downstream pharmacies, which helps pharmacies to streamline their inventory management.
  - 2) The Group provides diagnostic testing services and generates testing results to primary healthcare institutions.
  - 3) The Group sells smart unmanned pharmaceutical booth to third-party pharmacies and also provides maintenance and technical support services in relation to the smart unmanned pharmaceutical booth to them.

(b) Transaction price allocated to the remaining performance obligation for contracts with customers

All contracts with customers are for period of one year or less. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(c) Segment information

Information is reported to the executive directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and performance assessment. The accounting policies are the same as the Group’s accounting policies described in Note 4. No other analysis of the Group’s results nor assets and liabilities is regularly provided to the CODM for review and the CODM reviews the overall results and financial position of the Group as a whole. Accordingly,



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. REVENUE AND SEGMENT INFORMATION—continued

(c) Segment information—continued

the CODM has identified one operating segment and only entity-wide disclosures, major customers and geographical information are presented in accordance with IFRS 8 *Operating Segments*.

(d) Geographic information

The Group principally operates in the PRC, which is also the place of domicile. The Group’s revenue is all derived from operations in the PRC during the Track Record Period and the Group’s non-current assets are all located in the PRC.

(e) Information about major customers

During the Track Record Period, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group’s revenue.

7. OTHER INCOME

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Government grants (Note) . . . . .	4,302	14,043	23,171
Bank interest income . . . . .	25,307	27,900	42,657
Investment income from financial assets at FVTPL . . . . .	11,372	17,870	19,981
Others . . . . .	3,315	2,652	3,111
	<u>44,296</u>	<u>62,465</u>	<u>88,920</u>

Note: It represented cash received from local government to encourage the business operations in the PRC. Unconditional government grants are recognised in profit and loss when received while conditional government grants are recognised in profit or loss when the Group fulfilled the conditions.

8. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
(Losses) gains on disposal of property, plant and equipment . . . . .	(99)	12	38
Gain on disposal of subsidiaries (Note 40) . . . . .	—	—	1,344
Donations (Note) . . . . .	(1,000)	(660)	(132)
Net foreign exchange (losses) gains . . . . .	(742)	(5,900)	18,715
Impairment loss on prepayment to suppliers . . . . .	(12,376)	(2,075)	—
	<u>(14,217)</u>	<u>(8,623)</u>	<u>19,965</u>

Note: During the year ended 31 December 2020 and 2021, the Group made a cash donation of RMB1,000,000 to the Wuhan Charity Federation, RMB600,000 to a student public fund in Beijing and RMB60,000 to poverty alleviation projects, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. FINANCE COSTS

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Interest expense on lease liabilities . . . . .	7,499	8,068	9,710
Interest expense on bank borrowings . . . . .	2,802	426	521
	<u>10,301</u>	<u>8,494</u>	<u>10,231</u>

10a. INCOME TAX CREDIT (EXPENSE)

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
PRC Enterprise Income Tax (“EIT”):			
Current tax . . . . .	—	—	—
Deferred tax (Note 10b) . . . . .	(4,561)	(1,454)	3,171
	<u>(4,561)</u>	<u>(1,454)</u>	<u>3,171</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and is exempted from the Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made in the Historical Financial Information as the Group had no assessable profit subject to Hong Kong Profits Tax for the Track Record Period.

Under the Law of the PRC on EIT (the “EIT Law”) and Implementation Regulation of the EIT Law, the PRC EIT rate of subsidiaries of the Group operating in the PRC was 25% for the Track Record Period.

Certain PRC subsidiaries of the Group are subject to “small and thin-profit enterprises” will benefit from a preferential tax rate of 20% under the EIT Law. Accordingly, the qualifying group entities enjoyed 75% reduction on annual taxable income on first RMB1,000,000 and 50% reduction between the annual taxable income of RMB1,000,000 to RMB3,000,000. For the years ended 31 December 2021 and 2022, the qualifying group entities enjoyed 87.5% reduction on annual taxable income on first RMB1,000,000 and 50% and 75% reduction between the annual taxable income of RMB1,000,000 to RMB3,000,000, respectively. As a result, such PRC subsidiaries were eligible for a preferential enterprise income tax rate for their respective tax holiday.

Certified high and new technology enterprises (“HNTE”) are entitled to a preferential tax rate of 15%. Guangzhou Sudao and Guangzhou Sudaoyi Information Technology Co., Ltd. (“Guangzhou Sudaoyi”) have been qualified as a HNTE and enjoyed a preferential income tax rate of 15% since 2019 and 2021, respectively, which is subject to review and renewal every three years. The HNTE Certificate of Guangzhou Sudao remains valid for 3 years from 2019 to 2021 and expired in 2022. The HNTE Certificate of Guangzhou Sudaoyi remains valid for 3 years from 2021 to 2023 and will be expired in 2024. In addition, Guangzhou Sudao, Guangzhou Sudaoyi, Guangzhou Leyao Information Technology Co., Ltd., Guangzhou Yuewei Medical Laboratory Co., Ltd. (“Guangzhou Yuewei”), Guangzhou Xiaoweicang Intelligent Pharmacy Technology Co., Ltd., Guangzhou Guangpu Health

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10a. INCOME TAX CREDIT (EXPENSE)—continued

Technology Co., Ltd. and Guangzhou Yaobang enjoyed super deduction of 175% and 200% of qualifying research and development expenses as tax deductible expenses for the period from 1 January 2020 to 30 September 2022 and for the period from 1 October 2022 to 31 December 2022, respectively, pursuant to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC.

Income tax credit (expense) for the Track Record Period can be reconciled to the loss before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Loss before tax	(576,272)	(503,074)	(1,496,867)
Tax at PRC EIT rate of 25%	(144,068)	(125,769)	(374,217)
Tax effect of super deduction for research and development expenses			
(Note a)	(3,970)	(9,470)	(16,721)
Tax effect of expenses not deductible for tax purpose (Note b)	84,332	48,271	353,160
Tax effect of tax losses not recognised	63,977	114,337	122,466
Utilisation of tax losses previously not recognised	(4,986)	(25,634)	(81,534)
Effect on different tax rate of a subsidiary operating in other jurisdiction	(196)	(522)	—
Others	350	(2,667)	17
Income tax credit (expense) for the year	<u>(4,561)</u>	<u>(1,454)</u>	<u>3,171</u>

Note:

- (a) The eligible expenditures represent research and development costs incurred in the PRC and charged to profit or loss, which is subject to an additional 75% and 100% tax deduction in the calculation of income tax expense for the Track Record Period.
- (b) The non-deductible expenses mainly represent changes in fair value of financial liabilities at FVTPL.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10a. INCOME TAX CREDIT (EXPENSE)—continued

As at 31 December 2020, 2021 and 2022, the Group had unused tax losses of approximately RMB1,058,188,000, RMB1,366,795,000 and RMB1,510,546,000, respectively, available for offset against future profits. Due to the unpredictability of future profit streams, no deferred tax asset had been recognised for these unused tax losses. Included in the unrecognised tax losses are losses of approximately RMB1,058,188,000, RMB1,366,795,000 and RMB1,510,546,000 as at 31 December 2020, 2021 and 2022 with expiry dates as disclosed in the following table. With effect from 1 January 2018, unused tax losses occurred five years prior to the year in which the entity becomes qualified as an HNTE shall be allowed to be carried forward to subsequent years, and the maximum carry-forward period of such tax losses shall be extended from 5 years to 10 years.

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
2021 .....	8,412	—	—
2022 .....	10,261	10,261	—
2023 .....	16,614	16,537	16,537
2024 .....	203,093	202,649	188,318
2025 .....	281,656	234,825	175,671
2026 .....	45,775	422,873	330,319
2027 .....	72,051	31,684	488,568
2028 .....	157,673	157,673	—
2029 .....	262,653	262,653	136,361
2030 .....	—	27,640	85,535
2031 .....	—	—	89,237
	<u>1,058,188</u>	<u>1,366,795</u>	<u>1,510,546</u>

10b. DEFERRED TAXATION

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Deferred tax assets .....	1,775	3,152	1,584
Deferred tax liabilities .....	(432)	(1,745)	(3,348)
	<u>1,343</u>	<u>1,407</u>	<u>(1,764)</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10b. DEFERRED TAXATION—continued

The following are the major deferred tax liabilities and assets recognised and movements thereon during the Track Record Period:

	Fair value adjustment in business combination	ECL provision	Inventory provision	Total
	RMB’000	RMB’000	RMB’000	RMB’000
At 31 January 2020	(4,165)	366	581	(3,218)
Credit to profit or loss	469	3,882	210	4,561
At 31 December 2020	(3,696)	4,248	791	1,343
Credit to profit or loss	493	961	—	1,454
Acquisition of a subsidiary (Note 36)	(1,390)	—	—	(1,390)
At 31 December 2021	(4,593)	5,209	791	1,407
Credit (charge) to profit or loss	609	(4,174)	394	(3,171)
At 31 December 2022	(3,984)	1,035	1,185	(1,764)

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Cost of inventories recognised as an expense	5,390,897	9,093,049	12,677,901
Depreciation of property, plant and equipment	27,838	35,951	43,429
Depreciation of right-of-use assets	46,753	57,131	76,562
Amortisation of intangible assets	7,809	9,177	15,036
Write down (reversal of write down) for obsolete inventories	9,967	(298)	1,576
Auditors’ remunerations	86	95	101
<b>[REDACTED]</b>	—	4,354	36,865
Staff costs:			
Directors’ emoluments (Note 12)	1,182	10,790	28,639
Other staff costs			
—Salaries and other allowances	473,054	670,361	897,841
—Contributions to retirement benefits scheme	3,697	40,005	45,500
—Equity-settled share-based expense	—	17,155	16,620
Total staff costs	477,933	738,311	988,600

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. DIRECTORS’ AND CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

Directors’ and chief executive’s emoluments

Details of the emoluments paid or payable to the directors of the Company (including emoluments for services as employees/directors of group entities comprising the Group prior to becoming the directors of the Company) by entities comprising the Group during the Track Record Period are as follows:

Name	For the year ended 31 December 2020				
	Fee	Salaries and allowances	Performance related bonus	Retirement benefits scheme contributions	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Mr. Buzhen Zhang (Note i)	—	359	144	5	508
Ms. Xiaoye Xu (Note ii)	—	473	200	1	674
Ms. Xiaohong Chen (Note iii)	—	—	—	—	—
Mr. Frank Lin (Note vii)	—	—	—	—	—
Mr. Lei Fu (Note iii)	—	—	—	—	—
Mr. Fei Luo (Note iii)	—	—	—	—	—
Mr. Jiahao Shao (Note iv)	—	—	—	—	—
Mr. Jiangwei Wang (Note iii)	—	—	—	—	—
Mr. Pengfei Wang (Note iii)	—	—	—	—	—
Mr. Tian Cheng (Note iv)	—	—	—	—	—
	—	832	344	6	1,182

Name	For the year ended 31 December 2021					
	Fee	Salaries and allowances	Performance related bonus	Retirement benefits scheme contributions	Equity-settled share-based payments	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Mr. Buzhen Zhang (Note i)	—	598	150	17	—	765
Ms. Xiaoye Xu (Note ii)	—	826	400	17	5,239	6,482
Ms. Yanhua Hu (Note v)	—	1,221	350	4	1,968	3,543
Ms. Xiaohong Chen (Note iii)	—	—	—	—	—	—
Mr. Frank Lin (Note vii)	—	—	—	—	—	—
Mr. Lei Fu (Note iii)	—	—	—	—	—	—
Mr. Fei Luo (Note iii)	—	—	—	—	—	—
Mr. Jiahao Shao (Note iv)	—	—	—	—	—	—
Mr. Jiangwei Wang (Note iii)	—	—	—	—	—	—
Mr. Pengfei Wang (Note iii)	—	—	—	—	—	—
Mr. Tian Cheng (Note iv)	—	—	—	—	—	—
Mr. Ziyang Zhu (Note vi)	—	—	—	—	—	—
	—	2,645	900	38	7,207	10,790

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12. DIRECTORS’ AND CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS—continued

Directors’ and chief executive’s emoluments—continued

Name	For the year ended 31 December 2022					
	Fee	Salaries and allowances	Performance related bonus	Retirement benefits scheme contributions	Equity-settled share-based payments	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Mr. Buzhen Zhang (Note i) . . . . .	—	630	1,006	34	—	1,670
Ms. Xiaoye Xu (Note ii) . . . . .	—	968	1,000	23	4,684	6,675
Mr. Fei Chen (Note viii) . . . . .	—	1,604	900	—	15,299	17,803
Ms. Xiaohong Chen (Note iii) . . . . .	—	—	—	—	—	—
Ms. Yanhua Hu (Note v) . . . . .	—	275	—	2	2,214	2,491
Mr. Frank Lin (Note vii) . . . . .	—	—	—	—	—	—
Mr. Lei Fu (Note iii) . . . . .	—	—	—	—	—	—
Mr. Fei Luo (Note iii) . . . . .	—	—	—	—	—	—
Mr. Jiangwei Wang (Note iii) . . . . .	—	—	—	—	—	—
Mr. Pengfei Wang (Note iii) . . . . .	—	—	—	—	—	—
Mr. Ziyang Zhu (Note vi) . . . . .	—	—	—	—	—	—
	—	3,477	2,906	59	22,197	28,639

The directors’ emoluments shown above were for their services in connection with the management affairs of the Group.

Notes:

- (i) Mr. Buzhen Zhang acts as chief executive of the Company throughout the Track Record Period and his emoluments disclosed above included those for services rendered by him as the chief executive in management of the affairs of the group entities. Mr. Buzhen Zhang has been redesignated as executive director of the Company on 15 April 2022.
- (ii) Ms. Xiaoye Xu has been resigned from the director of the Company on 15 April 2022.
- (iii) Ms. Xiaohong Chen, Mr. Lei Fu, Mr. Fei Luo, Mr. Jiangwei Wang and Mr. Pengfei Wang have been resigned from the directors of the Company on 15 April 2022.
- (iv) Mr. Jiahao Shao and Mr. Tian Cheng have been resigned from the directors of the Company on 23 November 2021 and 1 February 2021, respectively.
- (v) Ms. Yanhua Hu was appointed as the director of the Company on 23 November 2021 and has been resigned from the director of the Company on 15 April 2022.
- (vi) Mr. Ziyang Zhu was appointed as the director of the Company on 1 February 2021 and has been redesignated as non-executive director of the Company on 15 April 2022.
- (vii) Mr. Frank Lin has been redesignated as non-executive director of the Company on 15 April 2022.
- (viii) Mr. Fei Chen was appointed as the executive director of the Company on 15 April 2022.

Ms. Rong Shao, Mr. Sam Hanhui Sun, and Mr. Hongqiang Zhao were appointed as the independent non-executive directors of the Company on 15 April 2022, with their appointments becoming effective upon the listing of the shares of the Company on the Stock Exchange (the “Listing”).

The performance related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group’s performance.

None of the directors nor chief executive waived or agreed to waive any emoluments during the Track Record Period.

Employees’ emoluments

The five highest paid individuals of the Group included nil, two, and three directors whose emoluments are included in the disclosures above for each of the years ended 31 December 2020, 2021

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**

**12. DIRECTORS’ AND CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS—continued**

**Employees’ emoluments—continued**

and 2022. The emoluments of the remaining five, three, and two individuals for each of the years ended 31 December 2020, 2021 and 2022, respectively, are as follows:

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Salaries and allowances . . . . .	2,617	2,057	2,201
Performance related bonus . . . . .	2,383	808	1,600
Contributions to retirement benefits scheme . . . . .	9	51	42
Equity-settled share-based expense . . . . .	—	6,451	2,255
	<u>5,009</u>	<u>9,367</u>	<u>6,098</u>

The performance related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group’s performance.

The emoluments of the five highest paid individuals, other than directors, were within the following bands:

	Number of employees		
	Year ended 31 December		
	2020	2021	2022
Nil to HK\$1,000,000 . . . . .	3	—	—
HK\$1,000,001 to HK\$1,500,000 . . . . .	1	—	—
HK\$1,500,001 to HK\$2,000,000 . . . . .	—	1	—
HK\$2,000,001 to HK\$2,500,000 . . . . .	1	—	—
HK\$2,500,001 to HK\$3,000,000 . . . . .	—	—	1
HK\$3,000,001 to HK\$3,500,000 . . . . .	—	1	—
HK\$4,000,001 to HK\$4,500,000 . . . . .	—	—	1
HK\$6,000,001 to HK\$6,500,000 . . . . .	—	1	—
	<u>5</u>	<u>3</u>	<u>2</u>

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

**13. DIVIDENDS**

No dividends had been paid or declared by the Company or its subsidiaries during the Track Record Period.



APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. LOSS PER SHARE

	Year ended 31 December		
	2020 RMB’000	2021 RMB’000	2022 RMB’000
Loss for the year attributable to the owners of the Company for the purpose of calculating basic and diluted loss per share . . . .	(571,711)	(494,041)	(1,488,688)
	No. of shares		
	2020	2021	2022
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share . . . . .	[125,316,184]	[125,316,184]	[125,316,184]

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share has been determined on the assumption that the Share Subdivision (as defined and detailed in note 43) had been effected since 1 January 2020.

The computation of diluted loss per share for the years ended 31 December 2020, 2021 and 2022 does not assume conversion of the convertible preferred shares or the exercise of share options since their assumed conversion or exercise would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT, NET

	Leasehold improvement	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
COST						
At 1 January 2020 . . . . .	69,248	11,990	1,632	17,133	1,948	101,951
Additions . . . . .	12,285	5,991	203	3,481	394	22,354
Transfer . . . . .	2,311	31	—	—	(2,342)	—
Disposals . . . . .	—	(74)	(134)	(831)	—	(1,039)
At 31 December 2020 . . . . .	83,844	17,938	1,701	19,783	—	123,266
Additions . . . . .	37,718	16,288	533	11,358	1,099	66,996
Acquired on acquisition of a subsidiary (Note 36)	—	—	—	239	583	822
Transfer . . . . .	1,334	348	—	—	(1,682)	—
Disposals . . . . .	—	(3,741)	(184)	(2,570)	—	(6,495)
At 31 December 2021 . . . . .	122,896	30,833	2,050	28,810	—	184,589
Additions . . . . .	12,925	14,941	2,776	5,592	2,614	38,848
Transfer . . . . .	1,266	—	—	—	(1,266)	—
Disposals . . . . .	(4,286)	(1,675)	(657)	(3,813)	—	(10,431)
Disposed on disposal of subsidiaries . . . . .	(715)	(3)	—	—	—	(718)
At 31 December 2022 . . . . .	132,086	44,096	4,169	30,589	1,348	212,288
ACCUMULATED DEPRECIATION						
At 1 January 2020 . . . . .	(10,937)	(976)	(162)	(4,957)	—	(17,032)
Provided for the year . . . . .	(19,100)	(4,237)	(236)	(4,265)	—	(27,838)
Eliminated on disposals . . . . .	—	8	2	285	—	295
At 31 December 2020 . . . . .	(30,037)	(5,205)	(396)	(8,937)	—	(44,575)
Provided for the year . . . . .	(22,786)	(5,912)	(687)	(6,566)	—	(35,951)
Eliminated on disposals . . . . .	—	1,638	140	1,284	—	3,062
At 31 December 2021 . . . . .	(52,823)	(9,479)	(943)	(14,219)	—	(77,464)

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. PROPERTY, PLANT AND EQUIPMENT, NET—continued

	Leasehold improvement	Plant and machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Provided for the year . . . . .	(25,515)	(9,314)	(1,186)	(7,414)	—	(43,429)
Eliminated on disposals . . . . .	2,692	1,101	621	2,369	—	6,783
Eliminated on disposal of subsidiaries . . . . .	83	—	—	—	—	83
At 31 December 2022 . . . . .	(75,563)	(17,692)	(1,508)	(19,264)	—	(114,027)
CARRYING VALUES						
At 31 December 2020 . . . . .	53,807	12,733	1,305	10,846	—	78,691
At 31 December 2021 . . . . .	70,073	21,354	1,107	14,591	—	107,125
At 31 December 2022 . . . . .	56,523	26,404	2,661	11,325	1,348	98,261

**Impairment assessment**

Giving the continuous losses incurred in the Group’s operation during the Track Record Period, the management concluded there was indication for impairment and performed impairment assessment on its property, plant and equipment, right-of-use assets and intangibles assets. As at 31 December 2020, 2021 and 2022, management identified property, plant and equipment, right-of-use assets and intangibles assets of certain subsidiaries with impairment indicators at net book value amounted to approximately RMBnil, RMB80,475,000 and RMB7,287,000, respectively.

The Group estimates the recoverable amount of the cash-generating unit to which the assets belong to when it is not possible to estimate the recoverable amount individually. Each subsidiary is determined as a cash-generating unit. In addition to property, plant and equipment, right-of-use assets and intangible assets, goodwill as set out in Note 18 have been allocated to two individual cash-generating units, comprising two subsidiaries, Guangdong Dihao Pharmaceutical Co., Ltd. (“Guangdong Dihao”) and Guangdong Dongjian Pharmaceutical Co., Ltd. (“Guangdong Dongjian”).

The recoverable amount of cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with pre-tax discount rates of 16%, 16% and 16% as at 31 December 2020, 2021 and 2022, respectively. The pre-tax discount rate was derived from capital asset pricing model by considering different market data and company specific risk. The Group considered that there are no material changes in the market data and company specific risk throughout the Track Record Period, the same discount rate of 16% was used by the Group throughout the Track Record Period. The cash flows beyond the five-year period are extrapolated using 3% growth rate. Management believes that the growth rate does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the cash-generating units’ past performance and management expectations for the market development. The growth rates and discount rate as at 31 December 2020, 2021 and 2022 have been reassessed taking into consideration of the higher degree of estimation uncertainties in due to uncertainty on how the Covid-19 pandemic may progress and evolving and volatility in financial markets, including potential disruptions of the Group’s wholesales operations.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of all cash-generating units are higher than the corresponding carrying amounts as

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. PROPERTY, PLANT AND EQUIPMENT, NET—continued

Impairment assessment—continued

at 31 December 2020, 2021 and 2022. Therefore, no impairment loss was recognised for each of the years ended 31 December 2020, 2021 and 2022.

The Group performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of long-term growth rate, which are the key assumptions determine the recoverable amount of the cash-generating unit, with all other variables held constant. Based on the sensitivity test performed, no material impairment issue was noted for the Track record Period. The headroom of each cash-generating unit that was subject to impairment assessment at the end of each reporting period is not less than 16% for the Track Record Period.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of a cash-generating unit to exceed the recoverable amount of that cash-generating unit.

16. RIGHT-OF-USE ASSETS

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Carrying amounts:			
Leased properties .....	141,514	168,216	165,749
	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
<b>Depreciation recognised in profit or loss:</b>			
Leased properties .....	46,753	57,131	76,562
	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Expense relating to short-term leases .....	1,605	3,237	5,418
Total cash outflow for leases .....	53,690	64,816	90,404
Additions to right-of-use assets .....	40,594	83,358	74,095

The Group leases various warehouses, offices and offline pharmacies for its operation. Lease contracts are entered into fixed term of 2 to 6 years with fixed payments. The Group does not have the option to purchase leased properties for a nominal amount at the end of the relevant lease terms or any extension/termination options that are solely at the Group's discretion. The Group determines the lease period to be the non-cancellable period based on the contractual terms of the contract.

In addition, the Group also entered into short-term leases for warehouses and office workplace. As at 31 December 2020, 2021 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor leased assets may not be used as security for borrowing purpose.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17. INTANGIBLE ASSETS

	<u>Licenses and franchise</u>	<u>Business relationship</u>	<u>Office software</u>	<u>Total</u>
	<u>RMB’000</u> (Note (i))	<u>RMB’000</u> (Note (ii))	<u>RMB’000</u> (Note (iii))	<u>RMB’000</u>
<b>COST</b>				
At 1 January 2020 .....	52,759	9,340	5,259	67,358
Additions .....	—	—	1,413	1,413
Acquired on acquisition of assets (Note 36) .....	7,470	—	—	7,470
Disposals .....	—	—	(230)	(230)
At 31 December 2020 .....	60,229	9,340	6,442	76,011
Additions .....	51,532	—	1,970	53,502
Acquired on acquisition of a subsidiary (Note 36) .....	5,558	—	—	5,558
At 31 December 2021 .....	117,319	9,340	8,412	135,071
Additions .....	—	—	4,861	4,861
Disposed on disposal of a subsidiary .....	(5,300)	—	—	(5,300)
At 31 December 2022 .....	112,019	9,340	13,273	134,632
<b>AMORTISATION</b>				
At 1 January 2020 .....	(3,843)	(1,083)	(618)	(5,544)
Charge for the year .....	(5,222)	(1,300)	(1,287)	(7,809)
Eliminated on disposals .....	—	—	26	26
At 31 December 2020 .....	(9,065)	(2,383)	(1,879)	(13,327)
Charge for the year .....	(6,543)	(1,300)	(1,334)	(9,177)
At 31 December 2021 .....	(15,608)	(3,683)	(3,213)	(22,504)
Charge for the year .....	(11,208)	(1,300)	(2,528)	(15,036)
Eliminated on disposal of a subsidiary .....	1,811	—	—	1,811
At 31 December 2022 .....	(25,005)	(4,983)	(5,741)	(35,729)
<b>CARRYING VALUES</b>				
At 31 December 2020 .....	51,164	6,957	4,563	62,684
At 31 December 2021 .....	101,711	5,657	5,199	112,567
At 31 December 2022 .....	87,014	4,357	7,532	98,903

Notes:

- i The licences acquired by the Group from the independent third parties from 2018 to 2021 are for pharmaceutical distribution and health inspection. The license acquired by the Group from the independent third parties in 2021 is for the medical institution practice license for the medical testing business. The directors of the Company determined the useful life of 10 years of the licenses and franchise with reference to the comparable transactions in the open market.
- ii The business relationship was acquired through acquisition of a subsidiary, Guangdong Dongjian on 27 February 2019. With reference to experience in the industry, historical customer retention rate and the useful life of business relationships used by industry peers, the directors of the Company assumed 10 years useful life of the business relationship.
- iii The directors of the Company determined the useful life of office software with reference to the term of outstanding contract.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. GOODWILL

	Acquisition of Guangdong Dihao	Acquisition of Guangdong Dongjian	Total
	RMB’000	RMB’000	RMB’000
COST			
At 31 December 2020, 2021 and 2022 .....	3,924	5,328	9,252
CARRYING VALUES			
At 31 December 2020, 2021 and 2022 .....	<u>3,924</u>	<u>5,328</u>	<u>9,252</u>

For the purposes of impairment testing, goodwill have been allocated to two individual cash-generating units, comprising two subsidiaries, Guangdong Dihao and Guangdong Dongjian. The carrying amounts of goodwill allocated to these two subsidiaries as follows:

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Guangdong Dihao .....	3,924	3,924	3,924
Guangdong Dongjian .....	<u>5,328</u>	<u>5,328</u>	<u>5,328</u>
	<u>9,252</u>	<u>9,252</u>	<u>9,252</u>

In addition to goodwill above, property, plant and equipment, intangible assets and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective cash-generating unit for the purpose of impairment assessment. Details of the recoverable amount calculation are disclosed in Note 15.

19. INVENTORIES

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Pharmaceutical and healthcare products .....	529,111	860,547	1,030,451
Less: impairment provision .....	<u>(13,005)</u>	<u>(12,707)</u>	<u>(14,283)</u>
	<u>516,106</u>	<u>847,840</u>	<u>1,016,168</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Trade receivables . . . . .	104,285	116,692	139,215
Less: allowance for credit losses . . . . .	(4,616)	(6,385)	(4,657)
	99,669	110,307	134,558
Note receivables . . . . .	260,805	11,852	29,163
Total trade and note receivables . . . . .	360,474	122,159	163,721
Advance to suppliers . . . . .	73,159	84,753	112,651
Other tax recoverable . . . . .	15,535	15,298	4,145
Prepaid expense . . . . .	3,643	19,825	12,233
Deferred issue costs . . . . .	—	1,451	5,854
Receivables in custodian (Note) . . . . .	3,608	35,942	119,945
Other receivables . . . . .	72,001	95,690	84,911
Total trade and other receivables . . . . .	528,420	375,118	503,460

Note: The amounts represented the payments received from online customers of Self-operation business which would deposit in escrow account and subsequently withdraw by the Group upon the customers’ acceptance of product delivery.

The Company

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Deferred issue costs . . . . .	—	1,451	5,854
Others . . . . .	—	34	567
	—	1,485	6,421

Trade receivables

The Group applies the simplified approach under IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. Collective assessment is performed by grouping debtors based on the Group’s internal credit ratings and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

As at 1 January 2020, trade and note receivables from contracts with customers amounted to approximately RMB369,695,000.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. TRADE AND OTHER RECEIVABLES—continued

Trade receivables—continued

The Group requires full payment in advance for its online product sales, certain offline product sales and retail sales. For other customers, the Group primarily allows a credit period from 15 to 30 days. Trade receivables are settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables based on invoice date is as follows:

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Within 3 months .....	90,373	91,485	127,854
3 to 6 months .....	5,953	14,519	3,057
6 to 12 months .....	1,535	4,167	1,182
Over 12 months .....	6,424	6,521	7,122
	104,285	116,692	139,215
Less: allowance for credit losses .....	(4,616)	(6,385)	(4,657)
	<u>99,669</u>	<u>110,307</u>	<u>134,558</u>

Note receivables are trade receivables supported by bank acceptance notes and the average ageing is within 2 to 12 months based on the received date and have a maturity period of less than one year, which management believes that no impairment allowance is necessary as there is no significant change in credit quality and the balances are considered fully recoverable. As at 31 December 2020, 2021 and 2022, the amounts of RMB159,924,000, RMB10,355,000 and RMB28,209,000 note receivables were endorsed to settle trade payables and the amount of RMB90,983,000, nil and nil were discounted to bank respectively, which were not derecognised until the maturity date of the endorsed and discounted notes.

As at 31 December 2020, 2021 and 2022, included in the Group’s trade receivables balance are debtors with an aggregate carrying amount of RMB18,989,000, RMB41,742,000 and RMB19,519,000 which are past due as at the reporting date. Out of the past due balances approximately RMB8,248,000, RMB24,889,000 and RMB8,646,000 have been past due over 90 days or more and are not considered as in default as there has not been a significant change in credit quality and amounts are still considered as recoverable based on historical experience. The Group does not hold any collateral over these balances.

Details of impairment assessment are set out in Note 34.

21. FINANCIAL ASSETS AT FVTPL

As at 31 December 2020, 2021 and 2022, the Group and the Company’s financial assets at FVTPL represented structured deposits of approximately RMB344,600,000, RMB512,882,000 and RMB711,076,000 and nil, RMB242,276,000 and RMB60,654,000, respectively, which were non-principal protected deposits placed in banks in the PRC. The return of the structured deposits was determined by reference to the return of their underlying investments. The structured deposit as at 31 December 2020, 2021 and 2022 have no fixed contractual period, they can be redeemed any time at the Group and the Company’s discretion.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

21. FINANCIAL ASSETS AT FVTPL—continued

Since the contractual cash flows of structured deposits do not represent solely the payments of principal and interest on the principal amount outstanding, structured deposits are measured at FVTPL. Details of the fair value measurement over the structured deposits are disclosed in Note 34.

22. AMOUNT DUE FROM A SHAREHOLDER

The balances are interest-free, non-trade related, unsecured and repayable on demand. In the opinion of directors of the Company, the balance is expected to be fully settled prior to the Listing.

Details of impairment assessment are set out in Note 34.

23. TIME DEPOSITS

The Group

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Time deposits with original maturity of three months or less . . . . .	—	31,879	—
Time deposits with original maturity of more than three months . . . . .	580,164	675,573	370,487
	<u>580,164</u>	<u>707,452</u>	<u>370,487</u>
Presented as:			
Current . . . . .	76,204	243,899	320,487
Non-current . . . . .	503,960	463,553	50,000
	<u>580,164</u>	<u>707,452</u>	<u>370,487</u>

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Time deposits denominated in foreign currency:			
US\$ . . . . .	<u>16,312</u>	<u>31,879</u>	<u>—</u>

The Company

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Time deposits with maturity of more than three months but less than one year . . . . .	<u>16,312</u>	—	—
Time deposits denominated in foreign currency:			
US\$ . . . . .	<u>16,312</u>	—	—

As at 31 December 2020, 2021 and 2022, the Group’s time deposits of approximately RMB513,892,000, RMB399,773,000 and RMB290,487,000 were held in designated bank accounts for issuance of bank acceptance notes.

The Group and the Company’s time deposits are bank deposits and redeemable on maturity. The weight-average interest rates of the time deposits were 3.89%, 3.85% and 4.01% per annum as at 31 December 2020, 2021 and 2022, respectively.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

23. TIME DEPOSITS—continued

The Company—continued

Details of impairment assessment are set out in Note 34.

24. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits represents deposits held in designated bank accounts for issuance of bank acceptance notes. The restricted bank deposits carry interest rate ranging from 1% to 2.5%, 1% to 2.5% and 0.25% to 2.5% per annum as at 31 December 2020, 2021 and 2022, respectively.

Bank balances and cash consists of balance with banks and cash on hand. Bank balances carry interest at prevailing market rates.

Details of impairment assessment are set out in Note 34.

25. TRADE AND OTHER PAYABLES

The Group

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Trade payables	630,790	782,566	1,433,487
Note payables	686,491	568,535	448,797
Salary and welfare payables	64,332	101,022	168,824
Other tax payables	11,422	8,221	31,227
Other payables	137,618	211,017	299,622
Deposits to be returned to investors (Note b)	—	223,338	—
Deposits received (Note a)	301,967	32,270	1,069
Accrued issued costs and [REDACTED]	—	2,857	15,052
	<u>1,832,620</u>	<u>1,929,826</u>	<u>2,398,078</u>

Notes:

- (a) Deposits received mainly represented the collection of sales proceeds on behalf of the pharmaceutical distributors and vendors from third parties pharmacies for the online marketplace business and to be refunded to the respective pharmaceutical distributors and vendors.
- (b) Balance represented deposits received from two investors of Series E-2 Preferred Shares as defined in Note 29, which will be returned to the investors after they make a full payment for the number of Series E-2 Preferred Shares subscribed. The subscription payment has been received by the Company in April 2022 and the related deposits have been returned to the investors accordingly.

The Company

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Accrued issued costs and [REDACTED]	—	2,857	15,052
Others	—	—	403
	<u>—</u>	<u>2,857</u>	<u>15,455</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. TRADE AND OTHER PAYABLES—continued

The Company—continued

Trade payables

The credit period of trade payables is ranging from 30 to 90 days. An ageing analysis of the trade payables based on the invoice date at the end of each reporting period is as follows:

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
0-30 days . . . . .	251,291	347,374	998,860
30-90 days . . . . .	199,695	249,746	253,227
Over 90 days . . . . .	179,804	185,446	181,400
	<u>630,790</u>	<u>782,566</u>	<u>1,433,487</u>

26. CONTRACT LIABILITIES

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Receipts in advances from customers . . . . .	<u>39,961</u>	<u>9,373</u>	<u>24,434</u>

As at 1 January 2020, contract liabilities amounted to approximately RMB74,478,000.

The Group generally requires advance payments from certain of its customers before delivery of goods. This will give rise to a contract liability at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received.

The following table shows how much of the revenue recognised for the years ended 31 December 2020, 2021 and 2022 relates to the contract liabilities at the beginning of the year:

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Revenue recognised during the year . . . . .	<u>74,478</u>	<u>39,961</u>	<u>9,373</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. LEASE LIABILITIES

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Lease liabilities payable:			
Within one year	47,239	63,945	81,178
Within a period of more than one year but not more than two years	45,932	65,091	50,711
Within a period of more than two years but not more than five years	57,492	52,693	48,659
More than five years	1,219	—	—
	151,882	181,729	180,548
Less: Amount due for settlement within 12 months shown under current liabilities	(47,239)	(63,945)	(81,178)
Amount due for settlement after 12 months shown under non-current liabilities	104,643	117,784	99,370

When recognising the lease liabilities for leases, the Group has applied incremental borrowing rates of the relevant group entities at the leases commencement/modification dates. The weighted average incremental borrowing rates applied by the relevant group entities are 4.75% per annum.

28. BANK BORROWINGS

	As at 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Bank loan	6,000	—	—
Advance from banks on discounted note receivables with recourse repayable within one year	90,983	—	—
	96,983	—	—
Analysed as:			
Unsecured	96,983	—	—
	96,983	—	—
Carrying amounts repayable within one year and shown under current liabilities	96,983	—	—

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group’s borrowings are as follows:

	Year ended 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Effective interest rate:			
Unsecured bank loan carried interest at fixed rate	3.05%	N/A	N/A
Advance from banks on discounted note receivables with recourse	2.05%-2.50%	N/A	N/A

All of the borrowings are denominated in RMB which is the same as the functional currency of the corresponding group entities.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL

Preferred Shares

Before the completion of group reorganisation, Guangzhou Sudao is authorised to issue 9,553,770 preferred shares (“Preferred Shares”) for different preferred shares series, of which 1,142,857, 2,459,183, 2,112,245, 1,533,334, and 2,306,151 authorised Preferred Shares were designated as Series Seeds Preferred Shares, Series A Preferred Shares, Series B Preferred Shares, Series C1 Preferred Shares, and Series C2 Preferred Shares respectively. Upon the completion of the group reorganisation and Contractual Arrangement on 7 December 2018, the existing Series Seeds to C-2 Preferred Shares of Guangzhou Sudao subscribe in the same proportions, on an as-converted basis, as the percentage of equity interest held in Guangzhou Sudao to effectively mirror shareholding and rights of the Series Seeds to C-2 Preferred Shares of Guangzhou Sudao to the Company.

As at 7 December 2018, the Company is authorised to issue 95,590,300 preferred shares of US\$0.00001 par value per share, of which 7,450,427, 16,031,719, 13,769,989, 9,995,994, 15,034,085 and 33,308,086 authorised Preferred Shares were designated as Series Seeds Preferred Shares, Series A Preferred Shares, Series B Preferred Shares, Series C1 Preferred Shares, Series C2 Preferred Shares and Series D Preferred Shares, respectively. Total 5,520,607 preferred shares in Guangzhou Sudao were succeeded by the preference shares of the Company in 2019 with the total original consideration of RMB5,521,000. The Company is authorised to issue 31,021,547 preferred shares of US\$0.00001 par value per share designed as Series E Preferred Shares in 2021. During the year ended 31 December 2021, 20,829,389 Series E Preferred Shares were issued by the Company with consideration of RMB1,162,673,000. During the year ended 31 December 2022, 6,386,578 Series E Preferred Shares were issued by the Company with consideration of RMB350,161,000.

Preferred Shares issued in Guangzhou Sudao:

Preferred Shares	Currency	Year of issue	Number of investor(s)	Total number of Preferred Shares issued	Average subscription price per Preferred Share	Total Consideration
					RMB	RMB
Series Seeds .....	RMB	2015	4	1,142,857	14.00	16,000,000
Series A .....	RMB	2016	6	2,459,183	23.59	58,000,000
Series B .....	RMB	2016	7	2,112,245	51.13	108,000,000
Series C						
—Tranche 1 .....	RMB	2018	2	594,558	100.92	60,000,000
—Tranche 1 .....	US\$	2018	1	938,776	106.52	100,000,000
—Tranche 2 .....	US\$	2018	2	2,306,151	121.19	279,480,000
				<u>9,553,770</u>		<u>621,480,000</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL—continued

Preferred Shares—continued

Preferred Shares of Guangzhou Sudao succeeded by the preference shares of the Company for Series Seeds to Series C and Preferred Shares issued by the Company for Series D and Series E:

Preferred Shares	Currency	Year of transfer or issue	Number of investor(s)	Total number of Preferred Shares issued	Average subscription price per Preferred Share	Total Consideration
					RMB	RMB
Series Seeds	RMB	2018	2	1,862,605	2.15	4,000,000
Series Seeds (Note)	RMB	2019	2	5,587,822	2.15	12,000,000
				7,450,427		16,000,000
Series A	RMB	2018	4	3,951,385	3.76	14,850,000
Series A (Note)	RMB	2019	2	12,080,334	3.57	43,150,000
				16,031,719		58,000,000
Series B	RMB	2018	4	1,020,003	7.84	8,000,000
Series B (Note)	RMB	2019	3	12,749,986	7.84	100,000,000
				13,769,989		108,000,000
Series C						
- Tranche 1 (Note)	RMB	2019	2	3,875,997	15.48	60,000,000
- Tranche 1	US\$	2018	1	6,119,997	16.34	100,000,000
- Tranche 2	US\$	2018	2	15,034,085	18.59	279,480,000
				25,030,079		439,480,000
Series D	US\$	2018	3	33,308,086	27.40	915,306,203
Series E						
- Tranche 1	US\$	2021	1	17,357,824	55.91	970,440,000
- Tranche 2	US\$	2021	1	3,471,565	55.37	192,233,000
- Tranche 2 (Note)	US\$	2022	4	6,386,578	54.65	350,161,000
				27,215,967		1,512,834,000
				122,806,267		3,049,620,203

Note: Overseas direct investment (the “ODI”) into foreign entities by certain investors located in the PRC (the “Series Seeds, A, B and C Chinese Investors”) is not allowed until an approval for ODI is obtained from the applicable authorities in the PRC, including Chinese National Development and Reform Commission, Chinese Ministry of Commerce, and State Administration of Foreign Exchange. As part of the group reorganisation, the Company issued warrants to certain investors of Series Seeds, A, B and C-1 who were not allowed to hold direct investments in foreign entities to complete the transfer of preferred shares from Guangzhou Sudao to the Company. During the year ended 31 December 2019, the investors have obtained the ODI approval, exercised their warrants and converted the warrants into preferred shares of the Company. During the year ended 31 December 2021, the Company issued warrants to certain investors of Series E-2 who have not obtained the ODI approval, all the warrants have been exercised in April 2022. In April 2022, 6,386,578 Series E-2 Preferred Shares were issued by the Company with consideration of RMB350,161,000.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL—continued

Preferred Shares—continued

The key terms of the Series Seeds, A, B, C, D and E Preferred Shares of the Company are as follows:

a) Voting Right

Subject to the provisions of the Memorandum and these Articles, at all general meetings of the Company: (a) the holder of each Ordinary Share issued and outstanding shall have one vote in respect of each Ordinary Share held, and (b) the holder of a Preferred Share shall be entitled to such number of votes as equals the whole number of Ordinary Shares into which such holder’s collective Preferred Shares are convertible immediately after the close of business on the record date of the determination of the Company’s Members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Company’s Members is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all shares into which the Preferred Shares held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). To the extent that the Statute or the Articles allow the Series E Preferred Shares, the Series D Preferred Shares, the Series C-2 Preferred Shares, the Series C-1 Preferred Shares, the Series B Preferred Shares, the Series A Preferred Shares and the Series Seed Preferred Shares to vote separately as a class or series with respect to any matters, such Series E Preferred Shares, Series D Preferred Shares, Series C-2 Preferred Shares, Series C-1 Preferred Shares, Series B Preferred Shares, and Series A Preferred Shares shall have the right to vote separately as a class or series with respect to such matters.

b) Dividends

When, as and if declared by the board of directors of the Company or Guangzhou Sudao (before completion of group reorganisation), outstanding Series E Preferred Shares are entitled to a noncumulative dividend in preference to any dividend on other Preferred Shares and ordinary shares at the rate per annum of the greater of (i) dividends at a simple rate of ten percent (10%) of the respective Series E Issue Price per annum since the Series E Issue Date, and (ii) dividends distributed pari passu on a pro rata basis to the Preferred Shares and Ordinary Shares on an as converted basis. After payment in full on Series E-1/2 Preferred Shares, outstanding Series D Preferred Shares are entitled to a non-cumulative dividend in preference to any dividend on other Preferred Shares and ordinary shares at the greater of (i) dividends at a simple rate of ten percent (10%) of the respective Series D Issue Price per annum since the Series D Issue Date, and (ii) dividends distributed pari passu on a pro rata basis to the Preferred Shares and Ordinary Shares on an as converted basis. After payment in full on Series D and E-1/2 Preferred Shares, outstanding Series C-1/2 Preferred Shares are entitled to a non-cumulative dividend in preference to any dividend on other Preferred Shares and ordinary shares at the greater of (i) dividends at a simple rate of ten percent (10%) of the respective Series C-1/2 Deemed Issue Price per annum since the Series C-1/2 Issue Date, and (ii) dividends distributed pari passu on a pro rata basis to the Preferred Shares and Ordinary Shares on an as converted basis. After payment in full on Series C-1/2, D and E-1/2 Preferred Shares, outstanding Series B Preferred Shares are entitled to a non-cumulative dividend in preference to any dividend on other Preferred Shares and ordinary shares at the greater of (i) dividends at a simple rate of ten percent (10%) of the respective Series B Deemed Issue Price per annum since the Series B Issue Date, and (ii) dividends distributed

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL—continued

Preferred Shares—continued

b) Dividends—continued

pari passu on a pro rata basis to the Preferred Shares and Ordinary Shares on an as converted basis. After payment in full on Series B,C-1/2, D and E-1/2 Preferred Shares, outstanding Series A Preferred Shares are entitled to a non-cumulative dividend in preference to any dividend on other Preferred Shares and ordinary shares at the greater of (i) dividends at a simple rate of ten percent (10%) of the respective Series A Deemed Issue Price per annum since the Series A Issue Date, and (ii) dividends distributed pari passu on a pro rata basis to the Preferred Shares and Ordinary Shares on an as converted basis. After payment in full on Series A,B,C-1/2, D and E-1/2 Preferred Shares, outstanding Series Seeds Preferred Shares are entitled to a non-cumulative dividend in preference to any dividend on other Preferred Shares and ordinary shares at the greater of (i) dividends at a simple rate of ten percent (10%) of the respective Series Seeds Deemed Issue Price per annum since the Series Seeds Issue Date, and (ii) dividends distributed pari passu on a pro rata basis to the Preferred Shares and Ordinary Shares on an as converted basis. A dividend is payable only when funds are legally available and only when, as and if declared by the Board of Directors. During the Track Record Period, the Board of Directors has not declared any dividends.

c) Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Company or Guangzhou Sudao (before completion of group reorganisation), whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the Members (after satisfaction of all creditors’ claims and claims that may be preferred by law) shall be distributed to the Members of the Company as follows:

The holders of the Series E Preferred Shares shall be entitled to receive for each Series E Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of the Series D Preferred Shares, the Series C-2 Preferred Shares, the Series C-1 Preferred Shares, the Series B Preferred Shares, the Series A Preferred Shares, the Series Seed Preferred Shares and the Ordinary Shares by reason of their ownership of such shares, the amount (the “Series E Preference Amount”) equal to the one hundred percent (100%) of the Series E Issue Price, deducted all accrued or declared and paid dividends on such Series E Preferred Share. If the assets and funds thus distributed among the holders of the Series E Preferred Shares shall be insufficient to permit the payment to such holders of the full Series E Preference Amount, then the entire assets and funds of the Company legally available for distribution to the Series E Preferred Shares shall be distributed ratably among the holders of the Series E Preferred Shares in proportion to the aggregate Series E Preference Amount each such holder is otherwise entitled to receive pursuant to this clause. (Same with other series shares)

d) Optional Conversion

Subject to the Statute and these Articles, any Preferred Share may, at the option of the holder thereof, be converted at any time after the date of issuance of such shares, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares based on the then-effective applicable conversion price.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL—continued

Preferred Shares—continued

e) Conversion Price / Anti-Dilution Protection

The conversion price for each series of Preferred Shares shall be adjusted and readjusted from time to time as provided below: (i) Adjustment for share splits and combinations; (ii) Adjustment for ordinary share dividends and distributions; (iii) Adjustments for other dividends; (iv) Adjustments for Reorganisation, Mergers, Consolidations, Reclassifications, Exchanges, Substitutions; (v) Adjustments to conversion price for dilutive issuance; (vi) Other dilutive events.

f) Conversion

Each Preferred Share shall automatically be converted, based on the then-effective applicable Conversion Price, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares upon the earlier of (i) the closing of Qualified [REDACTED], or (ii) the date specified by written consent or agreement of the Series E Holder (with respect to the Series E Preferred Shares), the date specified by written consent or agreement of the Series D Holders (with respect to the Series D Preferred Shares), the date specified by written consent or agreement of the Series C-2 Holders (with respect to the Series C-2 Preferred Shares), the date specified by written consent or agreement of the Series C-1 Holders (with respect to the Series C-1 Preferred Shares), the date specified by written consent or agreement of the Series B Holders (with respect to the Series B Preferred Shares), the date specified by written consent or agreement of the Series A Holders (with respect to the Series A Preferred Shares) or Series Seed Holders (with respect to the Series Seed Preferred Shares).

g) Redemption for Series Seeds/Series A/Series B/Series C/Series D/Series E Preferred Shares

At any time after the earlier of the occurrence of the following event: (i) the Qualified [REDACTED] has not been closed before 31 December 2023, (ii) any material breach of the Transaction Documents by any Group Company, any Founder Holding Company, or any Founder, and the Group Company, the Founder Holding Company, or the Founder fails to take remedial measures within ten (10) business days after receiving the written notice by the holders of the Preferred Shares; (iii) the application of [REDACTED] has been denied by the competent securities regulatory governmental authority, (iv) any material breach of the loyal and fiduciary duty by the Founder and/or any other material integrity issues attributable to the Founder, including but not limited to the any income not accounted in the Company’s financial book and record, or any material risk of internal control due to the willfully misconduct and gross negligence by the Founder, and such issues have not been properly disclosed to the holders of the Preferred Shares, (v) the failure of the [REDACTED] due to the failure of issuance of the unreserved audit report by any Auditor, (vi) the Group Companies are not able to be engaged in the business thereof, and (vii) the holders of any Preferred Shares having requested a redemption of such shares, the Company or Guangzhou Sudao may be required to redeem the outstanding Series Seeds, A B, C, D and E Preferred Shares at a price per share calculated in the formulae as stipulated in the Memorandum of Association of the Company or restated certificate of incorporation, in three annual instalments commencing on or before 60th day after the Company’s or Guangzhou Sudao’s receipt from holders of a majority of outstanding Series Seeds, A, B, C, D and E Preferred Shares, of written notice requesting redemption of all Series Seeds, A B, C, D and E Preferred Shares.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL—continued

Preferred Shares—continued

g) Redemption for Series Seeds/Series A/Series B/Series C/Series D/Series E Preferred Shares—continued

In conjunction with the issuance of Series D Preferred Shares, the Company modified the terms of Series Seeds Preferred Shares to Series C Preferred Shares, on 7 December 2018, to extend the date of mandatory redemption from 31 December 2021 to 31 December 2023. Subsequent to this modification, except for priority of the liquidation and redemption terms, Series D Preferred Shares, Series C Preferred Shares, Series B Preferred Shares, Series A Preferred Shares and Series Seeds Preferred Shares contain the same terms. Series E Preferred Shares have priority over Series D Preferred Shares, Series D Preferred Shares have priority over Series C Preferred Shares, Series C preferred shares have priority over Series B Preferred Shares, Series B Preferred Shares have priority over Series A Preferred Shares while Series A Preferred Shares have priority over Series Seeds Preferred Shares. All the Preferred Shares have priority over ordinary shares.

In April 2022, the Group passed a shareholder’s resolution to terminate all shareholders’ redemption or divestment rights (including the shareholders of preferred shares) against and with respect to the Company, and such terminated redemption or divestment right shall automatically revert and be reinstated in full should a qualified [REDACTED] not close on or before the Maturity Date or the shareholders unanimously decide to terminate the application of a qualified [REDACTED], whichever is earlier. In November 2022, the Group passed a shareholder’s resolution to extend the above Maturity Date to 31 December 2024.

**Presentation and Classification**

The directors of the Company considered that the Preferred Shares issued by the Company or Guangzhou Sudao are accounted for as financial liabilities measured at FVTPL.

The directors of the Company also considered that the changes in the fair value of the Preferred Shares attributable to the change in credit risk of these financial liabilities are minimal. Changes in fair value of the Preferred Shares not attributable to the change in credit risk of the financial liabilities are charged to profit or loss and presented as “changes in fair value of financial liabilities at FVTPL”.

The Preferred Shares were valued by the directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer, Avista Valuation Advisory Limited (“Avista Valuation”), which has appropriate qualifications and experiences in valuation of similar instruments. The address of Avista Valuation is Suites 2401-06, 24/F, Everbright Centre, No.108 Gloucester Road, Wan Chai, Hong Kong.

The directors of the Company used the back-solve method to determine the underlying share value of the Company and performed an equity allocation based on OPM to arrive the fair value of the Preferred Shares at the end of each reporting period.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. FINANCIAL LIABILITIES AT FVTPL—continued

Presentation and Classification—continued

In addition to the underlying share value of the determined by back-solve method, other key valuation assumptions used in OPM to determine the fair value of Preferred Shares are as follows:

	At 1 January 2020	At 31 December 2020	At 31 December 2021	At 31 December 2022
Time to liquidation or redemption .....	4 years	3 years	2 years	2 years
Risk-free interest .....	1.70%	0.18%	0.73%	4.42%
Expected volatility .....	51.73%	49.19%	53.32%	60.28%
Dividend yield .....	0%	0%	0%	0%
Possibilities under liquidation scenario .....	35%	30%	27.5%	20%
Possibilities under redemption scenario .....	35%	30%	27.5%	20%
Possibilities under [REDACTED] scenario .....	30%	40%	45%	60%

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to period from the respective valuation dates to the expected redemption dates. Expected volatility value was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation dates to expected redemption dates. Dividend yield, possibilities under different scenario are estimated based on management estimation at the valuation dates.

The Group and the Company

	Preferred Shares RMB’000
At 1 January 2020 .....	2,636,681
Unrealised changes in fair value .....	<u>294,331</u>
At 31 December 2020 .....	2,931,012
Issued during the year .....	1,162,673
Unrealised changes in fair value .....	<u>128,696</u>
At 31 December 2021 .....	4,222,381
Issued during the year .....	350,161
Unrealised changes in fair value .....	<u>1,299,500</u>
At 31 December 2022 .....	<u><u>5,872,042</u></u>

30. SHARE CAPITAL

The Group and the Company

The Company was incorporated in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands on 27 August 2018 with an authorised share capital of US\$0.02 divided into 1,800 shares of a par value of US\$0.00001 each. Upon incorporation of the Company,

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. SHARE CAPITAL—continued

The Group and the Company—continued

1,800 shares was issued at par value of US\$0.00001, equivalent to approximately RMB0.12. On 7 December 2018, an additional of 31,328,046 shares were allotted and authorised while 800 shares were repurchased by the Company upon group reorganisation.

	<u>Number of shares</u>	<u>Share capital</u> US\$	<u>Presented as</u> RMB’000
Ordinary shares of US\$0.00001 each			
<b>Authorised, issued and fully paid</b>			
At 1 January 2020, 31 December 2020, 2021 and 2022 . . . . .	<u>31,329,046</u>	<u>313</u>	<u>2</u>

31. SHARE-BASED PAYMENT RESERVES

Equity-settled share option scheme of the Group

**2017 Stock Incentive Plan**

Effective on 2 February 2017, Guangzhou Sudaο adopted the “2017 Stock Incentive Plan” pursuant to which the Group was authorised to grant stock options, stock appreciation rights and restricted stock to directors, officers and employees of Guangzhou Sudaο. Under the 2017 Stock Incentive Plan, a maximum number of 980,000 shares of ordinary shares of Guangzhou Sudaο will be issued. Stock options were granted with an exercise price not less than the fair market value of the Guangzhou Sudaο’s ordinary shares at the date of grant, and have exercise terms of up to 10 years with vesting periods determined at the discretion of the Board of Directors of Guangzhou Sudaο, and are subject to a continued service relationship. Effective on 1 January 2019, the Group terminated the 2017 Stock Incentive Plan, meaning that, while no additional awards of stock options, stock appreciation rights, or restricted stock were permitted thereunder, all outstanding awards continued to be governed by their existing terms.

**2019 Stock Incentive Plan**

Effective on 27 February 2019, the Company adopted the “2019 Stock Incentive Plan” pursuant to which the Company is authorised to grant stock options, stock appreciation rights and restricted stock to directors, officers and employees who provide services to the Company and its affiliates. Under the 2019 Stock Incentive Plan, a maximum number of 6,388,742 ordinary shares of the Company will be issued. Stock options are to be granted with an exercise price not less than the fair market value of the Company’s ordinary shares at the date of grant, and have exercise terms of up to 10 years with vesting periods determined at the discretion of the board of directors of the Company, and are subject generally to a continued service relationship.

**Substitution of ordinary shares of Guangzhou Sudaο to the Company’s ordinary shares under 2017 Stock incentive Plan**

As part of the share exchange arrangement, Guangzhou Sudaο would i) substitute 1 share of ordinary share of Guangzhou Sudaο under the 2017 Stock incentive Plan and ii) assume on the same terms and conditions as the 2017 Stock incentive Plan, stock appreciation rights, and restricted stock

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. SHARE-BASED PAYMENT RESERVES—continued

Equity-settled share option scheme of the Group—continued

Substitution of ordinary shares of Guangzhou Sudao to the Company’s ordinary shares under 2017 Stock incentive Plan—continued

under the 2019 Stock Incentive Plan as defined and detailed below. The directors of the Company considered that the modification of terms of 2017 Stock Incentive Plan have no material change in fair value of the share options at the date of modification.

The following table discloses movements of share options held by directors and employees during the Track Record Period under 2017 Stock Incentive Plan:

Options	Grant year	Vesting Period	Expiry year	Exercise price	At 1 January 2020	Granted during the year	At 31 December 2020	Granted during the year	At 31 December 2021	Granted during the year	Forfeited during the year	At 31 December 2022
US\$												
<b>Directors and employees</b>												
Tranche 2017-7	2017	4 years	2027	0.3	1,808,394	—	1,808,394	—	1,808,394	—	(11,952)	1,796,442
Tranche 2017-7	2017	4 years	2027	0.3	185,261	—	185,261	—	185,261	—	—	185,261
Tranche 2018-1	2018	4 years	2028	0.3	179,286	—	179,286	—	179,286	—	—	179,286
Tranche 2018-2	2018	4 years	2028	0.3	555,982	—	555,982	—	555,982	—	—	555,982
Tranche 2018-12	2018	4 years	2028	1.05	847,659	—	847,659	—	847,659	—	—	847,659
					<u>3,576,582</u>		<u>3,576,582</u>		<u>3,576,582</u>		<u>(11,952)</u>	<u>3,564,630</u>
Exercisable at the end of the year					<u>—</u>		<u>—</u>		<u>—</u>			<u>—</u>
Weighted average exercise price					<u>0.48</u>		<u>0.48</u>		<u>0.48</u>		<u>0.3</u>	<u>0.48</u>

Except for the forfeited options disclosed above, no other options were exercised, forfeited or expired during the Track Record Period.

The following table discloses movements of share options held by directors, senior managers and employees during the Track Record Period under 2019 Stock Incentive Plan:

Options	Grant year	Vesting Period	Expiry year	Exercise price	At 1 January 2020	Granted during the year	At 31 December 2020	Granted during the year	Forfeited during the year	At 31 December 2021	Granted during the year	Forfeited during the year	At 31 December 2022
US\$													
<b>Directors and employees</b>													
Tranche 2019-3	2019	4 years	2029	1.05	65,000	—	65,000	—	—	65,000	—	—	65,000
Tranche 2019-4	2019	4 years	2029	1.05	40,000	—	40,000	—	—	40,000	—	—	40,000
Tranche 2019-10	2019	4 years	2029	0.94	2,294,000	—	2,294,000	—	(43,000)	2,251,000	—	(25,000)	2,226,000
Tranche 2019-11	2019	4 years	2029	2.00	50,000	—	50,000	—	—	50,000	—	—	50,000
Tranche 2020-1	2020	4 years	2030	1.05	—	120,000	120,000	—	—	120,000	—	—	120,000
Tranche 2020-4	2020	4 years	2030	1.05	—	283,000	283,000	—	(13,000)	270,000	—	(25,000)	245,000
Tranche 2021-1	2021	4 years	2031	1.60	—	—	—	1,066,465	—	1,066,465	—	(799,849)	266,616
Tranche 2021-2	2021	4 years	2031	2.00	—	—	—	1,072,000	(70,500)	1,001,500	—	(81,750)	919,750
Tranche 2021-7	2021	4 years	2031	2.00	—	—	—	30,000	—	30,000	—	(30,000)	—
Tranche 2021-11	2021	4 years	2031	2.00	—	—	—	5,230,071	(10,000)	5,220,071	—	(507,071)	4,713,000
Tranche 2021-12	2021	4 years	2031	2.00	—	—	—	450,000	—	450,000	—	—	450,000
Tranche 2022-2	2022	4 years	2032	2.00	—	—	—	—	—	1,099,000	—	(132,000)	967,000
Tranche 2022-5-1	2022	4 years	2032	2.00	—	—	—	—	—	20,000	—	—	20,000
Tranche 2022-5-2	2022	4 years	2032	0.8	—	—	—	—	—	2,660,000	—	—	2,660,000
Tranche 2022-5-3	2022	Immediate after [REDACTED] (Note)	2032	0.8	—	—	—	—	—	1,330,000	—	—	1,330,000
Tranche 2022-7-1	2022	4 years	2032	2.00	—	—	—	—	—	740,000	—	(80,000)	660,000
					<u>2,449,000</u>	<u>403,000</u>	<u>2,852,000</u>	<u>7,848,536</u>	<u>(136,500)</u>	<u>10,564,036</u>	<u>5,849,000</u>	<u>(1,680,670)</u>	<u>14,732,366</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. SHARE-BASED PAYMENT RESERVES—continued

Equity-settled share option scheme of the Group—continued

Substitution of ordinary shares of Guangzhou Sudao to the Company’s ordinary shares under 2017 Stock incentive Plan—continued

Options	Grant	Vesting	Expiry	Exercise	At 1	Granted	At	Granted	Forfeited	At	Granted	Forfeited	At
	year	Period	year	price	January	during	31 December	during	during	31 December	during	during	31 December
					2020	the year	2020	the year	the year	2021	the year	the year	2022
					US\$								
Exercisable at the end of the year . . . . .					—		—			—			—
Weighted average exercise price . . . . .					0.97	1.05	0.98	1.95	1.58	1.69	1.18	1.78	1.48

Note: In May 2022, the Company granted 1,330,000 share options to Mr. Fei Chen, an executive director of the Company. These options are vested on the day when the Company’s shares are listed on the Stock Exchange.

Except for the forfeited options disclosed above, no other options were exercised, forfeited or expired during the Track Record Period.

Milestone-based share options are exercisable upon the completion of Listing.

These fair values were calculated using the binomial method. The variables and assumptions used in computing the fair value of the share options are based on the directors’ best estimate with reference to valuation reports carried out by Avista Valuation. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	2020	2021	2022
Weighted average share price . . . . .	US\$ 1.81	US\$1.87 - US\$2.11	US\$2.10 - US\$2.40
Exercise price . . . . .	US\$ 1.05	US\$ 1.60 - 2.00	US\$0.80 - US\$2.00
Expected volatility . . . . .	59.37%	59.70% - 60.38%	60.22% - 61.47%
Expected life (years) . . . . .	10	10	10
Risk-free rate . . . . .	1.09%	1.24% - 1.65%	1.96% - 3.14%
Expected dividend yield . . . . .	0%	0%	0%

Expected volatility was determined by using the historical volatility of the share prices of comparable companies over the previous 10 years. The expected life used in the model has been adjusted, based on the directors’ best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

During the Track Record Period, the Group recognised the total expense of approximately nil, RMB24,362,000, and RMB38,817,000 in relation to share options granted by the Group.

32. RETIREMENT BENEFIT PLAN

The eligible employees of the Company’s subsidiaries in PRC are members of pension schemes operated by local government of the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of the relevant cost of payroll of these employees to the pension schemes to fund the benefits.

The contributions to the retirement benefits schemes for employees of the Group and directors of the Company during the Track Record Period are disclosed in Notes 11 and 12, respectively.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debts, which include lease liabilities as disclosed in Note 27 and bank borrowings as disclosed in Note 28, net of bank balances and cash, and time deposits with original maturity of three months or less and equity attributable to owners of the Company, comprising issued share capital and deficits.

The management of the Group reviews the capital structure on a regular basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of items in the context of capital structure, and takes appropriate actions to adjust the Group’s capital structure. Based on recommendations of the management, the Group will balance its overall capital structure through the repayment of existing debts and continuity of funding of cash flows from operating activities and new shares issue.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>			
Time deposits . . . . .	580,164	707,452	370,487
Restricted bank deposits . . . . .	158,221	209,356	298,404
Bank balances and cash . . . . .	130,526	383,603	835,394
Trade and other receivables . . . . .	436,083	253,791	368,577
Amount due from a shareholder . . . . .	38,781	2	2
Financial assets at amortised cost . . . . .	<u>1,343,775</u>	<u>1,554,204</u>	<u>1,872,864</u>
Financial assets at FVTPL . . . . .	<u>344,600</u>	<u>512,882</u>	<u>711,076</u>
<b>Financial liabilities</b>			
Trade and other payables . . . . .	1,811,063	1,894,960	2,323,375
Bank borrowings . . . . .	96,983	—	—
Financial liabilities at amortised cost . . . . .	<u>1,908,046</u>	<u>1,894,960</u>	<u>2,323,375</u>
Financial liabilities at FVTPL . . . . .	<u>2,931,012</u>	<u>4,222,381</u>	<u>5,872,042</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(a) Categories of financial instruments—continued

The Company

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>			
Amount due from a shareholder . . . . .	2	2	2
Time deposits . . . . .	16,312	—	—
Bank balances and cash . . . . .	730	3,593	6,904
Financial assets at amortised cost . . . . .	17,044	3,595	6,906
Financial assets at FVTPL . . . . .	—	242,276	60,654
<b>Financial liabilities</b>			
Financial liabilities at FVTPL . . . . .	2,931,012	4,222,381	5,872,042

(b) Financial risk management objectives and policies

The Group’s and the Company’s financial instruments include trade and other receivables, financial assets at FVTPL, time deposits, restricted bank deposits, bank balances and cash, trade and other payables, bank borrowings, financial liabilities at FVTPL, lease liabilities and amount due from a shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

*Currency risk*

Certain bank balances, time deposits and financial liabilities at FVTPL denominated in foreign currency of respective group entities expose the Group and the Company to foreign currency risk. The Group and the Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. The carrying amounts of the Group’s and the Company’s foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

The Group

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
<b>Assets</b>			
US\$ . . . . .	17,912	92,864	87,471
<b>Liabilities</b>			
US\$ . . . . .	1,891,256	3,059,684	4,164,994

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Market risk—continued*

*Currency risk—continued*

**The Group—(Continued)**

*Sensitivity analysis*

The following details the Group’s sensitivity to a 5% increase and decrease in RMB against US\$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. For a 5% weakening/strengthening of RMB against US\$, the Group’s post-tax loss for the years ended 31 December 2020, 2021 and 2022 would increase/decrease by approximately RMB70,250,000, RMB111,256,000 and RMB152,907,000, respectively.

**The Company**

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
<b>Assets</b>			
US\$ .....	17,018	—	67,558
<b>Liabilities</b>			
US\$ .....	1,891,256	3,059,684	4,164,994

*Sensitivity analysis*

The following details the Company’s sensitivity to a 5% increase and decrease in RMB against US\$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. USD, For a 5% weakening/strengthening of RMB against US\$, the Company’s post-tax loss for the years ended 31 December 2020, 2021 and 2022 would increase/decrease by approximately RMB70,284,000, RMB114,738,000 and RMB153,654,000, respectively.

*Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and lease liabilities as disclosed in Notes 28 and 27, respectively.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate time deposits, restricted bank deposits, bank balances and bank borrowings as disclosed in Notes 23, 24 and 28, respectively. The Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on time deposits, restricted bank deposits and bank balances and PRC prime rate arising from the Group’s RMB denominated bank borrowings.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Market risk—continued*

*Interest rate risk—continued*

The Group currently does not have an interest rate hedging policy. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

The management of the Group consider the Group’s and the Company’s exposure of the time deposits, restricted bank deposits, bank balances and bank borrowings to interest rate risk is insignificant as the fluctuation of market interest rate and PRC prime rate is not expected to be significant, no sensitivity analysis is presented accordingly.

*Credit risk and impairment assessment*

Credit risk refers to the risk that the Group’s counterparties default on their contractual obligations resulting in financial losses to the Group. The Group’s credit risk exposures are primarily attributable to trade and other receivable, time deposits, restricted bank deposits, bank balances and amount due from a shareholder. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group’s credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, are summarised as below:

*Trade and note receivables arising from contracts with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual significant trade debt at the end of each reporting period to ensure that adequate impairment loss is recognised for irrecoverable amount. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

In addition, the Group performs impairment assessment under ECL model on a collective basis. Trade and note receivables are grouped by internal credit rating based on shared credit risk characteristics by reference to past due exposure for the customers. During the years ended 31 December 2020, 2021 and 2022, the Group recognised credit loss allowance of approximately RMB3,151,000, RMB1,769,000, and RMB2,300,000 for trade receivables based on collective assessment. Impairment allowance for note receivables as at 31 December 2020, 2021 and 2022 was not material.

The Group’s concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% of the total trade receivables as at 31 December 2020, 2021 and 2022.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Credit risk and impairment assessment—continued*

*Other receivables and amount due from a shareholder*

The Group assessed the loss allowance for other receivables and amount due from a shareholder on 12m ECL basis as the Group has considered that credit risks on these financial assets have not increased significantly since initial recognition. In determining the ECL, the Group has taken into account the historical default experience and forward looking information as appropriate. The Group has considered the consistently low historical default rate in connection with payments and the Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. For the years ended 31 December 2020, 2021 and 2022, management of the Group assessed the ECL for other receivables and amount due from a shareholder was insignificant and thus no loss allowance was recognised.

*Time deposits, restricted bank deposits and bank balances*

The credit risks on time deposits, restricted bank deposits and bank balances are limited because the counterparties are authorised banks in the PRC with high credit ratings assigned by external credit-rating agencies.

Other than the concentration of credit risk on liquid funds which are placed with several banks, the Group does not have any other significant concentration of credit risk.

The Group assessed 12m ECL for time deposits, restricted bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on time deposits, restricted bank deposits and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

The Group’s internal credit risk grading assessment comprises the following categories:

<u>Internal credit rating</u>	<u>Description</u>	<u>Trade receivables</u>	<u>Other financial assets</u>
Low risk	The counterparty has a low risk of default and does not have material past-due amounts	Lifetime ECL - not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due date but usually settle in full	Lifetime ECL - not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group and the Company has no realistic prospect of recovery	Amount is written off	Amount is written off

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Credit risk and impairment assessment—continued*

*Time deposits, restricted bank deposits and bank balances—continued*

The table below details the credit risk exposures of the Group’s financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount		
				At 31 December 2020	At 31 December 2021	At 31 December 2022
				RMB’000	RMB’000	RMB’000
<b>Financial assets at amortised cost</b>						
Trade receivables	20	(Note 1)	Lifetime ECL - not credit impaired (collective assessment)	104,285	116,692	139,215
Note receivables	20	(Note 1)	Lifetime ECL - not credit impaired (collective assessment)	260,805	11,852	29,163
Other receivables	20	(Note 2)	12m ECL	75,609	131,632	204,856
Amount due from a shareholder	22	(Note 2)	12m ECL	38,781	2	2
Time deposits	23	(Note 2)	12m ECL	580,164	707,452	370,487
Restricted bank deposits	24	(Note 2)	12m ECL	158,221	209,356	298,404
Bank balances	24	(Note 2)	12m ECL	130,526	383,603	835,394
				<u>1,348,391</u>	<u>1,560,589</u>	<u>1,877,521</u>

Notes:

- For not credit-impaired trade and note receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on a collective basis, grouped by internal credit rating and past due status of respective receivable.

**Internal credit rating**

As part of the Group’s credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed collectively as at 31 December 2020, 2021 and 2022 within lifetime ECL (not credit-impaired). Impairment allowance for note receivables as at 31 December 2020, 2021 and 2022 was not material as the notes receivables are issued by authorised banks in the PRC with high credit ratings assigned by external credit-rating agencies.

**Gross carrying amount**

	As at 31 December					
	2020		2021		2022	
	Average loss rate	Trade receivables RMB’000	Average loss rate	Trade receivables RMB’000	Average loss rate	Trade receivables RMB’000
Low risk	4.4%	104,285	5.4%	116,692	3.3%	139,215

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Credit risk and impairment assessment—continued*

*Time deposits, restricted bank deposits and bank balances—continued*

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the years ended 31 December 2020, 2021 and 2022, the Group recognised credit losses allowance of approximately RMB3,151,000, RMB1,769,000 and RMB2,300,000 for trade receivables, respectively.

The following tables show the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

<u>Trade receivables</u>	<u>Lifetime ECL - collective assessment (not credit impaired)</u>
	<u>RMB’000</u>
As at 1 January 2020	1,465
—impairment losses recognised	3,151
As at 31 December 2020	4,616
—impairment losses recognised	1,769
As at 31 December 2021	6,385
—impairment losses recognised	2,300
—Write-offs	(4,028)
As at 31 December 2022	4,657

The Group writes off trade and note receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade and note receivables are over two years past due, whichever occurs earlier. None of the trade and note receivables that have been written off and is subject to enforcement activities.

- For the purposes of internal credit risk management, the Group has applied the general approach in IFRS 9 to measure the loss allowance at 12m ECL as there is no significant increase in credit risk since initial recognition. The Group determines the expected credit losses for other receivables, amount due from a shareholder, time deposits, restricted bank deposits and bank balances by assessment of probability of default. During the years ended 31 December 2020, 2021 and 2022, in view of the nature of the balance and historical default rate and forward looking information, the Group considers the provision of impairment allowance for these balances are insignificant.

***Liquidity risk***

In the management of liquidity risk, the Group’s management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2020, 2021 and 2022, the Group had net liabilities of approximately RMB2,462,156,000, RMB2,908,489,000 and RMB4,369,710,000. Having taken into account as disclosed in Note 2, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

The following tables detail the Group’s remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Liquidity risk—continued*

required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at variable rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

**The Group**

	Weighted average interest rate	Carrying amount	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>As at 31 December 2020</b>							
Trade and other payables . . . . .	N/A	1,811,063	1,811,063	—	—	—	1,811,063
Bank borrowings . . . . .	2.30	96,983	96,983	—	—	—	96,983
Financial liabilities at FVTPL . .	N/A	2,931,012	2,931,012	—	—	—	2,931,012
Lease liabilities . . . . .	4.75	151,882	53,461	47,139	69,363	814	170,777
		<u>4,990,940</u>	<u>4,892,519</u>	<u>47,139</u>	<u>69,363</u>	<u>814</u>	<u>5,009,835</u>
<b>As at 31 December 2021</b>							
Trade and other payables	N/A	1,894,960	1,894,960	—	—	—	1,894,960
Financial liabilities at FVTPL	N/A	4,222,381	4,222,381	—	—	—	4,222,381
Lease liabilities	4.75	181,729	70,672	69,919	54,218	—	194,809
		<u>6,299,070</u>	<u>6,188,013</u>	<u>69,919</u>	<u>54,218</u>	<u>—</u>	<u>6,312,150</u>
<b>As at 31 December 2022</b>							
Trade and other payables	N/A	2,323,375	2,323,375	—	—	—	2,323,375
Financial liabilities at FVTPL	N/A	5,872,042	5,872,042	—	—	—	5,872,042
Lease liabilities	4.75	180,548	87,829	54,096	50,660	—	192,585
		<u>8,375,965</u>	<u>8,283,246</u>	<u>54,096</u>	<u>50,660</u>	<u>—</u>	<u>8,388,002</u>

**The Company**

	Weighted average interest rate	Carrying amount	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>As at 31 December 2020</b>							
Financial liabilities at FVTPL . . .	N/A	<u>2,931,012</u>	<u>2,931,012</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,931,012</u>
<b>As at 31 December 2021</b>							
Financial liabilities at FVTPL	N/A	<u>4,222,381</u>	<u>4,222,381</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,222,381</u>
<b>As at 31 December 2022</b>							
Financial liabilities at FVTPL . . .	N/A	<u>5,872,042</u>	<u>5,872,042</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,872,042</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Fair value measurement of financial instruments*

*Fair values of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis*

Certain of the Group’s financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	As at 31 December			Fair value hierarchy	Valuation technique and key input
	2020	2021	2022		
	RMB’000	RMB’000	RMB’000		
<b>Financial assets</b>					
Financial assets at FVTPL . . . . .	344,600	512,882	711,076	Level 2	Quoted value from bank based on expected return with reference to underlying investment
<b>Financial liabilities</b>					
Financial liabilities at FVTPL . . .	2,931,012	4,222,381	5,872,042	Level 3	Back-solve method (Note)

Note:

A 5% increase/decrease in the fair value of the total equity value of the Company, while all other variables keep constant, would increase the carrying amount as at 31 December 2020, 2021 and 2022 by approximately RMB136,793,000, RMB196,754,000 and RMB281,541,000, respectively or decrease the carrying amount of financial liabilities at FVTPL as at 31 December 2020, 2021 and 2022 by approximately RMB136,956,000, RMB197,096,000 and RMB281,742,000, respectively.

A 5% increase/decrease in the probability of an [REDACTED], while all other variables keep constant, would increase/decrease the carrying amount of financial liabilities at FVTPL as at 31 December 2020, 2021 and 2022 by approximately RMB5,961,000, RMB11,038,000 and RMB16,681,000, respectively.

There were no transfer between Level 1 and 2 during the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34. FINANCIAL INSTRUMENTS—continued

(b) Financial risk management objectives and policies—continued

*Fair value measurement of financial instruments—continued*

*Fair values of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis—continued*

Reconciliation of Level 3 fair value measurements

	<b>Financial liabilities at FVTPL</b>
	<b>RMB’000</b>
As at 1 January 2020	2,636,681
—total losses in profit or loss	294,331
As at 31 December 2020	2,931,012
—issued during the year	1,162,673
—total losses in profit or loss	128,696
As at 31 December 2021	4,222,381
—issued during the year	350,161
—total losses in profit or loss	1,299,500
As at 31 December 2022	<u>5,872,042</u>

*Fair values of the Group’s financial assets and financial liabilities that are not measured at fair value on a recurring basis*

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate to their fair values.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	<b>Convertible preferred shares</b>	<b>Lease liabilities</b>	<b>Bank borrowings</b>	<b>Amount due to a shareholder</b>	<b>Accrued issue cost</b>	<b>Total</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
At 1 January 2020	2,636,681	155,874	146,725	—	—	2,939,280
Financing cash flows	—	(52,085)	210,304	—	—	158,219
New leases entered	—	40,594	—	—	—	40,594
Fair value change	294,331	—	—	—	—	294,331
Finance costs	—	7,499	2,802	—	—	10,301
Offset with note receivables						
(Note)	—	—	(262,848)	—	—	(262,848)
At 31 December 2020	<u>2,931,012</u>	<u>151,882</u>	<u>96,983</u>	<u>—</u>	<u>—</u>	<u>3,179,877</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES—continued

	Convertible preferred shares	Lease liabilities	Bank borrowings	Amount due to a shareholder	Accrued issue cost	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financing cash flows . . . . .	1,162,673	(61,579)	(6,426)	30,925	(746)	1,124,847
New leases entered . . . . .	—	83,358	—	—	—	83,358
Issue cost accruals . . . . .	—	—	—	—	1,451	1,451
Fair value change . . . . .	128,696	—	—	—	—	128,696
Finance costs . . . . .	—	8,068	426	—	—	8,494
Offset with note receivables (Note) . . . . .	—	—	(90,983)	—	—	(90,983)
Deemed contribution from a shareholder . . . . .	—	—	—	(30,925)	—	(30,925)
At 31 December 2021 . . . . .	4,222,381	181,729	—	—	705	4,404,815
Financing cash flow . . . . .	350,161	(84,986)	(521)	—	(2,727)	261,927
New leases entered . . . . .	—	74,095	—	—	—	74,095
Issue cost accruals . . . . .	—	—	—	—	4,403	4,403
Fair value change . . . . .	1,299,500	—	—	—	—	1,299,500
Finance costs . . . . .	—	9,710	521	—	—	10,231
Offset with note receivables (Note) . . . . .	—	—	—	—	—	—
As at 31 December 2022 . . . . .	5,872,042	180,548	—	—	2,381	6,054,971

Note: Amounts represented bank borrowings derecognised when the related discounted note receivables were matured.

36. ACQUISITION OF SUBSIDIARIES

Business combination

For the year ended 31 December 2021

On 13 October 2021, the Group acquired 100% interest in Guangzhou Yuewei. Guangzhou Yuewei is principally engaged in medical testing business and was acquired with the objective of improving the Group’s other businesses. The acquisition has been accounted for as acquisition of business using the acquisition method.

Assets acquired and liabilities recognised at the date of acquisition

	RMB’000
Property, plant and equipment . . . . .	822
Intangible assets . . . . .	5,558
Financial assets at FVTPL . . . . .	5,500
Bank balances and cash . . . . .	1,510
Deferred tax liabilities . . . . .	(1,390)
Total . . . . .	12,000



NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. ACQUISITION OF SUBSIDIARIES—continued

Business combination—continued

For the year ended 31 December 2021—continued

Consideration transferred

	<u>RMB’000</u>
Cash .....	<u>12,000</u>

No goodwill was arising from this acquisition.

Net cash outflow on acquisition of Guangzhou Yuewei:

	<u>RMB’000</u>
Cash consideration paid .....	12,000
Less: cash and cash equivalents balances acquired .....	(1,510)
	<u>10,490</u>

Included in the loss for the year ended 31 December 2021 is profit of RMB372,839 attributable to the additional business generated by Guangzhou Yuewei. Revenue for the year ended 31 December 2021 includes RMB6,449,000 generated from Guangzhou Yuewei.

Had the acquisition of Guangzhou Yuewei been completed on 1 January 2021, revenue for the year ended 31 December 2021 of the Group would have been RMB10,098,758,000 and loss for the year would have been RMB501,526,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results. In determining the ‘pro-forma’ revenue and profit of the Group had Guangzhou Yuewei been acquired on 1 January 2021, the directors of the Company calculated depreciation and amortisation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

**Assets acquisition**

During the Track Record Period, the Group acquired 100% equity interests in two subsidiaries in 2020 that are accounted for as asset acquisition.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36. ACQUISITION OF SUBSIDIARIES—continued

Assets acquisition—continued

For the year ended 31 December 2020

*Assets and liabilities recognised at the date of acquisition*

	Xi’an Leying	Liaoning Lexing	Total
	RMB’000 (Note 1)	RMB’000 (Note 2)	RMB’000
Intangible assets . . . . .	3,500	3,970	7,470
Trade and other payables . . . . .	—	(2,340)	(2,340)
	<u>3,500</u>	<u>1,630</u>	<u>5,130</u>
<i>Net cash outflows arising on acquisition</i>			
Consideration paid in cash . . . . .	<u>3,500</u>	<u>1,630</u>	<u>5,130</u>

Notes:

- (1) On 26 August 2020, the Group acquired 100% equity interest in Xi’an Leying Zhongkang Pharmaceutical Chain Co., Ltd. (“Xi’an Leying”) at a cash consideration of approximately RMB3,500,000.
- (2) On 1 June 2020, the Group acquired 100% equity interest in Liaoning lexing Pharmaceutical Co., Ltd. (“Liaoning Lexing”) at a cash consideration of approximately RMB1,630,000.

37. TRANSFER OF FINANCIAL ASSETS

The following were the Group’s financial assets as at 31 December 2020, 2021 and 2022 that were transferred to banks or suppliers by discounting or endorsing those note receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the note receivables and has recognised the cash received on the transfer as a bank borrowing (see Note 28) for discounted note receivables or it continues to recognise the full carrying amount of the note receivables and the full carrying amount of the trade payables (see Note 25) for endorsed notes receivables. These financial assets are carried at amortised cost in the Group’s consolidated statements of financial position.

As at 31 December 2020

	Note receivables discounted to banks with full recourse	Note receivables endorsed to suppliers with full recourse	Total
	RMB’000	RMB’000	RMB’000
Carrying amount of transferred financial assets . . . . .	90,983	159,924	250,907
Carrying amount of associated liabilities . . . . .	(90,983)	(159,924)	(250,907)
	<u>—</u>	<u>—</u>	<u>—</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

37. TRANSFER OF FINANCIAL ASSETS—continued

As at 31 December 2021

	Note receivables discounted to banks with full recourse	Note receivables endorsed to suppliers with full recourse	Total
	RMB’000	RMB’000	RMB’000
Carrying amount of transferred financial assets .....	—	10,355	10,355
Carrying amount of associated liabilities .....	—	(10,355)	(10,355)
	=	=	=

As at 31 December 2022

	Note receivables discounted to banks with full recourse	Note receivables endorsed to suppliers with full recourse	Total
	RMB’000	RMB’000	RMB’000
Carrying amount of transferred financial assets .....	—	28,209	28,209
Carrying amount of associated liabilities .....	—	28,209	28,209
	=	=	=

38. CAPITAL COMMITMENTS

	As of 31 December		
	2020	2021	2022
	RMB’000	RMB’000	RMB’000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information .....	2,445	8,741	3,788
	=	=	=

39. RELATED PARTY TRANSACTIONS

Details of the balances with a shareholder are disclosed in the consolidated statements of financial position on page I-6 and Note 22.

Compensation of key management personnel

The remuneration of directors who are also the key management personnel during the Track Record Period is set out in Note 12.

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued  
**40. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES**

Details of the principal subsidiaries directly and indirectly held by the Company are set out below:

Name of subsidiaries	Place of incorporation /registration /operations	Paid up/ issued capital	Registered capital	Proportion ownership interest attributable by the Company		Date of the report	Principal activities
				As at 31 December			
				2020	2021		
Guangzhou Leyao Information Technology Co., Ltd. (Note d) 廣州樂藥信息科技有限公司	The PRC	USD256,000,000	USD256,000,000	100%	100%	100%	Investment holding
Guangdong Dihao (Note c) 廣東帝豪藥業有限公司	The PRC	RMB105,000,000	RMB105,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Hubei Chengweishang Pharmaceutical Co., Ltd. (Note c & d) 湖北誠為上醫藥有限公司	The PRC	RMB43,500,000	RMB43,500,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Chengdu Bellebang Pharmaceutical Co., Ltd. (Note d) 成都北樂幫醫藥有限公司	The PRC	RMB81,000,000	RMB81,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Jiangsu Jinshi Pharmaceutical Co., Ltd. (Note d) 江蘇金石醫藥有限公司 (formerly known as Taizhou Xinsiwei Pharmaceutical Co., Ltd. 泰州市新思維藥業有限公司)	The PRC	RMB91,000,000	RMB91,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Guangdong Dongjian (Note c) 廣東東健醫藥有限公司	The PRC	RMB146,000,000	RMB146,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Anhui Leyao Pharmaceutical Co., Ltd. (Note d) 安徽樂藥醫藥有限公司	The PRC	RMB76,000,000	RMB76,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Guangdong Jiuzhang Pharmaceutical Co., Ltd. (Note c) 廣東九章醫藥有限公司	The PRC	RMB10,000,000	RMB10,000,000	100%	100%	100%	Retail of pharmaceutical and healthcare products
Chongqing Yangtuo Pharmaceutical Co., Ltd. (Note d) 重慶央拓醫藥有限公司	The PRC	RMB55,000,000	RMB55,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Shandong Leyao Pharmaceutical Co., Ltd. (Note d & f) 山東樂藥醫藥有限公司	The PRC	RMB6,000,000	RMB6,000,000	100%	100%	0%	Wholesale of pharmaceutical and healthcare products
Donghua Yutai Pharmaceutical Co., Ltd. (Note d) 東華宇泰(福建)醫藥有限公司	The PRC	RMB56,000,000	RMB56,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products
Jilin Zhongxin Pharmaceutical Co., Ltd. (Note d) 吉林省眾鑫藥業有限公司	The PRC	RMB50,000,000	RMB60,000,000	100%	100%	100%	Wholesale of pharmaceutical and healthcare products

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued  
**40. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES—continued**

Name of subsidiaries	Place of incorporation /registration /operations	Paid up/ issued capital	Registered capital	Proportion ownership interest attributable by the Company		Date of the report	Principal activities
				As at 31 December			
				2020	2021		
Beijing Huisheng Pharmaceutical Co., Ltd. (Note d) 北京惠生醫藥有限責任公司	The PRC	RMB42,800,000	RMB42,800,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Jinan Gonghao Pharmaceutical Co., Ltd. (Note d) 濟南共好醫藥有限公司	The PRC	RMB26,000,000	RMB41,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Heilongjiang Changle Pharmaceutical Co., Ltd. (Note d) 黑龍江常樂醫藥有限公司	The PRC	RMB47,000,000	RMB57,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Zhejiang Kangchen Pharmaceutical Co., Ltd. (Note d) 浙江康臣醫藥有限公司	The PRC	RMB52,000,000	RMB52,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Shaanxi Leying Pharmaceutical Co., Ltd. (Note d) 陝西榮盈醫藥有限公司	The PRC	RMB28,000,000	RMB28,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Shanxi Lejin Pharmaceutical Co., Ltd (Note d) 山西樂進醫藥有限公司	The PRC	RMB23,000,000	RMB23,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Liaoning Lexing (Note d) 遼寧樂興醫藥有限公司	The PRC	RMB31,000,000	RMB31,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
Guangzhou Junhe Huilian Supply Chain Management Co., Ltd. (Note d) 廣州君合惠聯供應鏈管理有限公司	The PRC	RMB473,398,631	RMB494,000,000	100%	100%	[100%]	Investment holding
Xi'an Leying Zhongkang pharmaceutical chain Co., Ltd. (Note d) 西安榮盈卓康醫藥連鎖有限公司 (formerly known as Shanxi Yiyi Pharmaceutical Co., Ltd. 陝西一意醫藥有限公司)	The PRC	RMB28,000,000	RMB28,000,000	100%	100%	[100%]	Wholesale of pharmaceutical and healthcare products
YSB Investment Limited (Note a) 藥師幫投資有限公司	Hong Kong	USD166,299,980	N/A	100%	100%	[100%]	Investment holding
Guangzhou Sudaoyi (Note c) 廣州速連易信息科技有限公司	The PRC	RMB1,120,246,702	RMB1,122,890,000	100%	100%	[100%]	Platform and software service

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued  
**40. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES—continued**

Name of subsidiaries	Place of incorporation /registration /operations	Paid up/ issued capital	Registered capital	Proportion ownership interest attributable by the Company		Date of the report	Principal activities
				As at 31 December			
				2020	2021		
Guangzhou Sudaoyi Business Service Co., Ltd. (Note c) 廣州穗道易商務服務有限公司	The PRC	nil	RMB1,000,000	100%	100%	[100%]	Platform and software service
Guangzhou Yaoshibang Network Technology Co., Ltd. (Notes d & f) 廣州藥幫網絡科技有限公司	The PRC	RMB2,000,000	RMB2,000,000	100%	100%	[0%]	Platform and software service
Hainan Yaoshibang Information Technology Co., Ltd. (Notes d & e) 海南藥幫信息科技有限公司	The PRC	nil	RMB1,000,000	100%	100%	[0%]	Platform and software service
Beijing Yaoshibang Network Technology Co., Ltd. (Notes d & f) 北京藥幫網絡科技有限公司	The PRC	nil	RMB100,000	100%	100%	[0%]	Platform and software service
Henan Subiao Information Technology Co., Ltd. (Note d) 河南速標信息科技有限公司	The PRC	nil	RMB1,000,000	100%	100%	[100%]	Platform and software service
Hainan Sudaoyi Information Technology Co., Ltd. (Notes d & e) 海南穗道易信息科技有限公司	The PRC	nil	RMB1,000,000	100%	100%	[0%]	Platform and software service
Leyou Investment Limited (Note a)	Hong Kong	USD204,830,000	N/A	100%	100%	[100%]	Investment holding
Guangzhou Yaobang* (Note d) 廣州藥幫信息科技有限公司	The PRC	nil	RMB1,000,000	0%	0%	[0%]	Platform and software service
Guangzhou Sudaoyi* (Note c) 廣州穗道易信息科技有限公司	The PRC	RMB9,818,877	RMB9,818,877	0%	0%	[0%]	Platform and software service
Dongguan Dalingshan Jianshui Comprehensive Clinic Co., Ltd. (Notes d & f) 東莞市大嶺山健惠綜合門診有限公司	The PRC	nil	RMB1,000,000	N/A	100%	[0%]	Healthy inspection

\* The Group obtained control over these entities through Contractual Arrangements as set out in Note 5.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued  
**40. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES—continued**

Name of subsidiaries	Place of incorporation /registration /operations	Paid up/ issued capital	Registered capital	Proportion ownership interest attributable by the Company		Date of the report	Principal activities
				As at 31 December			
				2020	2021		
Hebei Zeyi Pharmaceutical Co., Ltd. (Note d) 河北澤怡醫藥有限公司	The PRC	RMB15,000,000	RMB15,000,000	N/A	100%	100%	[100%] Wholesale of pharmaceutical and healthcare products
Zhejiang Leyao Pharmaceutical Co., Ltd. (Note c & d) 浙江樂藥醫藥有限公司	The PRC	RMB45,000,000	RMB45,000,000	N/A	100%	100%	[100%] Wholesale of pharmaceutical and healthcare products
Hunan Leyao Pharmaceutical Co., Ltd. (Note d) 湖南樂藥醫藥有限公司	The PRC	RMB25,000,000	RMB25,000,000	N/A	100%	100%	[100%] Wholesale of pharmaceutical and healthcare products
Henan Huiying Pharmaceutical Co., Ltd. (Note c & d) 河南惠盈醫藥有限公司	The PRC	RMB70,000,000	RMB70,000,000	N/A	100%	100%	[100%] Wholesale of pharmaceutical and healthcare products
YSB Technology Limited (Note b)	The British Virgin Islands	nil	N/A	N/A	100%	100%	[100%] Investment holding
YSB Technology (Hong Kong) Limited (Note a)	Hong Kong	nil	N/A	N/A	100%	100%	[100%] Investment holding
YSB Health Limited (Note a)	Hong Kong	nil	N/A	N/A	100%	100%	[100%] Investment holding
Guangzhou Yuewei (Note d) 廣州國微醫學檢驗所有限公司	The PRC	RMB7,000,000	RMB10,000,000	N/A	100%	100%	[100%] Medical testing services
Tianjin Yaoshibang Comprehensive Clinic Co., Ltd. (Notes d & f) 天津藥師幫綜合門診有限公司	The PRC	nil	RMB5,000,000	N/A	100%	0%	[0%] Medical testing services
Guangzhou Xiaoweicang Smart Drug Store Technology Co., Ltd. (Note d) 廣州小微信倉智能藥店科技有限公司	The PRC	nil	RMB1,000,000	N/A	70%	70%	[70%] Intelligent Pharmacy services
Guangzhou Linyaozhui Information Technology Co., Ltd. (Note d) 廣州鄰藥匯信息科技有限公司	The PRC	nil	USD1,000,000	N/A	100%	100%	[100%] Investment holding
Guangzhou Guangpu Health Technology Co., Ltd. (Note d) 廣州光譜健康科技有限公司	The PRC	nil	RMB1,000,000	N/A	70%	70%	[70%] Medical testing services

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ACCOUNTANTS’ REPORT

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued  
**40. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES—continued**

Name of subsidiaries	Place of incorporation /registration /operations	Paid up/ issued capital	Registered capital	Proportion ownership interest attributable by the Company		Date of the report	Principal activities
				As at 31 December			
				2020	2021		
Guangzhou Sudaoyi Project Management Consulting Co., Ltd. (Note d) 廣州速道易項目管理顧問有限公司	The PRC	nil	RMB100,000	N/A	100%	100%	[100%] Investment holding
Guangzhou Sudaoyi Enterprise Management Consulting Co., Ltd. (Note d) 廣州速道易企業管理顧問有限公司	The PRC	nil	RMB100,000	N/A	100%	100%	[100%] Investment holding
Guangzhou Sudaoyi Business Consulting Co., Ltd. (Note d) 廣州速道易商務諮詢有限公司	The PRC	nil	USD50,000	N/A	100%	100%	[100%] Investment holding
Jiangxi Leyao Pharmaceutical Co., Ltd. (Note d) 江西樂藥醫藥有限公司	The PRC	RMB10,000,000	RMB10,000,000	N/A	N/A	100%	[100%] Wholesale of pharmaceutical and healthcare products



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NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES—continued

Notes:

- (a) No statutory audited financial statements for these companies have been prepared since their incorporation.
- (b) No statutory financial statements have been prepared for this company as it was not subject to statutory audit requirements under the relevant rules and regulations for the jurisdiction of incorporation and establishment.
- (c) The statutory financial statements of these subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and regulation in the PRC. The statutory financial statements for the years ended 31 December 2020, 2021 and [2022] were audited by the following certified public accountants registered in the PRC:

**Subsidiaries**

Hubei Chengweishang Pharmaceutical Co., Ltd.  
Guangdong Dongjian  
Guangdong Jiuzhang  
Guangzhou Sudaoyi  
Guangzhou Sudao  
Guangzhou Sudaoyi Business Service Co., Ltd.  
Zhejiang Leyao Pharmaceutical Co., Ltd.

**Year ended 31 December 2020**

湖北華豐會計師事務所有限公司  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
浙江中健會計師事務所（普通合夥）

**Subsidiaries**

Guangdong Dongjian  
Guangdong Dihao  
Henan Huiying Pharmaceutical Co., Ltd.  
Guangdong Jiuzhang Pharmaceutical Co., Ltd.  
Guangzhou Sudaoyi Business Service Co., Ltd.  
Guangzhou Sudao  
Guangzhou Sudaoyi

**Year ended 31 December 2021**

大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
河南謙益會計師事務所（普通合夥）  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所  
大信會計師事務所（特殊普通合夥）南沙自貿區分所

- (d) No audited statutory financial statements have been prepared for the subsidiaries incorporated in the PRC listed above, since there are no statutory audit requirement.
- (e) Hainan Yaoshibang Information Technology Co., Ltd. and Hainan Sudao Information Technology Co., Ltd. have been liquidated on 24 February 2022 and 22 February 2022, respectively.
- (f) Guangzhou Yaoshibang Network Technology Co., Ltd., Beijing Yaoshibang Network Technology Co., Ltd., Dongguan Dalingshan Jianhui Comprehensive Clinic Co., Ltd., Tianjin Yaoshibang Comprehensive Clinic Co., Ltd. and Shandong Leyao Pharmaceutical Co., Ltd. have been disposed to an independent third party with a total gain of RMB1,344,000 on 8 April 2022, 6 April 2022, 28 March 2022, 1 April 2022 and 9 October 2022, respectively.

The above table lists the subsidiaries and consolidated affiliated entities of the Company that the directors of the Company believe to principally affect the results or assets of the Group. In the opinion of the directors of the Company, to give details of other subsidiaries would, result in particulars of excessive length.

The voting power of the subsidiaries and consolidated affiliated entities held by the Company are same with the ownership interest held by the Company.

None of the subsidiaries and consolidated affiliated entities had issued any debt securities during the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

41. DEFICITS OF THE COMPANY

	Share- based payments reserve	Accumulated losses	Total
	RMB’000	RMB’000	RMB’000
At 1 January 2020 .....	—	(1,093,623)	(1,093,623)
Loss and other comprehensive expense for the year .....	—	(294,697)	(294,697)
At 31 December 2020 .....	—	(1,388,320)	(1,388,320)
Loss and other comprehensive expense for the year .....	—	(169,207)	(169,207)
Recognition of equity-settled share-based payments .....	24,362	—	24,362
Transfer forfeited equity-settled share based payments to accumulated losses .....	(322)	322	—
At 31 December 2021 .....	24,040	(1,557,205)	(1,533,165)
Loss and other comprehensive expense for the year .....	—	(1,368,675)	(1,368,675)
Recognition of equity-settled share-based payments .....	38,817	—	38,817
Transfer forfeited equity-settled share-based payments to accumulated losses .....	(3,683)	3,683	—
At 31 December 2022 .....	<u>59,174</u>	<u>(2,922,197)</u>	<u>(2,863,023)</u>

42. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2022.

43. SUBSEQUENT EVENTS

On [●], the shareholders of the Company passed set of resolutions to approve the below matter set out in the paragraph headed “Resolutions of our Shareholders dated [●]” in Appendix IV to the [REDACTED]. It was resolved, among other things, immediately following the share subdivision, each of the 5,000,000,000 authorised (whether issued or unissued) shares of par value of US\$0.00001 each be subdivided into four shares with a par value of US\$0.0000025 each (“Share Subdivision”).

[Save as disclosed above, there have been no other material subsequent events identified subsequent to 31 December 2022.]

**APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The information set out below does not form part of the Accountants’ Report received from the Company’s reporting accountants, [Deloitte Touche Tohmatsu], Certified Public Accountants, Hong Kong as set out in Appendix I to this [REDACTED], and is included in this [REDACTED] for information purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” of this [REDACTED] and the Accountants’ Report as set out in Appendix I to this [REDACTED].

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS LESS LIABILITIES OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The unaudited pro forma statement of adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the [REDACTED] on the audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 as if the [REDACTED] had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 or any future dates following the [REDACTED].

The following unaudited pro forma statement of adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company is prepared based on the audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 as derived from the Accountants’ Report as set out in Appendix I to this [REDACTED], and adjusted as follows:

	Audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 RMB’000 Note 1	Estimated [REDACTED] from the [REDACTED] RMB’000 Note 2	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 RMB’000	Unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 per Share RMB Note 3                      HK\$ Note 4	
Based on an [REDACTED] of [REDACTED] per [REDACTED] . . . . .	(4,458,936)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of [REDACTED] per [REDACTED] . . . . .	(4,458,936)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 is arrived at after deducting intangible assets of RMB98,903,000 and goodwill of RMB9,252,000 from the audited consolidated net liabilities attributable to owners of the Company of RMB4,350,781,000 from the Accountants’ Report set out in Appendix I to this [REDACTED].
- (2) The estimated [REDACTED] from the [REDACTED] are based on [REDACTED] new shares to be issued at the [REDACTED] of [REDACTED] and [REDACTED] per [REDACTED], being the [REDACTED] and [REDACTED] of the stated [REDACTED], respectively, after deduction of the estimated [REDACTED] fees and [REDACTED] and other related expenses paid/payable by the Group (excluding [REDACTED] charged to profit or loss up to 31 December 2022). It does not take into account any shares which may be allotted and issued pursuant to the

## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

exercise of the [REDACTED] or options which may be granted under the Share Option Scheme or any shares which may be issued or repurchased by the Company pursuant to the Company’s general mandate or the conversion of all preferred shares existing on 31 December 2022 into ordinary shares of the Company.

For the purpose of the estimated [REDACTED] from the [REDACTED], the amount denominated in HK\$ has been converted into RMB at the rate of HK\$1 to RMB0.89706, which was the exchange rate prevailing on [22 May 2023] with reference to the rate published by the People’s Bank of China. No representation is made that the HK\$ denominated amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.

- (3) The unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company per share is arrived at on the basis of [REDACTED] shares were in issue, assuming that the Share Subdivision and [REDACTED] had been completed on 31 December 2022. It does not take into account any shares which may be allotted and issued pursuant to the exercise of the [REDACTED] or options which may be granted under the Share Option Scheme or any shares which may be issued or repurchased by the Company pursuant to the Company’s general mandate or the conversion of all preferred shares existing on 31 December 2022 into ordinary shares of the Company.
- (4) For the purpose of unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company per share, the amount denominated in RMB has been converted into HK\$ at the rate of RMB1 to HK\$1.11475, which was the exchange rate prevailing on [22 May 2023] with reference to the rate published by the People’s Bank of China. No representation is made that the RMB denominated amounts have been, would have been or may be converted to HK\$, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2022. In particular, the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as shown on Page II-1 have not been adjusted to illustrate the effect of the following:

Upon completion of the [REDACTED], the conversion of all preferred shares existing on 31 December 2022 would have reclassified the carrying amount of all preferred shares existing on 31 December 2022 of RMB[REDACTED], assuming no further changes in fair values of all preferred shares existing on 31 December 2022 upon [REDACTED], to ordinary shares under equity. The conversion of all preferred shares existing on 31 December 2022 would have increased the total number of shares in issue assumption stated in Note 3 by [491,225,068] shares (after the effect of Share Subdivision) and would have adjusted the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 by RMB[REDACTED].

The effect of the conversion of preferred shares into ordinary shares of the Company (the “Subsequent Transactions”) would have adjusted the unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company as at 31 December 2022 by RMB[REDACTED] to unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company of RMB[REDACTED] based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company of RMB[REDACTED] based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and would have increased the total Shares in issue by [491,225,068] Shares to a total of [REDACTED] Shares in issue. Had the Subsequent Transactions been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2022 per Share would be RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] and RMB[REDACTED] (equivalent to HK\$[REDACTED]) based on an [REDACTED] of HK\$[REDACTED] per [REDACTED], respectively.

For the purpose of unaudited pro forma adjusted consolidated net tangible assets less liabilities of the Group attributable to owners of the Company per share, the amount denominated in RMB has been converted into HK\$ at the rate of RMB1 to HK\$1.11475, which was the exchange rate prevailing on [22 May 2023] with reference to the rate published by the People’s Bank of China. No representation is made that the RMB denominated amounts have been, could have been or may be converted to HK\$, or vice versa, at that rate or any other rates or at all.

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[REDACTED]

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[REDACTED]

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[REDACTED]

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**APPENDIX III**

**SUMMARY OF THE CONSTITUTION OF OUR  
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the constitution of the Company and certain aspects of the company laws of the Cayman Islands.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 August 2018 under the Companies Act. The Company’s constitutional documents consist of the Memorandum of Association and the Articles of Association.

**SUMMARY OF THE CONSTITUTION OF OUR COMPANY**

**Memorandum of Association**

The Memorandum provides, *inter alia*, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted (and therefore include acting as an investment holding company) and that the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

**Articles of Association**

The Articles were conditionally adopted on [●] and will become effective on the Listing Date. A summary of certain provisions of the Articles is set out below.

**1. Shares**

(a) *Classes of Shares*

The share capital of the Company consists of a single class of ordinary shares.

(b) *Variation of Rights of Existing Shares or Classes of Shares*

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of at least three-fourths of the issued Shares of that class, or with the approval of a resolution passed by at least three-fourths of the votes cast by the holders of the Shares of that class present and voting in person or by proxy at a separate meeting of such holders. The provisions of the Articles relating to general meetings shall apply *mutatis mutandis* to every such separate meeting, except that the necessary quorum shall be two persons together holding (or, in the case of a member being a corporation, by its duly authorised representative), or representing by proxy, at least one-third of the issued Shares of that class. Every holder of Shares of the class shall be entitled on a poll to one vote for every such Share held by him, and any holder of Shares of the class present in person or by proxy may demand a poll.

For the purposes of a separate class meeting, the Board may treat two or more classes of Shares as forming one class of Shares if the Board considers that such classes of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.

Any rights conferred upon the holders of Shares of any class shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.



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**(c) *Alteration of Capital***

The Company may by ordinary resolution:

- (i) increase its share capital by the creation of new Shares of such amount and with such rights, priorities and privileges attached to such Shares as it may determine;
- (ii) consolidate and divide all or any of its share capital into Shares of a larger amount than its existing Shares. On any consolidation of fully paid Shares and division into Shares of a larger amount, the Board may settle any difficulty which may arise as it thinks expedient and, in particular (but without prejudice to the generality of the foregoing), may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into a consolidated Share, and if it shall happen that any person shall become entitled to fractions of a consolidated Share or Shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the Shares so sold to the purchaser(s) thereof and the validity of such transfer shall not be questioned, and the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated Share or Shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) sub-divide its Shares or any of them into Shares of an amount smaller than that fixed by the Memorandum; and
- (iv) cancel any Shares which, as at the date of passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled.

The Company may by special resolution reduce its share capital or any undistributable reserve, subject to the provisions of the Companies Act.

**(d) *Transfer of Shares***

Subject to the terms of the Articles, any member of the Company may transfer all or any of his Shares by an instrument of transfer. If the Shares in question were issued in conjunction with rights, options, warrants or units issued pursuant to the Articles on terms that one cannot be transferred without the other, the Board shall refuse to register the transfer of any such Share without evidence satisfactory to it of the like transfer of such right, option, warrant or unit.

Subject to the Articles and the requirements of the Stock Exchange, all transfers of Shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a recognised clearing house or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The

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transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the register of members of the Company in respect of that Share.

Subject to the provisions of the Companies Act, if the Board considers it necessary or appropriate, the Company may establish and maintain a branch register or registers of members at such location or locations within or outside the Cayman Islands as the Board thinks fit. The Board may, in its absolute discretion, at any time transfer any Share on the principal register to any branch register or any Share on any branch register to the principal register or any other branch register.

The Board may, in its absolute discretion, decline to register a transfer of any Share (not being a fully paid Share) to a person of whom it does not approve or on which the Company has a lien, or a transfer of any Share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any Share to more than four joint holders. It may also decline to recognise any instrument of transfer if the proposed transfer does not comply with the Articles or any requirements of the Listing Rules.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of Share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules and the relevant section of the Companies Ordinance, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid Shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) ***Redemption of Shares***

Subject to the provisions of the Companies Act, the Listing Rules and any rights conferred on the holders of any Shares or attaching to any class of Shares, the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the members or the Company. The redemption of such Shares shall be effected in such manner and upon such other terms as the Company may by special resolution determine before the issue of such Shares.

(f) ***Power of the Company to Purchase its own Shares***

Subject to the Companies Act, or any other law or so far as not prohibited by any law and subject to any rights conferred on the holders of any class of Shares, the Company shall have the power to purchase or otherwise acquire all or any of its own Shares (which includes redeemable Shares), provided that the manner and terms of purchase have first been authorised by ordinary resolution and that any such purchase shall only be made in

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accordance with the relevant code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong from time to time in force.

**(g) *Power of any Subsidiary of the Company to own Shares in the Company***

There are no provisions in the Articles relating to the ownership of Shares in the Company by a subsidiary.

**(h) *Calls on Shares and Forfeiture of Shares***

Subject to the terms of allotment and issue of any Shares (if any), the Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the Shares held by them (whether in respect of par value or share premium). A member who is the subject of the call shall (subject to receiving at least 14 clear days' notice specifying the time or times for payment) pay to the Company at the time or times so specified the amount called on his Shares. A call may be made payable either in one sum or by instalments, and shall be deemed to have been made at the time when the resolution of the Board authorising such call was passed. The joint holders of a Share shall be severally as well as jointly liable for the payment of all calls and instalments due in respect of such Share.

If a call remains unpaid after it has become due and payable, the member from whom the sum is due shall pay interest on the unpaid amount at such rate as the Board shall determine (together with any expenses incurred by the Company as a result of such non-payment) from the day it became due and payable until it is paid, but the Board may waive payment of such interest or expenses in whole or in part.

If a member fails to pay any call or instalment of a call after it has become due and payable, the Board may, for so long as any part of the call or instalment remains unpaid, give to such member not less than 14 clear days' notice requiring payment of the unpaid amount together with any interest which may have accrued and which may still accrue up to the date of payment (together with any expenses incurred by the Company as a result of such non-payment). The notice shall specify a further day on or before which the payment required by the notice is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the Shares in respect of which the call was made will be liable to be forfeited.

If such notice is not complied with, any Share in respect of which the notice was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Board. Such forfeiture shall include all dividends, other distributions and other monies payable in respect of the forfeited Share and not paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares, shall surrender to the Company for cancellation the certificate(s) for the Shares forfeited and shall remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the Shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of payment as the Board may determine and any expenses incurred by the Company as a result of such non-payment.

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2. Directors

(a) *Appointment, Retirement and Removal*

The Company may by ordinary resolution of the members elect any person to be a Director. The Board may also appoint any person to be a Director at any time, either to fill a casual vacancy or as an additional Director subject to any maximum number fixed by the members in general meeting or the Articles. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The members may by ordinary resolution remove any Director (including a managing or executive Director) before the expiration of his term of office, notwithstanding anything in the Articles or any agreement between the Company and such Director, and may by ordinary resolution elect another person in his stead. Nothing shall be taken as depriving a Director so removed of any compensation or damages payable to such Director in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director.

The office of a Director shall be vacated if:

- (i) the Director gives notice in writing to the Company that he resigns from his office as Director;
- (ii) the Director is absent, without being represented by proxy or an alternate Director appointed by him, for a continuous period of 12 months without special leave of absence from the Board, and the Board passes a resolution that he has by reason of such absence vacated his office;
- (iii) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (iv) the Director dies or an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (v) the Director is prohibited from being or ceases to be a Director by operation of law;
- (vi) the Director has been required by the Stock Exchange to cease to be a Director or no longer qualifies to be a Director pursuant to the Listing Rules; or
- (vii) the Director is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. If the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors, provided that every Director shall be subject to retirement by rotation at least once every

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three years. The Directors to retire at each annual general meeting shall be those who have been in office longest since their last re-election or appointment and, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

**(b) *Power to Allot and Issue Shares and other Securities***

Subject to the provisions of the Companies Act, the Memorandum and Articles and, where applicable, the Listing Rules, and without prejudice to any rights or restrictions for the time being attached to any Shares, the Board may allot, issue, grant options over or otherwise dispose of Shares with or without preferred, deferred or other rights or restrictions, whether with regard to dividend, voting, return of capital or otherwise, to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no Shares shall be issued at a discount to their par value.

The Company may issue rights, options, warrants or convertible securities or securities of a similar nature conferring the right upon the holders thereof to subscribe for, purchase or receive any class of Shares or other securities in the Company on such terms as the Board may from time to time determine.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

**(c) *Power to Dispose of the Assets of the Company or any of its Subsidiaries***

Subject to the provisions of the Companies Act, the Memorandum and Articles and any directions given by special resolution of the Company, the Board may exercise all powers and do all acts and things which may be exercised or done by the Company to dispose of the assets of the Company or any of its subsidiaries. No alteration to the Memorandum or Articles and no direction given by special resolution of the Company shall invalidate any prior act of the Board which would have been valid if such alteration or direction had not been made or given.

**(d) *Borrowing Powers***

The Board may exercise all the powers of the Company to raise or borrow money, secure the payment of any sum or sums of money for the purposes of the Company, mortgage or charge all or any part of its undertaking, property and uncalled capital of the Company, and, subject to the Companies Act, issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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(e) ***Remuneration***

A Director shall be entitled to receive such sums as shall from time to time be determined by the Board or the Company in general meetings. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in connection with attendance at meetings of the Board or committees of the Board, or general meetings of the Company or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company and the discharge of their duties as Directors, and/or to receive fixed allowances in respect thereof as may be determined by the Board.

The Board or the Company in general meetings may also approve additional remuneration to any Director for any services which in the opinion of the Board or the Company in general meetings go beyond such Director's ordinary routine work as a Director.

(f) ***Compensation or Payments for Loss of Office***

There are no provisions in the Articles relating to compensation or payment for loss of office.

(g) ***Loans to Directors***

There are no provisions in the Articles relating to making of loans to Directors.

(h) ***Disclosure of Interest in Contracts with the Company or any of its Subsidiaries***

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company.

No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, nor shall any such contract or any other contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director is in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding such office or of the fiduciary relationship established by it, provided that the nature of interest of any Director or alternate Director in any such contract or transaction shall be disclosed by such Director or alternate Director at or prior to the consideration and vote thereon.

A Director shall not vote on (or be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or other proposal in which he or any

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of his close associate(s) has a material interest, and if he shall do so his vote shall not be counted and he shall not be counted in the quorum for such resolution. This prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of Shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub- underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of (A) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit or (B) any pension fund or retirement, death or disability benefits scheme which relates to the Director, his close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of Shares, debentures or other securities of the Company by virtue only of his/their interest in those Shares, debentures or other securities.

**3. Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Unless otherwise determined, two Directors shall be a quorum. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**4. Alterations to the Constitutional Documents and the Company's Name**

The Memorandum and Articles may only be altered or amended, and the name of the Company may only be changed, by special resolution of the Company.

**5. Meetings of Members**

(a) *Special and Ordinary resolutions*

A special resolution must be passed by a majority of not less than three-fourths of the voting rights held by such members as, being entitled so to do, vote in person or by proxy

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or, in the case of any members which is a corporation, by its duly authorised representative(s) or by proxy, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. A special resolution may also be approved in writing by all the members entitled to vote at a general meeting in one or more instruments each signed by one or more of such members.

An ordinary resolution, in contrast, is a resolution passed by a simple majority of the voting rights held by such members as, being entitled to do so, vote in person or by proxy or, in the case of any member which is a corporation, by its duly authorised representative(s) or by proxy, at a general meeting. An ordinary resolution may also be approved in writing by all the members entitled to vote at a general meeting in one or more instruments each signed by one or more of such members.

The provisions of special resolutions and ordinary resolutions shall apply *mutatis mutandis* to any resolutions passed by the holders of any class of shares.

(b) ***Voting Rights and Right to Demand a Poll***

Subject to any rights, restrictions or privileges as to voting for the time being attached to any class or classes of Shares, at any general meeting: (a) on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every Share and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote.

In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members of the Company.

No person shall be counted in a quorum or be entitled to vote at any general meeting unless he is registered as a member on the record date for such meeting, nor unless all calls or other monies then payable by him in respect of the relevant Shares have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Any corporation or other non-natural person which is a member of the Company may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body or by power of attorney, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members, and the person so authorised shall be entitled to exercise the same powers as the corporation or other non-natural person could exercise as if it were a natural person member of the Company.

If a recognised clearing house or its nominee(s) is a member of the Company, it may appoint proxies or authorise such person or persons as it thinks fit to act as its representative(s), who enjoy rights equivalent to the rights of other members, at any meeting of the Company (including but not limited to general meetings and creditors



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meetings) or at any meeting of any class of members of the Company, provided that if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person so authorised shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house or its nominee(s) as if such person were a natural person member of the Company, including the right to speak and vote individually on a show of hands or on a poll.

All members of the Company (including a member which is a recognised clearing house (or its nominee(s))) shall have the right to (i) speak at a general meeting and (ii) and vote at a general meeting except where a member is required by the Listing Rules to abstain from voting to approve the matter under consideration. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

**(c) *Annual General Meetings and Extraordinary General Meetings***

The Company must hold a general meeting as its annual general meeting for each financial year. Such meeting shall be specified as such in the notices calling it, and must be held within six months after the end of the Company's financial year. A meeting of the members or any class thereof may be held by telephone, tele-conferencing or other electronic means, provided that all participants are able to communicate contemporaneously with one another, and participation in a meeting in such manner shall constitute presence at such meetings.

The Board may convene an extraordinary general meeting whenever it thinks fit. In addition, one or more members holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per Share basis) in the share capital of the Company may make a requisition to convene an extraordinary general meeting and/or add resolutions to the agenda of a general meeting. Such requisition, which must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionists, shall be deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal place of business, the registered office of the Company. If the Board does not within 21 days from the date of deposit of such requisition duly proceed to convene a general meeting to be held within the following 21 days, the requisitionists or any of them representing more than one-half of the total voting rights of all the requisitionists may themselves convene a general meeting, but any such meeting so convened shall be held no later than the day falling three months after the expiration of the said 21-day period. A general meeting convened by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by the Board, and all reasonable expenses incurred by the requisitionists shall be reimbursed to the requisitionists by the Company.

**(d) *Notices of Meetings and Business to be Conducted***

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days'

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notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the date, time, place and agenda of the meeting, the particulars of the resolution(s) to be considered at the meeting and the general nature of the business to be considered at the meeting.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address, (to the extent permitted by the Listing Rules and all applicable laws and regulations) by electronic means or (in the case of a notice) by advertisement published in the manner prescribed under the Listing Rules.

Notwithstanding that a meeting of the Company is called by shorter notice than as specified above, if permitted by the Listing Rules, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of an extraordinary general meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights held by such members.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Board in its absolute discretion consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Board also has the power to provide in every notice calling a general meeting that in the event of a gale warning, a black rainstorm warning or extreme conditions is/are in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Board may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (A) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, provided that failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning, a black rainstorm warning or extreme conditions being in force on the day of the general meeting;
- (B) the Board shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting. Such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such

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reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

- (C) only the business set out in the notice of the original meeting shall be considered at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be considered at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where any new business is to be considered at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles.

(e) ***Quorum for Meetings and Separate Class Meetings***

No business shall be considered at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to approve the variation of class rights, the necessary quorum shall be two persons holding or representing by proxy not less than one-third of the issued Shares of that class.

(f) ***Proxies***

Any member of the Company (including a member which is a recognised clearing house (or its nominee(s))) entitled to attend and vote at a meeting of the Company is entitled to appoint another person (being a natural person) as his proxy to attend and vote in his place. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is a natural person and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were a natural person member present in person at any general meeting. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing and executed under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation or other non-natural person, either under its seal or under the hand of a duly authorised representative.

The Board shall, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and time (being no later than the time appointed for the commencement of the meeting or adjourned meeting to which the instrument of proxy relates) at which such instrument shall be deposited.

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Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form that complies with the Listing Rules as the Board may from time to time approve. Any form issued to a member for appointing a proxy to attend and vote at a general meeting at which any business is to be considered shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise the discretion of the proxy in respect of) each resolution dealing with any such business.

**6. Accounts and Audit**

The Board shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions in accordance with the Companies Act.

The books of accounts of the Company shall be kept at the principal place of business of the Company in Hong Kong or, subject to the provisions of the Companies Act, at such other place or places as the Board thinks fit and shall always be open to inspection by any Director. No member (not being a Director) or other person shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Act or ordered by a court of competent jurisdiction or as authorised by the Board or the Company in general meeting.

The Board shall cause to be prepared and laid before the Company at every annual general meeting a profit and loss account for the period since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up, a Directors' report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditors' report on such accounts and such other reports and accounts as may be required by law and the Listing Rules.

The members shall at each annual general meeting appoint auditor(s) to hold office by ordinary resolution of the members until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the members at the annual general meeting at which they are appointed by ordinary resolution of the members or in any other manner as specified in such ordinary resolution. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by ordinary resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in their place for the remainder of the term.

The accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**7. Dividends and other Methods of Distribution**

Subject to the Companies Act and the Articles, the Company may by ordinary resolution resolve to declare dividends and other distributions on Shares in issue in any currency and authorise payment of the dividends or distributions out of the funds of the Company lawfully available therefor, provided that (i) no dividends shall exceed the amount recommended by the Board, and (ii) no dividends or distributions shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by law.

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The Board may from time to time pay to the members of the Company such interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. In addition, the Board may from time to time declare and pay special dividends on Shares of such amounts and on such dates as it thinks fit.

Except as otherwise provided by the rights attached to any Shares, all dividends and other distributions shall be paid according to the amounts paid up on the Shares that a member holds during the period in respect of which the dividends and distributions are paid. No amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share.

The Board may deduct from any dividends or other distributions payable to any member of the Company all sums of money (if any) then payable by him to the Company on account of calls or otherwise. The Board may retain any dividends or distributions payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

No dividends or other distributions payable by the Company on or in respect of any Share shall carry interest against the Company.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may further resolve:

- (a) that such dividend be satisfied in whole or in part in the form of an allotment of Shares credited as fully paid on the basis that the Shares so allotted shall be of the same class as the class already held by the allottee, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid in lieu of the whole or such part of the dividend as the Board may think fit on the basis that the Shares so allotted shall be of the same class as the class already held by the allottee.

Upon the recommendation of the Board, the Company may by ordinary resolution resolve in respect of any one particular dividend of the Company determine that notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividends, distributions or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder of such Shares or by cheque or warrant sent by post to the registered address of such holder, or in the case of joint holders, to the registered address of the holder who is first named on the register of members of the Company, or to such person and to such address as the holder or joint holders may in writing direct. Any one of two or more joint holders may give effectual receipts for any dividends, distributions or other monies payable in respect of the Shares held by them as joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied in whole or in part by the distribution of specific assets of any kind.

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Any dividends or other distributions which remain unclaimed for six years from the date on which such dividends or distributions become payable shall be forfeited and shall revert to the Company.

**8. Inspection of Corporate Records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed in accordance with the Companies Ordinance) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

**9. Rights of Minorities in relation to Fraud or Oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 below.

**10. Procedures on Liquidation**

Subject to the Companies Act, the members of the Company may by special resolution resolve to wind up the Company voluntarily or by the court.

Subject to any rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares:

- (a) if the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the Company's paid up capital at the commencement of the winding up, the surplus shall be distributed *pari passu* among such members in proportion to the amount paid up on the Shares held by them at the commencement of the winding up; and
- (b) if the assets available for distribution among the members of the Company are insufficient to repay the whole of the Company's paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or ought to be paid up, on the Shares held by them at the commencement of the winding up.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the approval of a special resolution and any other approval required by the Companies Act, divide among the members in kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like approval, vest any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

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**COMPANY LAWS OF THE CAYMAN ISLANDS**

The Company was incorporated in the Cayman Islands as an exempted company on 27 August 2018 subject to the Companies Act. Certain provisions of the company laws of the Cayman Islands are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the company laws of the Cayman Islands, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**1. Company Operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**2. Share Capital**

Under the Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premium on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Companies Act;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**3. Financial Assistance to Purchase Shares of a Company or its Holding Company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's

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or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**4. Purchase of Shares and Warrants by a Company and its Subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of section 37A(1) of the Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**5. Dividends and Distributions**

Subject to a solvency test, as prescribed in the Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.



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**6. Protection of Minorities and Shareholders' Suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**7. Disposal of Assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**8. Accounting and Auditing Requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it; and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**9. Exchange Control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

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**10. Taxation**

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- (b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (i) on or in respect of the shares, debentures or other obligations of the Company; or
  - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (2018 Revision).

The undertaking for the Company is for a period of 20 years from 7 June 2022.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**11. Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**12. Loans to Directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**13. Inspection of Corporate Records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**14. Register of Members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of

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member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (2021 Revision) of the Cayman Islands.

**15. Register of Directors and Officers**

Pursuant to the Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands, and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

**16. Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

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For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**17. Mergers and consolidations**

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting members have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

**18. Mergers and Consolidations involving a Foreign Company**

Where the merger or consolidation involves a foreign company, the procedure is similar, save that with respect to the foreign company, the directors of the Cayman Islands exempted company are required to make a declaration to the effect that, having made due enquiry, they are of the opinion that the requirements set out below have been met: (i) that the merger or consolidation is permitted or not prohibited by the constitutional documents of the foreign company and by the laws of the jurisdiction in which the foreign company is incorporated, and that those laws and any requirements of those constitutional documents have been or will be complied with; (ii) that no petition or other similar proceeding has been filed and remains outstanding or order made or resolution adopted to wind up or liquidate the foreign company in any jurisdictions; (iii) that no receiver, trustee, administrator or other similar person has been appointed in any jurisdiction and is acting in respect of the foreign company, its affairs or its property or any part thereof; (iv) that no scheme, order, compromise or other similar arrangement has been entered into or made in any jurisdiction whereby the rights of creditors of the foreign company are and continue to be suspended or restricted.

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Where the surviving company is the Cayman Islands exempted company, the directors of the Cayman Islands exempted company are further required to make a declaration to the effect that, having made due enquiry, they are of the opinion that the requirements set out below have been met: (i) that the foreign company is able to pay its debts as they fall due and that the merger or consolidated is bona fide and not intended to defraud unsecured creditors of the foreign company; (ii) that in respect of the transfer of any security interest granted by the foreign company to the surviving or consolidated company (a) consent or approval to the transfer has been obtained, released or waived; (b) the transfer is permitted by and has been approved in accordance with the constitutional documents of the foreign company; and (c) the laws of the jurisdiction of the foreign company with respect to the transfer have been or will be complied with; (iii) that the foreign company will, upon the merger or consolidation becoming effective, cease to be incorporated, registered or exist under the laws of the relevant foreign jurisdiction; and (iv) that there is no other reason why it would be against the public interest to permit the merger or consolidation.

**19. Reconstructions and Amalgamations**

Reconstructions and amalgamations may be approved by (i) 75% in value of the members or class of members or (ii) a majority in number representing 75% in value of the creditors or class of creditors, in each case depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, it can be expected that the court would approve the transaction if it is satisfied that (i) the company is not proposing to act illegally or beyond the scope of our corporate authority and the statutory provisions as to majority vote have been complied with, (ii) the members have been fairly represented at the meeting in question, (iii) the transaction is such as a businessman would reasonable approve and (iv) the transaction is not one that would more properly be sanctioned under some other provisions of the Companies Act or that would amount to a "fraud on the minority".

If the transaction is approved, no dissenting member would have any rights comparable to the appraisal rights (namely the right to receive payment in cash for the judicially determined value of his shares), which may be available to dissenting members of corporations in other jurisdictions.

**20. Takeovers**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

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**21. Indemnification**

The Cayman Islands laws do not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**22. Economic Substance**

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act (2021 Revision) together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

**GENERAL**

Harney Westwood & Riegels, the Company’s legal adviser on Cayman Islands laws, has sent to the Company a letter of advice summarising the aspects of the Companies Act set out in “—Company laws of the Cayman Islands”. This letter, together with copies of the Companies Act, the Memorandum and the Articles, will be available on display on the websites of the Stock Exchange and the Company as referred to in “Documents delivered to the Registrar of Companies and available on display” in Appendix V. Any person wishing to have a detailed summary of the Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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### FURTHER INFORMATION ABOUT OUR GROUP

#### Incorporation

Our Company was incorporated under the laws of the Cayman Islands on 27 August 2018 as an exempted company with limited liability. Our registered office address is at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KYI-1205, Cayman Islands. Our Company’s corporate structure and Memorandum and Articles of Association are subject to relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III.

Our registered place of business in Hong Kong is at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 31 May 2022 with the Registrar of Companies in Hong Kong. Ms. Ella Wai Yee Wong (黃慧兒) and Ms. Emily Fung have been appointed as the authorised representatives of our Company for the acceptance of service of process in Hong Kong. The address for service of process is the same as our registered place of business in Hong Kong.

#### Changes in share capital of our Company

The following sets out the changes in our Company’s issued share capital within the two years immediately preceding the date of this document:

- (a) In 2021, we issued the following fully paid-up shares with a par value of US\$0.00001 each as follows:

<u>Shareholders</u>	<u>Number of Shares</u>	<u>Class of Shares</u>	<u>Issuance Date</u>
Baidu (Hong Kong) Limited	3,471,565	Series E-2 Preferred Shares	3 June 2021

- (b) In 2022, we issued the following fully-paid Shares with a par value of US\$0.00001 each as follows:

<u>Shareholders</u>	<u>Number of Shares</u>	<u>Class of Shares</u>	<u>Issuance Date</u>
Shanghai Jixu Information Technology Partnership (Limited Partnership)	1,179,231	Series E-2 Preferred Shares	15 April 2022
Genius V Found Limited	1,157,188	Series E-2 Preferred Shares	15 April 2022
Sunshine Life Insurance Corporation Limited	3,471,565	Series E-2 Preferred Shares	15 April 2022
Guangzhou Xinxing Huacheng Venture Capital Partnership (Limited Partnership)	578,594	Series E-2 Preferred Shares	15 April 2022

See “History, reorganization and corporate structure—Pre-[REDACTED] Investments” for further details.

- (c) Share Subdivision.

Prior to Listing, our Shareholders approved the Share Subdivision, pursuant to which each Share with a current par value of US\$0.00001 before Listing will be divided into four shares of par value US\$[0.000025] each. The Share Subdivision will take effect immediately upon Listing.

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Save as disclosed above and in “—Resolutions of our Shareholders dated [●]” below, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

**Changes in the share capital of members of our Group**

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 40 to the Accountant’s Report as set out in Appendix I.

The following sets out the changes in the share or registered capital of members of our Group within the two years immediately preceding the date of this document:

	<u>Entity</u>	<u>Change</u>	<u>Position After Change</u>	<u>Date of Change</u>
(a)	Guangzhou Sudaoyi Information Technology Co., Ltd.	increased	RMB 1,122.89 million	16 July 2021
(b)	Guangzhou Leyao Information Technology Co., Ltd.	increased	USD 256 million	30 December 2021
(c)	Guangdong Dongjian Pharmaceutical Co., Ltd.	increased	RMB 103 million	14 July 2021
		increased	RMB 146 million	24 February 2022
(d)	Anhui Leyao Pharmaceutical Co., Ltd.	increased	RMB 33 million	16 June 2021
		increased	RMB 76 million	25 February 2022
(e)	Guangzhou Junhe Huilian Supply Chain Management Co., Ltd.	increased	RMB 175 million	10 June 2021
		increased	RMB 200 million	18 August 2021
		increased	RMB 494 million	24 February 2022
		increased	RMB 524 million	20 February 2023
(f)	Jiangsu Jinshi Pharmaceutical Co., Ltd.	increased	RMB 56 million	8 June 2021
		increased	RMB 91 million	25 February 2022
(g)	Chongqing Yangtuo Pharmaceutical Co., Ltd.	increased	RMB 25 million	24 June 2021
		increased	RMB 55 million	4 March 2022
(h)	Donghua Yutai (Fujian) Pharmaceutical Co., Ltd.	increased	RMB 27.5 million	29 June 2021
		increased	RMB 37.5 million	19 July 2021
		increased	RMB 56 million	28 February 2022
(i)	Shanxi Lejin Pharmaceutical Co., Ltd.	increased	RMB 9 million	24 June 2021
		increased	RMB 23 million	28 February 2022
(j)	Heilongjiang Changle Pharmaceutical Co., Ltd.	increased	RMB 57 million	24 February 2022
(k)	Beijing Huisheng Pharmaceutical Co., Ltd.	increased	RMB 21.8 million	4 June 2021
		increased	RMB 42.8 million	28 February 2022
(l)	Jilin Zhongxin Pharmaceutical Co., Ltd.	increased	RMB 60 million	1 March 2022
(m)	Liaoning Lexing Pharmaceutical Co., Ltd.	increased	RMB 15.5 million	3 June 2021
		increased	RMB 17 million	21 July 2021
		increased	RMB 31 million	21 February 2022
		increased	RMB 61 million	29 January 2023
(n)	Henan Huiying Pharmaceutical Co., Ltd.	increased	RMB 70 million	21 February 2022
(o)	Xi’an Leying Zhongkang Pharmaceutical Chain Co., Ltd.	increased	RMB 10 million	30 June 2021
		increased	RMB 28 million	15 March 2022
(p)	Shaanxi Leying Pharmaceutical Co., Ltd.	increased	RMB 28 million	11 March 2022



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	<u>Entity</u>	<u>Change</u>	<u>Position After Change</u>	<u>Date of Change</u>
(q)	Zhejiang Kangchen Pharmaceutical Co., Ltd.	increased	RMB 52 million	23 June 2021
(r)	Guangdong Dihao Pharmaceutical Co., Ltd.	increased	RMB 105 million	2 December 2021
(s)	Chengdu Beilebang Pharmaceutical Co., Ltd.	increased	RMB 81 million	14 March 2022
(t)	Hebei Zeyi Pharmaceutical Co., Ltd.	increased	RMB 15 million	1 March 2022
		increased	RMB 40 million	17 February 2023
(u)	Hunan Leyao Pharmaceutical Co., Ltd.	increased	RMB 25 million	29 December 2021
(v)	Jinan Gonghao Medicine Co., Ltd.	increased	RMB 41 million	28 February 2022
(w)	Guangzhou Spectrum Health Technology Co., Ltd.	increased	RMB 1 million	6 July 2021
(x)	Zhejiang Leyao Pharmaceutical Co., Ltd.	increased	RMB 45 million	27 June 2022

Save as disclosed above, there has been no alteration in the share capital of any member of our Group within the two years immediately preceding the date of this document.

**Resolutions of our Shareholders dated [●]**

On [●], our Shareholders passed a set of resolutions. A summary of the key matters passed by our Shareholders in these resolutions are set out below, which are conditional upon Listing:

- (a) [immediately following the Share Subdivision, each of the 5,000,000,000 authorised (whether issued or unissued) shares of par value of US\$0.00001 each be subdivided into four shares with a par value of US\$0.0000025 each];
- (b) the Memorandum and the Articles were approved and adopted conditional on and effective upon Listing;
- (c) the [REDACTED], Listing and [REDACTED] were approved, and our Directors were authorised to negotiate and agree the [REDACTED] and to allot and issue the [REDACTED] (including pursuant to the [REDACTED]);
- (d) a general mandate (the “**Sale Mandate**”) was granted to our Directors to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted, issued or dealt with, provided that the number of Shares so allotted, issued or dealt with or agreed to be allotted, issued or dealt with by our Directors, shall not exceed 20% of the total number of Shares in issue immediately following the completion of [REDACTED];
- (e) a general mandate (the “**Repurchase Mandate**”) was granted to our Directors to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the [REDACTED]; and
- (f) the Sale Mandate was extended by the addition to the total number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the total number of the Shares purchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount

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shall not exceed 10% of the total number of the Shares in issue immediately following completion of the [REDACTED].

Each of the general mandates referred to above will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- (b) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the Memorandum and Articles of Association; and
- (c) the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

### **Explanatory statement on repurchase of our own securities**

The following summarises restrictions imposed by the Listing Rules on share repurchases by a company listed on the Stock Exchange and provides further information about the repurchase of our own securities.

#### ***Shareholders' approval***

A listed company whose primary listing is on the Stock Exchange may only purchase its shares on the Stock Exchange, either directly or indirectly, if: (i) the shares proposed to be purchased are fully paid up, and (ii) its shareholders have given a specific approval or general mandate by way of an ordinary resolution of shareholders.

#### ***Size of mandate***

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following completion of the [REDACTED] (subject to the Assumptions), could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company.

The total number of shares which a listed company may repurchase on the Stock Exchange may not exceed 10% of the number of issued shares as at the date of the shareholder approval.

#### ***Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

#### ***Source of funds***

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable Laws of the Cayman Islands.

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Our Company shall not purchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any purchases by our Company may be made out of profits or out of an issue of new shares made for the purpose of the purchase or, if authorised by the Memorandum and Articles of Association and subject to the Companies Ordinance, out of capital, and, in the case of any premium payable on the purchase out of profits or from sums standing to the credit of our share premium account or, if authorised by the Memorandum and Articles of Association and subject to the Companies Ordinance, out of capital.

### *Suspension of repurchase*

A listed company shall not repurchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), until the date of the results announcement, the company may not repurchase its shares on the Stock Exchange unless there are exceptional circumstances.

### *Trading restrictions*

A listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

A listed company may not repurchase its shares if that repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

### *Status of repurchased shares*

The listing of all repurchased shares (whether through the Stock Exchange or otherwise) shall be automatically cancelled and the relevant evidence of title must be cancelled and destroyed as soon as reasonably practicable.

### *Close associates and core connected persons*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have a present intention, in the event the Repurchase Mandate is approved, to sell any Shares to our Company.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken to do so, if the Repurchase Mandate is approved.

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A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person (namely a director, chief executive or substantial shareholder of the company or any of its subsidiaries, or a close associate of any of them), and a core connected person shall not knowingly sell their interest in shares of the company to it.

### *Takeover implications*

If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

### *General*

If the Repurchase Mandate were to be carried out in full at any time, there may be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in our most recent published audited accounts). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would have a material adverse effect on our working capital or gearing position.

Our Directors have undertaken to the Stock Exchange to will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable Laws in the Cayman Islands.

We have not made any repurchases of our Shares in the previous six months.

## FURTHER INFORMATION ABOUT OUR BUSINESS

### **Summary of material contracts**

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by any member of our Group within the two years immediately preceding the date of this document that are or may be material:

#### *Contractual arrangements with respect to Guangzhou Sudao*

- (a) an exclusive business cooperation agreement (獨家業務合作協議) dated 16 May 2022 entered into between 廣州速道易信息科技有限公司 (“WFOE”) and 廣州速道信息科技有限公司 (“**Guangzhou Sudao**”), pursuant to which Guangzhou Sudao agreed to engage WFOE as the exclusive provider of, among other things, comprehensive business support, technical services and consulting services in return for service fees.
- (b) an exclusive option agreement (獨家購買權合同) dated 16 May 2022 entered into among WFOE, Guangzhou Sudao and its registered shareholders, 張步鎮, 汪薑維, 邵佳豪, and 廣州藥道信息科技合夥企業(有限合夥) (collectively, the “**Guangzhou Sudao Shareholders**”), pursuant to which the Guangzhou Sudao Shareholders, individually and collectively, granted (i) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time all current and future equity interests in

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- Guangzhou Sudao from the Guangzhou Sudao Shareholders at the lowest price permissible under PRC laws; and (ii) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time any or part of the assets of Guangzhou Sudao at the lowest price permissible under PRC laws.
- (c) a share pledge agreement (股權質押合同) dated 16 May 2022 entered into among WFOE, Guangzhou Sudao and the Guangzhou Sudao Shareholders, pursuant to which the Guangzhou Sudao Shareholders, individually and collectively, agreed to pledge to WFOE the pledged interests in Guangzhou Sudao that the respective Guangzhou Sudao Shareholder legally owns and over which they have a right of disposal.
  - (d) a voting entrustment agreement (授權委托協議) dated 16 May 2022 entered into among WFOE, Guangzhou Sudao and 張步鎮 (the “**Mr. Zhang**”), pursuant to which Mr. Zhang undertook that, at WFOE’s request, Mr. Zhang would sign a power of attorney to authorise a person designed by WFOE at such time as attorney-in-fact to exercise all the rights of Mr. Zhang from time to time as shareholder of Guangzhou Sudao.
  - (e) a voting entrustment agreement (授權委托協議) dated 16 May 2022 entered into among WFOE, Guangzhou Sudao and 汪薑維 (the “**Mr. Wang**”), pursuant to which Mr. Wang undertook that, at WFOE’s request, Mr. Wang would sign a power of attorney to authorise a person designed by WFOE at such time as attorney-in-fact to exercise all the rights of Mr. Wang from time to time as shareholder of Guangzhou Sudao.
  - (f) a voting entrustment agreement (授權委托協議) dated 16 May 2022 entered into among WFOE, Guangzhou Sudao and 邵佳豪 (the “**Mr. Shao**”), pursuant to which Mr. Shao undertook that, at WFOE’s request, Mr. Shao would sign a power of attorney to authorise a person designed by WFOE at such time as attorney-in-fact to exercise all the rights of Mr. Shao from time to time as shareholder of Guangzhou Sudao.
  - (g) a voting entrustment agreement (授權委托協議) dated 16 May 2022 entered into among WFOE, Guangzhou Sudao and 廣州藥道信息科技合夥企業(有限合夥) (the “**Guangzhou Yaodao**”), pursuant to which Guangzhou Yaodao undertook that, at WFOE’s request, Guangzhou Yaodao would sign a power of attorney to authorise a person designed by WFOE at such time as attorney-in-fact to exercise all the rights of Guangzhou Yaodao from time to time as shareholder of Guangzhou Sudao.

*Contractual arrangements with respect to Guangzhou Yaobang*

- (h) an exclusive business cooperation agreement (獨家業務合作協議) dated 16 May 2022 entered into between 廣州速道易信息科技有限公司 (“**WFOE**”) and 廣州藥幫信息科技有限公司 (“**Guangzhou Yaobang**”), pursuant to which Guangzhou Yaobang agreed to engage WFOE as the exclusive provider of, among other things, comprehensive business support, technical services and consulting services in return for service fees.
- (i) an exclusive option agreement (獨家購買權合同) dated 16 May 2022 entered into among WFOE, Guangzhou Yaobang and its registered shareholders, 張步鎮 (“**Mr. Zhang**”), pursuant to which Mr. Zhang granted (i) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time all current and future equity interests in Guangzhou Yaobang from Mr. Zhang at the lowest price permissible under PRC laws; and (ii) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and

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at any time any or part of the assets of Guangzhou Yaobang at the lowest price permissible under PRC laws.

- (j) a share pledge agreement (股權質押合同) dated 16 May 2022 entered into among WFOE, Guangzhou Yaobang and Mr. Zhang, pursuant to which Mr. Zhang agreed to pledge to WFOE the pledged interests in Guangzhou Yaobang that Mr. Zhang legally owns and over which he has a right of disposal.
- (k) a voting entrustment agreement (授權委托協議) dated 16 May 2022 entered into among WFOE, Guangzhou Yaobang and Mr. Zhang, pursuant to which Mr. Zhang undertook that, at WFOE’s request, Mr. Zhang would sign a power of attorney to authorise a person designed by WFOE at such time as attorney-in-fact to exercise all the rights of Mr. Zhang from time to time as shareholder of Guangzhou Yaobang.

### *Other material contracts*

- (l) the [REDACTED].

### **Ancillary VIE agreements to the Contractual Arrangements**

Below is a list of the three sets of VIE agreements entered into with respect to the subsidiaries of Onshore Holdcos. These VIE agreements are ancillary, and provide further support, to the Contractual Arrangements and are further detailed in “Contractual Arrangements—Contractual Arrangements—Further information about our Contractual Arrangements”.

### *VIE agreements with respect to Henan Subiao*

- (a) an exclusive business cooperation agreement (獨家業務合作協議) dated 21 November 2022 entered into between 廣州速道易信息科技有限公司 (“WFOE”) and 河南速標信息科技有限公司 (“Henan Subiao”), the direct wholly-owned subsidiary of 廣州速道信息科技有限公司 (“Guangzhou Sudao”), pursuant to which Henan Subiao agreed to engage WFOE as the exclusive provider of, among other things, comprehensive business support, technical services and consulting services in return for service fees.
- (b) an exclusive option agreement (獨家購買權合同) dated 21 November 2022 entered into among WFOE, Henan Subiao and its registered shareholder, Guangzhou Sudao, pursuant to which Guangzhou Sudao granted (i) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time all current and future equity interests in Henan Subiao from the Guangzhou Sudao at the lowest price permissible under PRC laws; and (ii) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time any or part of the assets of Henan Subiao at the lowest price permissible under PRC laws.
- (c) a share pledge agreement (股權質押合同) dated 21 November 2022 entered into among WFOE, Henan Subiao and its registered shareholder, Guangzhou Sudao, pursuant to which Guangzhou Sudao agreed to pledge to WFOE the pledged interests in Henan Subiao that Guangzhou Sudao legally owns and over which it has a right of disposal.
- (d) a voting entrustment agreement (授權委托協議) dated 21 November 2022 entered into among WFOE, Henan Subiao and its registered shareholder, Guangzhou Sudao, pursuant

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to which Guangzhou Sudao undertook that, at WFOE’s request, Guangzhou Sudao would sign a power of attorney to authorise a person designated by WFOE at such time as attorney-in-fact to exercise all the rights of Guangzhou Sudao from time to time as shareholder of Henan Subiao.

### *VIE agreements with respect to Guangzhou Spectrum*

- (e) an exclusive business cooperation agreement (獨家業務合作協議) dated 21 November 2022 entered into between 廣州速道易信息科技有限公司 (“WFOE”) and 廣州光譜健康科技有限公司 (“Guangzhou Spectrum”), the direct 70%-owned subsidiary of 廣州藥幫信息科技有限公司 (“Guangzhou Yaobang”), pursuant to which Guangzhou Spectrum agreed to engage WFOE as the exclusive provider of, among other things, comprehensive business support, technical services and consulting services in return for service fees.
- (f) an exclusive option agreement (獨家購買權合同) dated 21 November 2022 entered into among WFOE, Guangzhou Spectrum and its registered shareholder, Guangzhou Yaobang, pursuant to which Guangzhou Yaobang granted (i) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time all current and future equity interests in Guangzhou Spectrum from the Guangzhou Yaobang at the lowest price permissible under PRC laws; and (ii) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time any or part of the assets of Guangzhou Spectrum at the lowest price permissible under PRC laws.
- (g) a share pledge agreement (股權質押合同) dated 21 November 2022 entered into among WFOE, Guangzhou Spectrum and its registered shareholder, Guangzhou Yaobang, pursuant to which Guangzhou Yaobang agreed to pledge to WFOE the pledged interests in Guangzhou Spectrum that Guangzhou Yaobang legally owns and over which it has a right of disposal.
- (h) a voting entrustment agreement (授權委托協議) dated 21 November 2022 entered into among WFOE, Guangzhou Spectrum and its registered shareholder, Guangzhou Yaobang, pursuant to which Guangzhou Yaobang undertook that, at WFOE’s request, Guangzhou Yaobang would sign a power of attorney to authorise a person designated by WFOE at such time as attorney-in-fact to exercise all the rights of Guangzhou Yaobang from time to time as shareholder of Guangzhou Spectrum.

### *VIE agreements with respect to Guangzhou Yuewei*

- (i) an exclusive business cooperation agreement (獨家業務合作協議) dated 21 November 2022 entered into between 廣州速道易信息科技有限公司 (“WFOE”) and 廣州閱微醫學檢驗所有限公司 (“Guangzhou Yuewei”), the direct wholly-owned subsidiary of 廣州光譜健康科技有限公司 (“Guangzhou Spectrum”) and an indirect 70%-interested subsidiary of 廣州藥幫信息科技有限公司 (“Guangzhou Yaobang”; the percentage of all current and future equity interests held by Guangzhou Yaobang in Guangzhou Spectrum in the total equity interest of Guangzhou Spectrum is referred to as the “Yaobang Interest Percentage”), pursuant to which Guangzhou Yuewei agreed to engage WFOE as the exclusive provider of, among other things, comprehensive business support, technical services and consulting services in return for service fees.

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- (j) an exclusive option agreement (獨家購買權合同) dated 21 November 2022 entered into among WFOE, Guangzhou Yuewei and its registered shareholder, Guangzhou Spectrum, pursuant to which Guangzhou Spectrum granted (i) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time the current and future equity interests in Guangzhou Yuewei multiplied by the Yaobang Interest Percentage from the Guangzhou Spectrum at the lowest price permissible under PRC laws; and (ii) an irrevocable and exclusive option for WFOE (or one or more persons designated by it) to purchase in one or multiple times and at any time any or part of the assets of Guangzhou Yuewei (up to an amount representing the value of Guangzhou Yuewei’s total assets multiplied by the Yaobang Interest Percentage) at the lowest price permissible under PRC laws.
- (k) a share pledge agreement (股權質押合同) dated 21 November 2022 entered into among WFOE, Guangzhou Yuewei and its registered shareholder, Guangzhou Spectrum, pursuant to which Guangzhou Spectrum agreed to pledge to WFOE the pledged interests in Guangzhou Yuewei, representing 70% of Guangzhou Yuewei that Guangzhou Spectrum legally owns and over which it has a right of disposal.
- (l) a voting entrustment agreement (授權委托協議) dated 21 November 2022 entered into among WFOE, Guangzhou Yuewei and its registered shareholder, Guangzhou Spectrum, pursuant to which Guangzhou Spectrum undertook that, at WFOE’s request, Guangzhou Spectrum would sign a power of attorney to authorise a person designated by WFOE at such time as attorney-in-fact to exercise 70% of the voting rights held by Guangzhou Spectrum in Guangzhou Yuewei from time to time as shareholder of Guangzhou Yuewei.

**Intellectual property rights**

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

**Trademarks**

As at the Latest Practicable Date, we had registered the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Registration
(a)		PRC
(b)		PRC
(c)		PRC
(d)		PRC
(e)		PRC
(f)		PRC
(g)		PRC



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No.	Trademark	Place of Registration
(h)		PRC
(i)		PRC
(j)		PRC
(k)		PRC
(l)	乐药	PRC
(m)		PRC
(n)	乐药师	PRC
(o)	乐药师	PRC
(p)	乐药师	PRC
(q)	乐药师	PRC
(r)	小微仓	PRC
(s)		PRC
(t)	邻药小微仓	PRC
(u)	邻药小微仓	PRC
(v)	邻药小微仓	PRC
(w)	邻药小微仓	PRC
(x)	光谱健康	PRC
(y)	光谱健康	PRC
(z)		Hong Kong

**Patents**

As at the Latest Practicable Date, we had registered the following patents which we consider to be or may be material to our business:

No.	Patent	Jurisdiction of Registration
(a)	一種醫學檢驗用儀器固定裝置	PRC
(b)	一種多功能光譜分析儀用輔助保護裝置	PRC
(c)	一種醫用儀器運輸固定防護裝置	PRC
(d)	一種便攜式醫用器械儲存箱	PRC
(e)	一種基於藥品尺寸的藥品倉儲設備	PRC
(f)	一種多功能的售藥機設備	PRC
(g)	自助售藥機及具有藥品批號效期自動管理的自助售藥機	PRC
(h)	多功能售藥機自助售藥、人工取藥結構	PRC
(i)	多功能的售藥機設備上貨區結構	PRC
(j)	一種基於藥品包裝尺寸的自動倉儲設備的無動力源貨架	PRC
(k)	一種基於藥品包裝尺寸的自動倉儲設備的倉儲系統	PRC
(l)	自助售藥機及具有自動盤庫功能的自助售藥機	PRC
(m)	多功能的售藥機設備倉儲區結構	PRC
(n)	一種藥品信息採集設備	PRC

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<u>No.</u>	<u>Patent</u>	<u>Jurisdiction of Registration</u>
(o)	一種機械手的自適應快速安裝結構	PRC
(p)	智能售藥機 (XWC—TG01)	PRC

**Copyrights**

As at the Latest Practicable Date, we had registered the following copyrights which we consider to be or may be material to our business:

<u>No.</u>	<u>Copyright</u>	<u>Place of Registration</u>
(a)	樂藥集團Leyo pharm	PRC
(b)	藥師幫	PRC
(c)	藥師幫藥惠拼系統軟件	PRC
(d)	藥師幫藥品牌系統軟件	PRC
(e)	藥師幫主題活動系統軟件	PRC
(f)	藥師幫商家推廣系統軟件	PRC
(g)	藥師幫店鋪裝修系統軟件	PRC
(h)	藥師幫批購包郵系統軟件	PRC
(i)	藥師幫個性化推薦系統軟件	PRC
(j)	藥夥伴ios操作系統軟件	PRC
(k)	藥夥伴Android操作系統軟件	PRC
(l)	藥師幫拼團智推系統	PRC
(m)	藥師幫會員運營系統	PRC
(n)	藥師幫藥店分層管理系統	PRC
(o)	藥師幫多方實時溝通系統	PRC
(p)	藥師幫連鎖優選智能採購系統	PRC
(q)	搖錢樹智慧雲倉智能系統	PRC
(r)	藥師幫直播系統軟件	PRC
(s)	藥師幫藥店資質智能上傳系統	PRC
(t)	掌店易PRO操作系統軟件	PRC
(u)	藥師幫藥店移動收銀系統軟件	PRC
(v)	藥師幫訂單自動決策系統軟件	PRC
(w)	藥師幫醫藥專業培訓平臺軟件	PRC
(x)	藥師幫醫藥信息推送平臺軟件	PRC
(y)	藥師幫藥店微店系統軟件	PRC
(z)	藥師幫iOS操作系統軟件	PRC
(aa)	藥師幫商業版Android操作系統軟件	PRC
(bb)	藥師幫Android操作系統軟件	PRC
(cc)	藥師幫商業版iOS操作系統軟件	PRC
(dd)	藥師幫PC採購操作系統軟件	PRC
(ee)	藥師幫供應商管理平臺操作系統軟件	PRC
(ff)	藥師幫掌店寶操作系統軟件	PRC
(gg)	藥師幫雲商通操作系統軟件	PRC
(hh)	藥師幫首營電子資料交換平臺	PRC
(ii)	藥師幫供應商管理平臺操作系統軟件	PRC
(jj)	藥師幫智能雲同步操作系統軟件	PRC
(kk)	藥師幫物流版android操作系統軟件	PRC
(ll)	藥師幫業務管理平臺操作系統軟件	PRC

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No.	Copyright	Place of Registration
(mm)	藥師幫店員版後臺操作系統軟件	PRC
(nn)	藥師幫PC採購操作系統軟件	PRC
(oo)	藥師幫商業版iOS操作系統軟件	PRC
(pp)	藥師幫商業版android操作系統軟件	PRC
(qq)	藥師幫iOS操作系統軟件	PRC
(rr)	藥師幫android操作系統軟件	PRC
(ss)	速道在線職業教育軟件	PRC
(tt)	樂藥購Android操作系統軟件	PRC
(uu)	掌店易Android操作系統軟件	PRC
(vv)	掌店易iOS操作系統軟件	PRC
(ww)	小微倉運維中心系統	PRC
(xx)	小微倉服務平臺	PRC
(yy)	小微倉客戶端管理系統	PRC
(zz)	小微倉多功能售藥機系統	PRC
(aaa)	光譜雲檢BD端app軟件	PRC
(bbb)	藥師幫診所雲檢APP軟件	PRC

### **Domain names**

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registered owner
(a)	ysbang.cn	Guangzhou Sudao Information Technology Co., Ltd.
(b)	yaoshibang.cn	Guangzhou Yaobang Information Technology Co., Ltd.

## FURTHER INFORMATION ABOUT OUR DIRECTORS

### **Director contracts and remunerations**

See “Directors and senior management—Director remuneration” for further details on Director service contracts and remuneration.

### **Disclosure of interests**

#### ***Interests and short positions of our Directors in the share capital of our Company or our associated corporations upon Listing***

The table below set out the interests or short positions, immediately upon Listing (subject to the Assumptions), of our Directors and chief executives in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO), (a) which would need to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO); (b) which would be required, pursuant to section 352 of the SFO, to be entered in the register; or (c) which will be required, pursuant to the ‘Model Code for Securities

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Transactions by Directors of Listed Issuers’ contained in the Listing Rules, to be notified to our Company and the Stock Exchange, once our Company’s Shares are listed on the Stock Exchange:

### Our Company

<u>Name</u>	<u>Interest</u>	<u>Number and Type of Underlying Shares</u>	<u>Approximate % in Respective Class of Shares upon Listing</u>
Mr. Buzhen Zhang <sup>(1)</sup>	Interest in a controlled corporation	125,316,184 Shares	[REDACTED]
	Interest in options	4,800,000 Shares	[REDACTED]
Mr. Fei Chen <sup>(2)</sup>	Interest in options	7,980,000 Shares	[REDACTED]

*Notes:*

- (1) Represents (i) 125,316,184 Shares held by MIYT Holdings Limited, a company controlled by MIYT Worldwide Limited, which in turn is wholly owned by a trust for the benefit of Mr. Buzhen Zhang, our Director; and (ii) 4,800,000 Shares underlying options granted under the 2019 Share Incentive Plan to Ms. Xiaoye Xu, the spouse of Mr. Zhang. Under the SFO, Mr. Zhang is deemed to be interested in the entire interests of MIYT Holdings Limited and Ms. Xu in our Company.
- (2) Represents 7,980,000 Shares underlying options granted under the 2019 Share Incentive Plan to Mr. Chen pursuant to the exercise of options granted to Mr. Chen under the 2019 Share Incentive Plan.

Save as disclosed above, there are no other interests or short positions of our Directors and chief executives immediately upon Listing (subject to the Assumptions) that would need to be disclosed, including any interests in our associated corporations.

### ***Substantial shareholders of our subsidiaries***

The following table (together with its notes) sets out, so far as our Directors are aware, persons who will be, directly or indirectly, interested in 10% or more of the issued voting shares of our subsidiaries:

<u>Member of our Group (being associated corporations)</u>	<u>Name of substantial shareholder</u>	<u>Interest</u>	<u>Approximate% held by the substantial shareholder</u>
Guangzhou Xiaoweicang Smart Drug Store Technology Co., Ltd.	Guangzhou Xiaohuicang Enterprise Management Partnership (Limited Partnership) <sup>(1)</sup>	Beneficial interest	15%
	Ms. Luoyan Ran <sup>(2)</sup>	Beneficial interest	15%
Guangzhou Spectrum Health Technology Co., Ltd.	Guangzhou Spectrum Enterprise Management Partnership (Limited Partnership) <sup>(1)</sup>	Beneficial interest	25%

*Notes:*

- (1) These two limited partnerships are employee shareholding platforms that hold shares for the employees of the respective associated corporation. The general partner of these two employee shareholding platforms is Wenhai Lu, who is an Independent Third Party.
- (2) Ms. Luoyan Ran is an Independent Third Party.

## SHARE INCENTIVE PLANS

### **2019 Share Incentive Plan**

Our Company adopted a share incentive plan in 2019 and as amended from time to time. This plan is not subject to Chapter 17 of the Listing Rules and will not involve the grant of Awards (including options and share units) by our Company upon and after Listing. The material terms of this plan are summarised below.

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### *Purpose*

The purpose of this plan is to attract and retain valuable personnel for positions of substantial responsibility, to provide incentives to the participants and to promote the success of our business by offering the participants an opportunity to acquire a proprietary interest in our Company or to increase their interest by permitting them to acquire units of our Company.

### *Participants*

Participants of this plan are eligible for awards. Participants include employees, director or consultant (collectively, “**service providers**”), or trusts or companies established in connection with an employee benefit plan of our Company (including this plan) for the benefit of a service provider. Employees and directors refer to our Group, our parent or an affiliate of our Company. Consultant refers to an entity that is engaged by our Group or our parent to provide and is compensated for providing consulting or advisory services.

### *Scheme limit*

A maximum of 47,772,984 Shares (following the Share Subdivision) may be issued under this plan, with each Share represented by two share award or option units (i.e., each unit represents two Shares). If an award is cancelled, becomes unexercisable or is otherwise terminated before it is exercised/settled, the units previously reserved for the unexercised/unsettled portion will return to the pool and be available for future grants under this plan. Once a unit is exercised/settled in full, that unit will no longer be available for future distribution.

### *Administration*

The chief executive officer of our Company is appointed as administrator with the ability to delegate his/her duties to specified officers of our Company. The administrator has power to, among others: (a) select the grantees and awards; (b) approve the award agreements; (c) modify outstanding awards or implement a programme under which outstanding awards may be surrendered, cancelled or replaced; (d) interpret this plan; and (e) make any other determination or take any action that the administrator deems necessary or desirable for the administration of this plan.

### *Grant of Awards*

This plan provides for both direct awards or sale of units and grant of options to purchase units. Awards means an option, unit purchase right, or unit award. Terms and conditions of a grant, including performance targets, vesting schedule, and other key terms are specified in an award agreement with the grantee.

Upon and after Listing, no new Awards will be granted by our Company under this plan.

### *Sale/pledge of units in satisfaction of exercise price*

To the extent provided by the award agreement, after Listing, payment may be made all or in part by delivery (on a form prescribed by our Company) of an irrevocable direction to a securities broker approved by our Company to sell or pledge as security for a loan the units and to deliver all or part of the sales or loan proceeds to our Company in payment of all or part of the exercise price and any withholding taxes. Other payment options to satisfy the purchase price may be permitted at the discretion of the administrator and to the extent provided in the award agreement.

*Limitations on awards*

Unless otherwise determined by the administrator and provided in the award agreement, no award shall be sold, pledged, assigned, hypothecated, transferred, or otherwise disposed other than (i) for successorship, or (ii) by a trust or company established in connection with any employee benefit plan of our Company (including this plan) for the benefit of a service provider.

Until the units are issued (as evidenced by the appropriate entry on our Company’s register of members), no right to vote or receive dividends or any other rights as a member shall exist with respect to the units.

*Amendments and terminations*

This plan may be amended, suspended or terminated by the Board, provided that such amendment, suspension or termination does not materially and adversely impair the rights of any grantee with respect to an unexercised/unsettled award unless it is mutually agreed as between the grantee and the administrator in writing.

*Term of this plan*

Unless terminated earlier, this plan shall continue for a term of ten years from the earlier of approval of its adoption by the Board or our Shareholders.

**Details of outstanding options granted under this plan and dilutive effect**

As at the Latest Practicable Date, we had granted outstanding options under this plan to [597] grantees, who hold an aggregate of [18,514,044] outstanding options, which may be converted to an aggregate of [37,028,088] Shares (i.e., each outstanding option entitles the holder to purchase one unit, which represents two Shares) (assuming the Share Subdivision is completed).

As our Group incurred losses for the year ended 31 December 2021, the dilutive potential of the ordinary shares arising from the exercise of any options under this plan are not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the year ended 31 December 2021 was the same as basic loss per share for the corresponding period. As at the Latest Practicable Date, [47,772,984] Shares (assuming the Share Subdivision is completed) remain to be issued under this plan (representing granted and ungranted awards), which, if fully issued, would increase our total issued share capital by [7.75]% to [664,314,236] Shares (assuming the Share Subdivision is completed).

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***Details of outstanding options held by Directors, senior management and other connected persons***

The table below sets out the details of the outstanding options granted to the Directors, senior management and other connected persons of our Company. No other outstanding options that remain outstanding were granted to any other senior management or connected persons of our Company.

<b>Name</b>	<b>Role</b>	<b>Address</b>	<b>Options<sup>(2)</sup></b>	<b>Date of grant</b>	<b>Vesting period<sup>(3)</sup></b>	<b>Exercise price (US\$)</b>	<b>Number of Shares underlying the outstanding options granted<sup>(1)</sup></b>	<b>Approximate percentage of issued shares immediately after completion of the [REDACTED]<sup>(2)</sup></b>	
<b>Directors</b>									
Fei Chen	Executive Director and Chief Financial Officer	Flat F, 15/F, Block 10, Park Avenue, 18 Hoi Ting Road, Tai Kok Tsui, Kowloon, Hong Kong	3,990,000	5 May 2022	Two-third of the outstanding options will be vested within 4 years, and one-third of the outstanding options will be vested upon the completion of the core projects	0.80	7,980,000	[REDACTED]	
<b>Senior managers (excluding Directors)</b>									
Haodong Xiao	Vice President	Yaoshibang Building, No. 8 Brand Street, TIT Creative Industry Zone, No. 397 Xingang Middle Road, Guangzhou, China	1,207,659	December 2018 - January 2023	4 years	1.05 - 2.00	2,415,318	[REDACTED]	
Zhuoqi Chen	Director of Technology	Yaoshibang Building, No. 8 Brand Street, TIT Creative Industry Zone, No. 397 Xingang Middle Road, Guangzhou, China	119,524	1 July 2017	4 years	0.30	239,048	[REDACTED]	
<b>Other connected persons</b>									
Xiaoye Xu <sup>(3)</sup>	Chief Operation Officer of the Online Marketplace	Yaoshibang Building, No. 8 Brand Street, TIT Creative Industry Zone, No. 397 Xingang Middle Road, Guangzhou, China	2,400,000	October 2019 – November 2021	4 years	1.05 – 2.00	4,800,000	[REDACTED]	
<b>Total:</b>							<u>15,434,366</u>		

**Notes:**

- (1) The calculation is made assuming the Share Subdivision is completed and each option is adjusted accordingly.
- (2) The calculation is made assuming the Share Subdivision is completed and percentages are subject to the Assumptions. Each option entitles the holder to purchase one unit, with each unit representing two Shares.
- (3) Ms. Xu is a close associate of Mr. Buzhen Zhang, our Director and a former director of our Company.

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*Details of outstanding options granted to other grantees*

The table below sets out the details of the outstanding options granted to the remaining [593] grantees under this plan, as of the Latest Practicable Date, who are not Directors, members of the senior management or connected persons of our Company:

<u>Range of Shares Underlying outstanding Options<sup>(1)</sup></u>	<u>Total number of grantees</u>	<u>Date of grant</u>	<u>Vesting period<sup>(2)</sup></u>	<u>Exercise price (US\$)</u>	<u>Number of Shares underlying the outstanding options granted<sup>(1)</sup></u>	<u>Approximate percentage of issued shares immediately after completion of the [REDACTED]<sup>(2)</sup></u>
1 – 20,000	360	1 July 2017 – 1 January 2023	4 years	0.30 – 2.00	4,564,386	[REDACTED]
20,001 – 40,000	123	1 July 2017 – 2 March 2023	4 years	0.30 – 2.00	3,545,750	[REDACTED]
40,001 – 60,000	33	1 July 2017 – 1 July 2022	4 years	0.30 – 2.00	1,762,952	[REDACTED]
60,001 – 80,000	20	1 July 2017 – 1 July 2022	4 years	0.30 – 2.00	1,469,524	[REDACTED]
> 80,000	57	1 July 2017 – 1 January 2023	4 years	0 – 2.00	10,251,110	[REDACTED]
<b>Total:</b>	<b>593</b>				<b>21,593,722</b>	<b>[REDACTED]</b>

Notes:

- (1) The calculation is made assuming the Share Subdivision is completed and each option is adjusted accordingly.
- (2) The calculation is made assuming the Share Subdivision is completed and percentages are subject to the Assumptions. Each option entitles the holder to purchase one unit, with each unit representing two Shares.

**[2023 Share Incentive Plan**

*Overview*

The following is a summary of the principal terms of the 2023 Share Incentive Plan approved by our Company on [●], which will be adopted immediately prior to Listing. This plan will constitute a share scheme governed by the amended Chapter 17 of the Listing Rules that came into effect on 1 January 2023 (“**Chapter 17**”).

*Purpose*

The purpose of this plan is to: (a) provide our Company with a flexible means of attracting, remunerating, incentivising, retaining, rewarding, compensating and/or providing benefits to Eligible Participants (defined below); (b) align the interests of Eligible Participants with those of our Company and Shareholders by providing such Eligible Participants with the opportunity to acquire proprietary interests in our Company and become Shareholders; and (c) encourage Eligible Participants to contribute to the long-term growth, performance and profits of the Company and to enhance the value of our Company and our Shares for the benefit of our Company and Shareholders as a whole.



*Eligibility*

The following participants are eligible to participate in this plan (“**Eligible Participants**”):

**For awards over New Shares**

*Employee  
Participants*

A director, officer or employee of our Group on the grant date.

*Related Entity  
Participant*

A director, officer or employee of: (i) our holding company (if any); (ii) subsidiaries of our holding company other than our Group (if any); and (iii) associate companies of our Company.

*Service Provider  
Participant*

Persons providing services to our Group on a continuing basis in its ordinary and usual course of business that are in the interests of the long term growth of our Group, as determined by the scheme administrator (defined below), pursuant to the criteria set out in this plan, and:

- (a) includes consultants, suppliers and service providers, in the industries of [healthcare, biomedicine and health sciences, pharmaceutical services, technology, e-commerce or other business industries in which our Group operates from time to time], that is, or is anticipated to be going forward, a significant business partner or otherwise significant to our business, with reference to, among other metrics, consulting and advisory services and contribution, research and development, technical contribution, manufacturing or sourcing or distribution of products provided by the Group, or financial or business significance, based on qualitative and quantitative performance indicators to be determined by the scheme administrator (defined below) on a case-by-case basis; but
- (b) does not include: (i) placing agents or financial advisors providing advisory services for fundraising, mergers or acquisitions; or (ii) professional service providers such as auditors or valuers who provide assurance or are required to perform their services with impartiality and objectivity.

In assessing whether the Service Provider Participant provides services to our Group on a continuing and recurring basis, the scheme administrator will take into account factors such as: (i) length and type of services provided or will be provided to our Group, recurrence and regularity of such services; (ii) how the selection metrics benchmark against comparable metrics used to determine other eligible participants who have been granted awards under our Company’s share incentive plans; (iii) our objectives in engaging the Service Provider Participant and how granting awards to such participant would align with the purpose of this plan or benefit our Group; and (iv) remuneration packages of comparable listed peers with respect to similar service providers, if any, based on available industry information.

### For Awards over Existing Shares

Eligible Participants who are eligible to receive awards over Existing Shares are any person who the scheme administrator deems eligible to be granted awards over Existing Shares (the “**Non-diluting Participants**”), and which may include, but is not limited to, Employee Participants, Related Entity Participants and Service Provider Participants.

Our Board (including the independent non-executive Directors) considers the scope and eligibility criteria of Related Entity Participants and Service Provider Participants are consistent with the purpose of this plan. In particular, our Board (including the independent non-executive Directors) believes that this scope and criteria would enable our Group to preserve our cash resources, and instead, use share incentives to attract persons of talent outside of our Group, whilst also aligning their interests with that of our Group and our Shareholders through them owning a proprietary interest in our Company and being our future Shareholders. Furthermore, our Board (including the independent non-executive Directors) considers that:

- (a) granting awards to Related Entity Participants would enhance and consolidate our relationship with these persons/entities that have a sufficiently close relationship with our Group and that would likely be in a position to influence our Group’s business, reputation, operations and performance; and
- (b) granting awards to Service Provider Participants would help strengthen the strategic alliance relationship with these service providers and provide incentives to both existing and future service providers on a long term basis, which will enhance the long term business performance of our Group and benefit our Group as a whole.

In light of the above, the Board (including the independent non-executive Directors) is of the view that granting awards to the Eligible Participants (including Related Party Participants and Service Provider Participants) under the 2023 Plan is in the interests of the long term growth of our Group.

### *Awards and Scheme Limits*

#### Award types

We may grant share options and share awards (collectively, “**awards**”), which may take the form of (i) Shares to be allotted and issued by the Company and that are already recorded on the register of members of the Company as at the date of this document (the “**New Shares**”); or (ii) Shares that have already been allotted and issued by the Company at an earlier date and are already recorded on the register of members of the Company (the “**Existing Shares**”), or an equivalent value determined at the prevailing market rate, under this plan.

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## STATUTORY AND GENERAL INFORMATION

### For awards over New Shares

#### Scheme limits

The 2023 Share Incentive Plan shall have the following scheme:

*Scheme Limit* The total number of New Shares which may be issued pursuant to all awards to be granted under this plan and under any other share schemes of our Company is up to 10% of the Shares in issue on the Listing Date (being [REDACTED] Shares, subject to the Assumptions). For the avoidance of doubt, awards already granted before Listing under the 2019 Share Incentive Plan will not affect this scheme limit, which relates to awards to be granted after this scheme becomes effective (being the Listing Date).

*Service Provider Sublimit* The total number of New Shares which may be issued pursuant to all awards to be granted to Service Provider Participants under this plan is up to [REDACTED] Shares, representing approximately [2]% of the total scheme limit, subject to the Assumptions.

Our Directors (including our independent non-executive Directors) are of the view that this Service Provider Sublimit is appropriate and reasonable given the nature of the industry and our Group’s current and future business needs, and taking into account the rationale behind the scope and criteria of Service Provider Participants, detailed above.

#### Refreshing scheme limits

The above Scheme Limit and Service Provider Limit may be refreshed by Shareholders at general meeting in accordance with Rule 17.03C of Chapter 17.

### For awards over Existing Shares

[The award shares underlying awards over Existing Shares that may be granted under this plan shall not exceed [2]% of the Shares in issue on the Listing Date, *provided that* this percentage shall automatically refresh on 1 January of each year to equal [2]% of the Shares in issue on 31 December of the previous year (the “**Non-diluting Scheme Mandate Limit**”).] The Board may adjust the Non-diluting Scheme Mandate Limit at any time and from time to time.

### For awards over New Shares

#### Individual grant limits and additional approvals

Additionally, each Eligible Participant receiving awards over New Shares shall be subject to an individual grant limit and additional approval requirements, (a) with respect to a Director, chief executive or substantial shareholder of our Company, or their respective associates, as specified in Rule 17.04 of Chapter 17; and (b) with respect to any Eligible Participant, as specified in Rule 17.03D of Chapter 17.

#### Ranking of award shares

Shares issued pursuant to settlement of a share option or share award under this plan, if settled by New Shares, shall be identical to all other Existing Shares and rank *pari passu* with all other fully

paid Shares in issue on the date the name of the grantee is registered on the register of members of our Company, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company) declared or recommended or resolved to be paid to the Shareholders on the register on a date prior to such registration.

### *Administration of this Plan*

This plan shall be administered by our Board, which may establish a committee and appoint person(s) to administer and implement this plan (collectively, the “**scheme administrator**”). The scheme administrator will be responsible for administering and implementing this plan, including making grants, determining conditions attachment to awards, acting on behalf of our Company to settle awards. Our Company may establish a trust and appoint a trustee to hold Shares and other trust property under the trust for the purpose of implementing and administering this plan, and unless otherwise agreed between our Company and the trustee, the trustee shall be instructed by the scheme administrator and the trustee holding unvested shares do not have voting rights with respect to those unvested shares.

Notwithstanding these powers, the administration and implementation of this plan shall comply with all applicable shareholder approval, announcement, circular, and reporting requirements imposed by the Listing Rules (as amended from time to time) and shall be subject to applicable laws, rules and regulations.

### *Granting awards*

#### Making grants

Grants of awards shall be determined by the scheme administrator and shall be made to Eligible Participants only.

No awards over New Shares shall be made in contravention of the Model Code set out in Appendix 10 to the Listing Rules and where our Company is in possession of inside information and until (and including) one full trading day after the date that such information is announced, including within the one month prior to the earlier of our Board approving any annual, half-year or quarterly results, or the deadline for our Company announcing such results under the Listing Rules.

#### Accepting grants

The scheme administrator shall determine the period within which a grant may be valid for acceptance by the grantee, and the method of and purchase price (if any) payable with acceptance, which shall be set out in the award letter. However, if not otherwise specified in the award letter, a grantee shall have [10 business days] from the grant date to accept the award. Any awards not accepted by the grantee within the acceptance period (in the manner specified) shall be deemed as declined and automatically lapse.

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### *Conditions on awards*

#### Vesting period

The scheme administrator may set a vesting period and specify this in the award letter. However, the vesting period may not be for a period less than 12 months from the grant date, except for awards over New Shares granted to Employee Participants in the following circumstances:

- (a) grants of “make whole” awards over New Shares to a new Employee Participant to replace award shares that the Employee Participant forfeited when leaving their previous employers;
- (b) grants to an Employee Participant whose employment is terminated due to death or disability or event of force majeure;
- (c) grants of awards over New Shares with performance-based vesting conditions in lieu of time-based vesting criteria;
- (d) grants of awards over New Shares that are made in batches during a year for administrative and compliance reasons (including awards that should have been granted earlier but had to wait for a subsequent batch, in which case, the vesting periods may be shorter to reflect the time from which an award would have been granted);
- (e) grants of awards over New Shares with a mixed vesting schedule such that the awards vest evenly over a period of 12 months; or
- (f) grants of awards over New Shares with a total vesting and holding period of more than 12 months.

The Board (and the remuneration committee to the Board) believes that it is in the best interests of the Company to retain the flexibility to impose appropriate conditions in light of the particular circumstances of each grant, which would act as a more meaningful reward for the unique Employee Participant in that Employee Participant’s unique circumstances. By having the flexibility of having a shorter vesting period than 12 months in appropriate circumstances, the Board (and the remuneration committee to the Board) considers that the Group will be in a better position to attract and retain suitable Employee Participants to continue serving the Group whilst at the same time providing them with incentives towards achieving the business/financial goals of the Group, and thereby towards achieving, and aligned with achieving, the purpose of the 2023 Plan.

#### Performance targets and other conditions for vesting

The scheme administrator may set vesting conditions on awards, which shall be specified in the award letter. These include performance targets, criteria or conditions to be satisfied in order for the relevant award to vest and be settled by the Company, and may be based on, among other criteria, performance appraisals within a specified period, business/financial/transactional/performance milestones, current and anticipated future contribution to our Group and business, minimum service period, upon reaching other specified targets.

The Board believes that imposing performance targets and other conditions, on case-by-case basis in the award letters of individual Eligible Participants, not only provides the Company with flexibility to set specific conditions that are relevant to that individual Eligible Participant and in light of the goals that the Company would like that individual Eligible Participant to achieve to benefit the Group, but also provides Eligible Participants with tailored and specific identifiable targets/metrics that

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

they can work towards that would directly tie into and benefit the Group once achieved, which is in line with the purpose of this plan.

Where awards are granted to Directors or members of the senior management of the Company with a vesting period shorter than 12 months, the views of the remuneration committee to the Board on why a shorter vesting period is appropriate, and where such awards are without performance targets, the views of that remuneration committee on why performance targets are not necessary and how the grants align with the purpose of this plan, will be included in the announcement to be issued upon any grant of awards as required by the Listing Rules.

### **For awards over New Shares**

#### Exercise price and issue price

The scheme administrator shall determine the exercise price for a share option over New Shares and issue price for a share award over New Shares, which shall be specified in the award agreement, provided that:

- (a) the exercise price shall be the higher of: (i) closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date; and (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; and
- (b) the scheme administrator has absolute discretion to determine the issue price for the exercise of each share award, which may be for nil consideration or such other number specified in the award agreement.

### **For Awards over Existing Shares**

For awards over Existing Shares, whether taking the form of share awards or share options, the issue price or exercise price, as the case may be, for the exercise of such awards shall be such price determined by the scheme administrator in their absolute discretion and notified to the grantee in the award letter. For the avoidance of doubt, the scheme administrator may determine the issue price or the exercise price, as the case may be, to be nil.

### **For awards over New Shares**

#### Exercise period

The exercise period for a share option and a share award over New Shares shall be determined by the scheme administrator in their absolute discretion and specified in the award agreement. In particular:

- (a) the exercise period for a share option over New Shares (being the period within which the grantee may exercise a vested share option granted to them) shall not be longer than 10 years from the grant date; and
- (b) the exercise period for a share award over New Shares (being the period within which the grantee may request a vested share award granted to them to be settled and satisfied by or on behalf of our Company) shall be such period determined by the scheme administrator, and for the avoid of doubt, may be determined by the share administrator to be not applicable (in which case, the underlying award shares shall fall to be settled upon the vesting date without further action by the grantee).

### **For Awards over Existing Shares**

The exercise period for any grant of awards over Existing Shares, whether taking the form of share options or share awards, shall be such period determined by the scheme administrator in their absolute discretion and notified to the Eligible Participant in the award letter. For the avoidance of doubt, the scheme administrator may determine the exercise period of an award to be not applicable and determine that the award shares shall fall to be settled upon the vesting date without further action by the grantee.

#### Voting and dividend rights

Awards do not carry any right to vote at general meetings of our Company, nor any right to dividends, transfer or other rights. No grantee shall enjoy any of the rights of a Shareholder by virtue of being granted an award unless and until the Shares underlying an award are delivered to the grantee pursuant to the vesting and exercise of such award.

### **For awards over New Shares**

#### Transferability

Awards over New Shares are personal to the grantee and shall not be assignable or transferrable, except where a waiver has been granted by the Stock Exchange with respect to the proposed transfer, and such transfer has been made in compliance with the Listing Rules and with the consent of our Company. Following such transfer, the transferee shall be bound by the plan rules and award letter as if the transferee were the grantee.

#### Clawback

Where certain events specified in the plan arise, our Board may determine that, with respect to a grantee, awards granted but not yet exercised shall immediately lapse, and with respect to any Shares delivered or amount paid to the grantee, the grantee be required to transfer the same value, whether in Shares and/or cash, back to our Company (or nominee). These circumstances are:

- (a) the grantee ceasing to be an Eligible Participant by reason of termination for cause or without notice, or the result of being charged/penalized/convicted of an offence involving the grantee's integrity or honesty;
- (b) the grantee commits a serious misconduct or breach, including with respect to a policy or code of or other agreement with our Group, which is considered to be material; or
- (c) the award is no longer determined to be appropriate and aligned with the purpose of this plan.

The Board believes that making grants that are subject to a clawback mechanism allows the Company to retain the flexibility to re-evaluate and re-assess the circumstances of each grantee from time to time after the grant is made in order to determine whether it would still be appropriate to grant awards (or allow the grantee to be entitled to award shares) under this plan in circumstances that suggest the grant (or entitlement to award shares) would no longer be aligned with the purpose of this plan or where it may be regarded as inequitable for the awards (or award shares) to be retained by the grantee.

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### Alterations in the share capital of our Company

In the event of any alteration in the capital structure of our Company by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares or reduction of the share capital of our Company (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party) after the adoption date of this scheme, the scheme administrator shall make such corresponding adjustments, if any, as they in its discretion may deem appropriate to reflect such change with respect to:

- (a) (in the event of subdivision or consolidation of Shares only) the number of Shares comprising the Scheme Mandate Limit or Service Provider Sublimit, provided that in the event of any Share subdivision or consolidation, the Scheme Mandate Limit and Service Provider Sublimit as a percentage of the total issued Shares of our Company at the date immediately before any consolidation or subdivision shall be the same on the date immediately after such consolidation or subdivision;
- (b) the number of Shares comprised in each award to the extent any award has not been exercised;
- (c) the exercise price of any share option or issue price of any share award,

or any combination thereof, as the auditor or a financial advisor engaged by our Company for such purpose have certified satisfy the relevant requirements of the Listing Rules and are, in their opinion, fair and reasonable either generally or as regards any particular grantee, provided always that: (i) any such adjustments should give each grantee the same proportion of the equity capital of our Company, rounded to the nearest whole Share, as that to which that grantee was previously entitled prior to such adjustments; and (ii) no such adjustments shall be made which would result in a Share being issued at less than its nominal value. The capacity of the auditor or financial advisor (as the case may be) of our Company is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees.

### Change in control

If there is an event of change in control of our Company as the result of a merger, scheme of arrangement or general offer, or in the event of a dissolution or liquidation of our Company, the scheme administrator shall at its sole discretion determine whether the vesting date of any awards will be accelerated (for the avoidance of doubt, only Employee Participants may have the vesting of their awards accelerated to a period of less than 12 months from the date of grant) and/or the vesting conditions or criteria of any awards will be amended or waived, and notify the relevant grantee accordingly.

### Lapsed and cancelled awards

The scheme administrator may cancel an award with the prior consent of the grantee. Award shares over New Shares underlying cancelled awards shall be treated in the manner required under the Listing Rules. In particular, where our Company cancels an award over New Shares granted to a participant and subsequently makes a new grant over New Shares to that same participant, such new grant may only be made under this plan where there is available Scheme Mandate Limit, and awards cancelled will be regarded as utilised for the purpose of calculating the Scheme Mandate limit (and the Service Provider Sublimit).



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## STATUTORY AND GENERAL INFORMATION

Awards shall automatically lapse upon the following events. Lapsed awards shall not be counted for the purpose of calculating the Scheme Mandate limit (and the Service Provider Sublimit).

- (a) the award has not been accepted by the grantee (in the manner specified) within the acceptance period;
- (b) expiry of the exercise price;
- (c) the clawback mechanism being triggered;
- (d) following the grantee's death or permanent incapacity, bankruptcy, or where the grantee ceases to be an Eligible Participant or terminates their employment or contractual engagement with our Group for reasons other than as already provided for in this plan, or where the grantee's employment or contractual engagement has been suspended, or the grantee's position in or with respect to our Group has been vacated, for more than six months;
- (e) forfeiture of the award by the grantee; or
- (f) the grantee transfers the award in breach of the transferability provisions specified in the plan.

### ***Term of this plan and termination***

Subject to any early termination as determined by our Board, this plan shall have a plan life of 10 years from the adoption date.

No grants may be made after termination of this plan. Notwithstanding termination of this plan, this plan and its rules shall continue to be valid and effective to the extent necessary to give effect to the vesting and exercise of awards granted prior to termination, and the termination shall not affect any subsisting rights already granted to a grantee. For the avoidance of doubt, awards granted during the plan life but that remain unexercised or unexpired prior to the termination shall continue to be valid and exercisable in accordance with this plan and the relevant award letter.

### ***Amendment and termination***

The scheme administrator may, in their sole discretion, amend this plan or an award provided that:

- (a) the amendments, and the amended plan or award, shall comply with the relevant requirements under Chapter 17;
- (b) Shareholders' approval at general meeting is required for the following:
  - (i) any amendment or alteration to the terms of the plan that is of a material nature or any amendment or alteration to those provisions that relate to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Eligible Participants;
  - (ii) any change to the authority of the Board or the scheme administrator to alter the terms of this plan; and
- (c) any amendment or alteration to the terms of an award the grant of which was subject to the approval of a particular body shall be subject to approval by that same body, provided that this requirement does not apply where the relevant alteration takes effect automatically under existing terms of this plan.]

## OTHER INFORMATION

### Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

### Litigation

Save as disclosed in this document, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company’s results of operations or financial condition.

### Sole Sponsor

China International Capital Corporation Hong Kong Securities Limited satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor will receive an aggregate of US\$0.5 million for acting as our Company’s sponsor for the Listing.

### Consent of experts

This document contains statements made by the following experts:

<u>Name</u>	<u>Qualification</u>
China International Capital Corporation Hong Kong Securities Limited	A licenced corporation under the SFO for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO.
Fangda Partners	Qualified PRC lawyers
Harney Westwood & Riegels	Cayman Islands attorneys-at-law
Deloitte Touche Tohmatsu	Certified Public Accountants under Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)  Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

As at the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Each of the experts named above have given and have not withdrawn their respective written consent to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

### **Binding effect**

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

### **Bilingual document**

[REDACTED]

The English version of this document is the official version, and where there are inconsistencies between the English version and translations thereof, the English version of this document shall prevail.

### **Preliminary expenses**

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

### **Disclaimers**

- (a) Save as disclosed in this document and in “[REDACTED]”, within the two years immediately preceding the date of this document:
  - (i) there are no commissions for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company; and
  - (ii) there are no commissions, discounts, brokerages or other special terms granted in connection with the issue or sale of any capital of any member of our Group, and no Directors, promoters or experts named in the part headed “—Other information—Consent of experts” received any such payment or benefit.
- (b) Save as disclosed in this document:
  - (i) there are no founder, management or deferred shares in our Company or any member of our Group;
  - (ii) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this document, or are proposed to be paid, allotted or given to any promoters;

**APPENDIX IV**

**STATUTORY AND GENERAL INFORMATION**

- (iii) none of the Directors or the experts named in “—Other information—Consent of experts” above has any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; and
- (iv) there are no bank overdrafts or other similar indebtedness by our Company or any member of our Group;
- (v) there are no hire purchase commitments, guarantees or other material contingent liabilities of our Company or any member of our Group;
- (vi) there are no outstanding debentures of our Company or any member of our Group;
- (vii) there are no other stock exchange on which any part of the equity or debt securities of our Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought;
- (viii) there are no arrangements under which future dividends are waived or agreed to be waived;
- (ix) there were no significant interruptions in the business of our Group which may have or have had a significant effect on our financial position in the last 12 months;
- (x) no capital of any member of our Group is under option, or is agreed conditionally or unconditionally to be put under option;
- (xi) there are no restrictions affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong;
- (xii) there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested or which is significant in relation to the business of our Group.

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**APPENDIX V**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE ON DISPLAY**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents,:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in “Statutory and general information—Other information—Consent of experts” in Appendix IV; and
- (c) copies of the material contracts referred to in “Statutory and general information—Further information about our business—Summary of material contracts” in Appendix IV.

**DOCUMENTS AVAILABLE ON DISPLAY**

Copies of the following documents will be available on display on the Company’s website ([www.yshang.cn](http://www.yshang.cn)) and the Stock Exchange’s website (<https://www.hkexnews.hk>) up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the material contracts referred to in “Statutory and general information—Further information about our business—Summary of material contracts” in Appendix IV;
- (c) the service contracts and the letters of appointment with our Directors referred to in “Statutory and general information—Further information about our Directors—Director contracts and remunerations” in Appendix IV;
- (d) the Frost & Sullivan Report, a summary of which is set forth in “Industry overview”;
- (e) the PRC legal opinion issued by Fangda Partners in respect of certain general corporate matters in the PRC of our Group;
- (f) the Accountant’s Report and the report on the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II;
- (g) the audited consolidated financial statements of our Group for the financial years ended 31 December 2020, 2021 and 2022;
- (h) the letter of advice prepared by Harney Westwood & Riegels summarising certain aspects of Cayman company law referred to in Appendix III;
- (i) the Cayman Companies Act;
- (j) the written consents referred to in “Statutory and general information—Other information—Consent of experts” in Appendix IV;
- (k) the terms of the 2019 Share Incentive Plan; and
- (l) [the terms of the 2023 Share Incentive Plan.]