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OVERVIEW

Our Company

We developed China’s first city-specific cloud hospital platform, according to Frost & Sullivan, and nurtured a cloud hospital network that connects local governments, medical institutions, patients and insurers to enable equitable access to medical resources and more effective and efficient delivery of healthcare. Through the cloud hospital network, we facilitate the delivery of Internet medical services, including online hospital services, remote medical services, smart family doctor services and Internet home care services. We also provide health management services and offer smart healthcare products. According to Frost & Sullivan, as of December 31, 2021 and September 30, 2022, we were the largest cloud hospital network in China in terms of the number of cities covered.

Digital healthcare is the integration of information technology with medical resources and practices to create new healthcare service platforms and infrastructure, and to enable stakeholders to deliver more precise and customized care with improved quality and equitable access. Through digital healthcare, we help relevant stakeholders realize healthcare transformation, to achieve digital connection between online and offline settings, inside and outside of medical institutions and among medical institutions, and solve diverse and systemic problems facing the healthcare system. We believe that the core value of cloud-based healthcare should reside with empowering all participants in the healthcare system, to align with all relevant stakeholders’ interests without disrupting the system as a whole.

As of December 31, 2020 and 2022, our network grew from 24 to 29 city-specific cloud hospital platforms in China. As of the same dates, 1,796 to 2,400 hospitals were connected to our cloud hospital network, respectively. In 2020, 2021 and 2022, approximately 512,900, 1,111,400 and 1,674,000 total online consultations took place over our platforms, respectively, and approximately 925,800, 787,000 and 839,000 prescriptions were processed over our platforms, respectively. During the same years, the volume of our remote medical services was approximately 701,000, 860,600 and 1,067,000, respectively, the volume of our smart family doctor services was approximately 1,417,600, 2,306,600 and 5,218,000, respectively, and the volume of Internet home care services was approximately 16,400, 29,900 and 54,000 over our platforms, respectively. Meanwhile, in 2020, 2021 and 2022, the volume of our health management services was approximately 475,000, 525,900 and 480,000, respectively.

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We believe our cloud hospital platforms can generate strong network effects as more hospitals and other participants join our platforms over time to expand the depth and breadth of medical resources available and extend their reach to an ever-larger group of healthcare consumers, resulting in a virtuous cycle in sustaining our growth.

In 2020, 2021 and 2022, our revenue was RMB503.0 million, RMB614.3 million and RMB687.4 million, respectively.

Our Solutions

We have created a portfolio of solutions designed to empower the participants in the healthcare system to improve overall efficiency and effectiveness. In particular, our solutions encompass the following:

- **Cloud Hospital Platform Services.** We provide local governments, medical institutions and insurers with: (i) platform construction services that construct or upgrade cloud hospital platforms for local governments or independent cloud hospital systems for large medical institutions; and (ii) platform connection services that connect medical institutions to our cloud hospital platforms, which enable them to provide Internet medical services.

Our cloud hospital platforms typically offer six function modules, namely the online hospital services module, remote medical services module, family doctor services module, Internet nursing care services module, health management services module and chronic disease management services module. Customers are able to choose one or a bundle of such modules to be implemented in their cloud hospital platforms. These modules are developed by us, and the functions of such modules can be modified and tailored to address various healthcare needs. We generally adopt a cost-plus pricing strategy for the cloud hospital platform services. As of December 31, 2020 and 2022, our network grew from 24 to 29 city-specific cloud hospital platforms in China. As of the same dates, 1,796 to 2,400 hospitals were connected to our cloud hospital network, respectively. In 2020, 2021 and 2022, we generated 84.4%, 54.8% and 71.0% from our cloud hospital platform services offered via city-specific cloud hospital platforms, respectively.

- **Internet Medical Services.** Supported by our cloud hospital platforms, third-party and our own medical institutions can provide online and offline integrated Internet medical services consisting of online hospital services, remote medical services, smart family doctor services and Internet home care services.

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The online hospital services, including smart hospital services, online medical consultation and prescription processing and value-added follow-up management services, mainly focus on patients' consultations and management in respect of chronic diseases and are designed to increase patients' stickiness through high value-added services that are not available in the traditional offline hospital setting, especially through leveraging our participation in specialty medical consortiums.

The remote medical services help primary medical institutions expand their service capabilities to provide remote diagnosis, remote consultation and bidirectional referral services so as to achieve the same coverage and quality of care as large hospitals.

The smart family doctor services help patients and other healthcare consumers to sign up family doctors, which are typically general practitioners of primary medical institutions, to acquire personalized healthcare solutions.

The Internet home care services enable nurses to utilize their fragmented spare time to provide professional care services at the patient's premises, thereby extending nursing care from hospitals to households.

In 2020, 2021 and 2022, approximately 512,900, 1,111,400 and 1,674,000 total online consultations took place over our platforms, respectively, and approximately 925,800, 787,000 and 839,000 prescriptions were processed over our platforms, respectively. During the same years, the volume of our remote medical services was approximately 701,000, 860,600 and 1,067,000, respectively, the volume of our smart family doctor services was approximately 1,417,600, 2,306,600 and 5,218,000, respectively, and the volume of Internet home care services was approximately 16,400, 29,900 and 54,000 over our platforms, respectively. In 2020, 2021 and 2022, we generated 95.0%, 93.0% and 95.6% from our Internet medical services offered via city-specific cloud hospital platforms, respectively.

- **Health Management Services.** We provide integrated health management services to institutional and individual clients through our own medical institutions. Our institutional clients typically are government agencies, corporations, banks and insurers, who purchase our services for the benefit of their employees.

In particular, we offer comprehensive health management services, which mainly include offline health check-ups through our own medical institutions and online health management services including virtual well-being tutorials and lifestyle planning recommendations provided by our online health management professionals. Meanwhile, we provide chronic disease management services, which mainly include chronic disease condition monitoring, healthcare news feed services and intervention planning services based on individuals' chronic disease conditions.

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In 2020, 2021 and 2022, the volume of our health management services was approximately 475,000, 525,900 and 480,000, respectively. During the same periods, the revenue contribution from institutional clients for this segment was 87.0%, 85.5% and 85.7%, respectively.

- **Smart Healthcare Products.** We mainly offer Digital Clinic and Digital Pharmacy products and All-in-One Healthcare Devices to local governments and primary medical institutions as well as other smart healthcare devices to corporations and individuals to cover various healthcare needs under different settings.

For local government and primary medical institutions, our smart healthcare product offerings mainly include Digital Clinic and Digital Pharmacy products and All-in-One Healthcare Devices, among other things. These products are integrated into our cloud hospital platforms and digitize and transmit vital signs and test results to our platform, to facilitate remote medical consultations, drug delivery and establish EHRs for individuals. In 2020, 2021 and 2022, the sales volumes of our Digital Clinic and Digital Pharmacy products were 191, 188 and 178, respectively. In the same years, the sales volumes of our All-in-One Healthcare Devices were 1,994, 4,144 and 815, respectively. In general, the sales price of a standard set of our Digital Clinic and Digital Pharmacy products ranges from RMB50,000 to RMB200,000, and the sales price of our All-in-One Healthcare Device products ranges from RMB5,000 to RMB20,000.

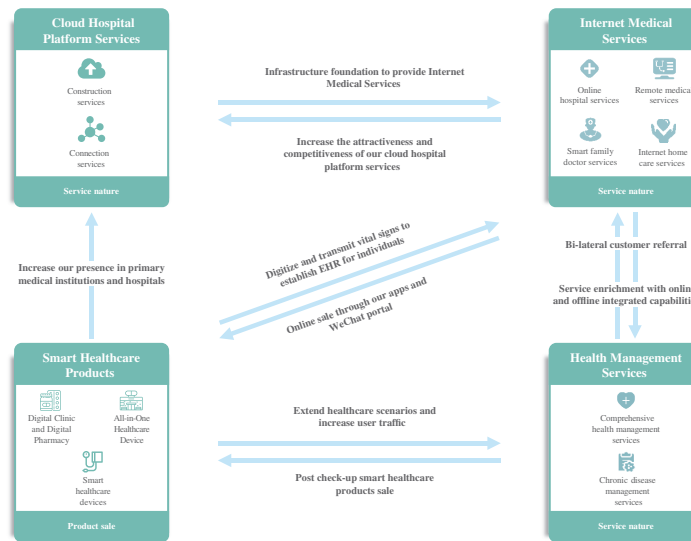
We also provide corporations and individuals with our smart healthcare devices, which mainly include smart blood pressure monitors, smart blood glucose meters, and smart wearables, among others. These devices allow patients or healthcare consumers and their family members to better monitor and manage health. We typically have a fixed purchase price for the smart healthcare devices.

The following table sets forth our revenue breakdown by business line for the years indicated:

	Year ended December 31,					
	2020			2021		
	<i>(RMB in thousands, except for percentages)</i>					
Cloud hospital platform services	78,611	15.6%	127,967	20.8%	122,369	17.8%
Internet medical services	55,057	11.0%	93,407	15.2%	137,834	20.1%
– Online hospital services	49,240	9.8%	80,144	13.0%	117,972	17.2%
– Remote medical services	4,325	0.9%	10,248	1.7%	13,871	2.0%
– Smart family doctor services	–	–	–	–	–	–
– Internet home care services	1,492	0.3%	3,015	0.5%	5,991	0.9%
Health management services	222,465	44.2%	240,918	39.2%	209,199	30.4%
Smart healthcare products	146,875	29.2%	152,010	24.8%	218,013	31.7%
Total	<u>503,008</u>	<u>100.0%</u>	<u>614,302</u>	<u>100.0%</u>	<u>687,415</u>	<u>100.0%</u>

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The following diagram illustrates the relationships among our four business segments and the synergistic effects generated among them:



Our solutions are designed to generate synergistic effects among themselves. Our cloud hospital platform services, serving as the entry point of our solutions, connect healthcare participants to our cloud infrastructure, thereby allowing them access to our SaaS tools and medical service modules. The Internet medical services empower medical institutions to offer convenient and one-stop online and offline integrated healthcare services inside and outside of medical institutions to patients. We also provide integrated health management services through our own medical institutions to individuals and institutional clients, so as to enable them or their employees to manage health. Furthermore, the smart healthcare products have enriched the healthcare scenarios so that our solutions can benefit the end patients and healthcare consumers, and created room for us to further enrich our service offerings. We expect our solutions to further attract healthcare participants to our platforms and increase quality medical resources available through our platforms, thereby resulting in a virtuous cycle for our sustainable growth.

CITY-SPECIFIC CLOUD HOSPITAL PLATFORMS

Overview

We help local governments, medical institutions and insurers build their own cloud hospital platforms through our offering of cloud hospital platforms services, in particular by establishing functional modules for local governments and developing independent institution-based cloud hospital systems for medical institutions. In some cities, such cloud hospital platforms may develop into a city-specific cloud hospital platform, on which one or more of our service offerings under the Internet medical services segment are made available to facilitate the digitization and connection of city-wide medical resources.

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The city-specific cloud hospital platform is an important feature of our solutions, concerning the cloud hospital platform services and Internet medical services. It is a regional digital healthcare platform constructed by us based on requirements of the local governments, and may include different platform functions from one another. Over such platform, one or more types of the Internet medical services are enabled to be offered by connected medical institutions. We also help operate and upgrade such infrastructure on an ongoing basis, depending on the terms of the contracts with local governments, thereby generating continual revenue from our cloud hospital platform services.

According to Frost & Sullivan, we are China's first city-specific cloud hospital platform provider. We prefer to establish cloud hospital platforms on a city level because: (i) the supply and demand of medical resources in China are typically arranged at city level and subject to the local city-level governments' overall planning and management and the demand side tends to seek medical resources at city level; (ii) we can identify and match the diversified medical demands and medical resources available in each different city through our city-specific cloud hospital platforms cost-effectively and time-efficiently; and (iii) our strategic focus on establishing city-specific cloud hospital platforms avails ourselves of the favorable government policies promoting the development of "Internet + Healthcare" services. See "Industry Overview – The PRC Digital Healthcare Services Market – Accelerated Digitization of the PRC Digital Healthcare Services Market – Drivers of the Digitalization of the PRC Digital Healthcare Services Market – Favorable Government Policies."

As local governments are usually responsible for ascertaining the generic functions and modules of city-specific cloud hospital platforms, we focus on effective communications and close cooperation with local governments at the early stage of establishing such platforms. Local governments typically recommend medical institutions within their administrative areas to connect to our city-specific cloud hospital platform. Although such recommendations are not mandatory, such medical institutions typically are incentivized to connect with us to enhance their ability to provide Internet medical services. After the initial establishment, the city-specific cloud platform typically only consists of generic functions. Medical institutions, particularly large-scale hospitals, have the need to develop customized modules and establish independent cloud hospital systems on top of the existing functions embedded in the city-specific cloud hospital platforms.

Furthermore, in general, once a city-specific cloud hospital platform is in operation, it is unlikely that such platform will be replaced entirely by technological infrastructure of another company. This has formed a relatively high entry barrier for our peers seeking to enter the digital healthcare market of such city.

In particular, our proven track record in Ningbo and Shenyang demonstrated the sustainability of our cloud hospital platform services after completion of initial platform construction. Specifically, in 2021, we entered into a contract with a local government in Shenyang to help further upgrade its existing cloud hospital platform. In 2021, we also helped more than 30 hospitals in Ningbo to develop and establish their independent cloud hospital systems to connect to the Ningbo Cloud Hospital platform.

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The following table sets forth our revenue of the cloud hospital platform services and Internet medical services generated from our Ningbo and Shenyang Cloud Hospital platforms:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Ningbo			
Cloud hospital platform services	5,512	7,088	4,765
Internet medical services	45,080	70,922	97,277
Shenyang			
Cloud hospital platform services	38,610	16,902	13,844
Internet medical services	6,545	14,061	27,391

See “– Our Solutions – Internet Medical Services – Case Study: Ningbo” and “– Our Solutions – Internet Medical Services – Case Study: Shenyang” for details.

Platform Network

As of December 31, 2020, 2021 and 2022, our network consisted of 24, 28 and 29 city-specific cloud hospital platforms in China, respectively. The 29 city-specific cloud hospital platforms as of December 31, 2022 are primarily located in three regions, (i) the Yangtze River Delta (such as Ningbo), (ii) Southern China (such as Chongqing) and (iii) Northern China (such as Shenyang). These platforms covered a population of approximately 137.0 million in aggregate and the total medical expenditure in the relevant regions amounted to approximately RMB165.9 billion in 2021. Specifically, our flagship city-specific cloud hospital platforms in Ningbo and Shenyang exemplified how our solutions have been stably and successfully empowered healthcare participants in the delivery of healthcare services to drive our business sustainability. See “– Our Solutions – Internet Medical Services – Case Study: Ningbo” and “– Our Solutions – Internet Medical Services – Case Study: Shenyang” for details.

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The following map illustrates the locations of the 29 city-specific cloud hospital platforms in China as of December 31, 2022:



Note: The above 29 cities as of December 31, 2022 comprise Anshan, Baoshan, Chongqing, Dalian, Dandong, Hechi, Huangshan, Kunming, Lianyungang, Liaoyang, Mianyang, Nanjing, Nanning, Nantong, Neijiang, Ningbo, Putian, Shanghai, Shenyang, Suqian, Taiyuan, Tieling, Xiangtan, Xinxiang, Xuzhou, Yantai, Yichang, Zhoushan and Zibo.

We intend to further expand our presence of city-specific cloud hospital platforms to other parts of China such as the Yangtze River Delta, Pearl River Delta, the Beijing-Tianjin-Hebei Metropolitan Region, and Central and Western China. See “– Our Strategies” and “ Future Plans and Use of [REDACTED].” Going forward, we will further monetize our services through the deepened cooperation with local governments as well as medical institutions to help further enhance our capabilities in offering cloud hospital platform services and facilitating Internet medical services across the nation.

We also value the needs in cities in which we have not yet established city-specific cloud hospital platforms and we directly provide customized services to cater to local needs. In cities where we have not yet established city-specific platforms, we provide (i) cloud hospital platform services by establishing functional modules for local governments and developing independent cloud hospital systems for medical institutions; and (ii) Internet medical services after the medical institutions are connected to our cloud hospital platform deployed on a public cloud server. We believe such offerings showcase our service capabilities and lay a solid basis for cooperation potentials for the establishment of city-specific cloud hospital platforms in such cities going forward.

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Notably, we generated respectable revenue from cloud hospital platform services in cities other than those with established city-specific cloud platforms as our revenue sources expanded, which proved that we did not solely rely on cities where there are established city-specific cloud hospital platforms. In 2020, 2021 and 2022, we generated 15.6%, 45.2% and 29.0%, respectively, from cloud hospital platform services and 5.0%, 7.0% and 4.4%, respectively, from Internet medical services offered in cities where we have not yet established city-specific cloud hospital platforms.

Tailored Strategies for Different Cities

The development of each city-specific cloud hospital platform progresses at varied rates, depending on a number of factors, including the population size, maturity of local medical and information infrastructure, extensiveness of medical networks, regulatory dynamics and public awareness and acceptance of our solutions.

We tailor development strategies based on such factors, providing different services as different entry points or selecting different types of medical institutions to initiate contact with. To better serve the unique situations of different cities, we carefully tailor development strategies and design, develop and offer customized modules and services for each city-specific cloud hospital platform based on local situation. For example, if the information technology development level of primary medical institutions in certain cities in Southern China is relatively low, they are more incentivized to connect to our platform to digitalize their operations. Accordingly, we may elect to connect with a large number of primary medical institutions first, and then hospitals in such cities, or the other way around in other cities. Also, we may initially offer different types of services in different cities based on our understanding of the local needs. For cities where local governments focus on solving the problems of long-term care of the elderly, like Kunming, we initially provided Internet home care services, and for cities where local governments intend to strengthen primary healthcare servicing capabilities, like Liaoyang, we initially provided smart family doctor services. As a result, the specific service offerings and revenue growth from the city-specific cloud hospital platforms in different cities may vary significantly, depending on the development strategies we adopt.

Among our 29 city-specific cloud hospital platforms as of December 31, 2022, we have gradually identified and focused on 8 cities with strong potential and favorable local factors for Internet medical services. We actively promote Internet medical services by deploying local operational teams and devoting more resources to these cities, some details of which are set forth below:

<u>City</u>	<u>Time of completion of the platform</u>
Ningbo	2016
Shenyang	2017
Chongqing	2020
Nanjing	2019

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City	Time of completion of the platform
Dalian	2020
Nanning	2021
Kunming	Still under construction, completion expected in 2023
Shanghai	Still under construction, completion expected in 2023

OUR STRENGTHS

We believe the following competitive strengths have contributed to our success and distinguished us from our competitors:

China’s largest cloud hospital network committed to transforming the delivery of care

We developed China’s first city-specific cloud hospital platform in Ningbo in 2015, according to Frost & Sullivan, and created a unique city-specific cloud hospital platform model rooted in the city context. Leveraging our rapid replications of such model in other cities since then, we have nurtured a cloud hospital network that connects local governments, medical institutions, patients and insurers to enable equitable access to medical resources and more effective and efficient delivery of healthcare. As of December 31, 2022, our network consisted of city-specific cloud hospital platforms in 29 cities in China. According to Frost & Sullivan, as of December 31, 2021 and September 30, 2022, we are the largest cloud hospital network in China in terms of the number of cities covered. In addition, according to Frost & Sullivan, as of December 31, 2021, we ranked third in terms of the total number of medical institutions (including both primary medical institutions and hospitals) connected to digital healthcare platforms. Our network covered 3.4% and 5.8% of the total number of medical institutions and hospitals, respectively, in China as of the same date.

We intend to align with all relevant stakeholders to solve diverse and systemic problems. We believe that the core value of cloud-based healthcare should reside with empowering all participants in the healthcare system, as opposed to displacing the incumbents that could run the risk of conflicts of interest or disrupting the system as a whole. Accordingly, our cloud hospital platform model was designed to bridge the gaps among the participants in the healthcare system to achieve synergistic optimization of city-wide healthcare operations in terms of cost saving, efficiency and patient experience.

For example, the Ningbo Cloud Hospital platform is the dominant role model in Zhejiang province. As China’s first city-specific cloud hospital platform according to Frost & Sullivan, it has achieved real-time monitoring, seamless connectivity and evident synergies between offline and online care, driven by a full implementation of EMRs. We aimed to align with all relevant stakeholders in developing and operating the Ningbo Cloud Hospital platform, and continually focused on creating value for all participants including local governments, medical institutions, patients and insurers. All of the public medical institutions in Ningbo had joined

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the Ningbo Cloud Hospital platform by December 2020, according to the Health Commission of Ningbo. In 2020, 2021 and 2022, the penetration rate (calculated as the number of hospitals connected to our platforms as a percentage of the total number of hospitals in 2020 in the respective city) in Ningbo was generally higher than 40%. In particular, the service volume of our Internet home care services increased from 5,900 in 2020 to 11,000 in 2021 and further to 23,000 in 2022, combined with an increase in the number of nurses on the Ningbo Cloud Hospital platform from 5,600 in 2020 to 6,200 in 2021 and further to 8,700 in 2022. The proven success of the Ningbo Cloud Hospital platform exemplified how we helped the local healthcare system achieve efficiency of healthcare services and realize our own rapid business growth and monetization.

Through city-specific cloud hospital platforms, we help certain local governments aggregate and process multisource heterogeneous data from medical institutions and various government agencies at city and provincial levels, so that these data are leveraged to generate insights and evidence for policy making and outcome evaluation, and implement population health management initiatives. As of December 31, 2022, we had established and operated three provincial-level Internet healthcare service supervision platforms in Jiangsu, Liaoning and Yunnan provinces.

Replicable and scalable cloud hospital platform model

Our cloud hospital platform model is replicable and scalable. Augmented by our years of expertise in developing and operating cloud hospital platforms, this model can be rapidly implemented in new cities and is sufficiently flexible to accommodate city-specific particularities, while it is scalable to continually penetrate existing cities to connect more healthcare participants, enhance the breadth and depth of our solutions and incorporate additional functionalities such as integration of insurance systems and advanced models of smart healthcare devices.

We have been continually optimizing our cloud hospital platform model since its inception, for which we have developed a well-proven approach, spanning from identifying the varied demands of different healthcare participants, refining processes of healthcare delivery, and coordinating among the disparate participants, to offering education and operational support in relation to our cloud hospital platforms. Leveraging our in-depth understanding of the pain points facing the PRC healthcare industry and expertise in expanding our city-specific cloud hospital platforms, we analyze and gain insights into the particularities of the local healthcare landscapes and adopt customized approaches to address the more urgent local needs, when applying our model to a new city.

In particular, the number of cities for which we have established city-specific cloud hospital platforms increased from only one in 2014 to 24 as of December 31, 2020, and further increased to 29 as of December 31, 2022. This demonstrates the replicability of our cloud hospital platform model in different cities.

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Meanwhile, our cloud hospital platform model is scalable. We first established city-specific cloud hospital platforms in Ningbo in 2014 and Shenyang in 2015. The city-specific cloud hospital platforms in both cities recorded continuously growing revenue from the cloud hospital platform services and Internet medical services after seven and eight years from their platform inception, respectively. Revenue of the cloud hospital platform services and Internet medical services generated from our Ningbo Cloud Hospital platform increased from RMB50.6 million in 2020 to RMB78.0 million in 2021, and further to RMB102.0 million in 2022. Such increases were generally attributable to the increase in the service volumes of the online hospital services.

We replicated this model in Shenyang in 2015. Revenue of the cloud hospital platform services and Internet medical services generated from our Shenyang Cloud Hospital platform decreased from RMB45.2 million in 2020 to RMB31.0 million in 2021, despite general increases in the service volumes of the online hospital services and remote medical services in 2021; it further increased to RMB41.2 million in 2022.

In addition, specific government policies encourage the replication of our cloud hospital platform model in other cities. The provincial government of Zhejiang has issued a provincial-level policy for the expansion of Internet home care services in August 2022, which is expected to significantly and positively affect our prospects within Zhejiang province to provide Internet home care services. Pursuant to such policy, Internet home care services are encouraged by the government to be adopted by all cities in Zhejiang province by 2023, relying on the Internet home care services infrastructure constructed and operated solely by us. As the Ningbo Cloud Hospital platform is deployed via the Internet home care services infrastructure and is referred to as a role model of Zhejiang province by the provincial government of Zhejiang in terms of digital healthcare application, we would be highly likely providing Internet home care services for all cities in Zhejiang province, and Ningbo Cloud Hospital platform will be likely replicated as a role model in other cities without the need to build brand new platforms for each individual city.

The replicability and scalability of our model are also attributable to our strong technological and data capabilities. This model has been developed upon our cloud hospital platform, a cloud-based healthcare infrastructure that integrates technologies in mobile Internet, IoT, cloud computing, big data and AI. These technologies enable us to build functionalities in a modular way, which makes the deployment of our cloud hospital platform model easier and faster, while retaining great flexibility in customization based on the specific circumstances of a city. For details on our cloud hospital platform, see “– Technology and Infrastructure.”

As of December 31, 2020 and 2022, our network grew from 24 to 29 city-specific cloud hospital platforms in China. Recognizing the benefits of our platforms in realizing their healthcare policy goals, local governments may promote our solutions in their own initiatives, which helps us increase penetration in the relevant cities more cost-effectively. As of December 31, 2020 and 2022, 1,796 and 2,400 hospitals were connected to our cloud hospital network, respectively. As more hospitals join our network over time, we believe that our cloud

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hospital platforms will attract more local governments, medical institutions, patients and insurers as well as other participants to enjoy the benefits they create, which is expected to expand the depth and breadth of medical resources available and extend their reach to an ever larger group of healthcare consumers, resulting in a virtuous cycle with significant network effects on our business.

Comprehensive solution portfolio to realize continuity through the full cycle of healthcare

We have designed a number of adaptable solutions to achieve continuity through the cycle of healthcare. Our diversified online and offline integrated service offerings empower medical institutions and professionals to serve patients with varied conditions in primary, secondary and convalescent care, and we have also launched health management services to address healthcare consumers' needs for maintaining a healthy lifestyle.

We connect primary care providers such as primary medical institutions and primary care practitioners with top hospital specialists through our remote medical services, which help primary care providers expand their service capabilities so as to achieve the same coverage and quality of care as large hospitals. This can, in turn, improve patients' confidence in primary care providers, and enable more effective distribution of medical resources. As of December 31, 2022, our platforms connected with 35,500 medical institutions, including 33,000 primary medical institutions, with approximately 113,000 registered doctors.

By integrating medical resources at large hospitals over our platforms, we empower secondary care providers to offer a continuum of online and offline integrated healthcare services before, during and after medical consultations. By digitizing appointment making and check-up report inquiries, our smart hospital services facilitate more efficient and pleasant hospital visits for patients, and improves overall hospital operations. Other healthcare services available on our platforms include post-discharge follow-ups, drug delivery and home care, all easily accessible by patients, which are expected to drive positive care outcomes, reduce hospital re-admissions and provide convenience to patients.

We also facilitate Internet home care services for individuals with complex or progressive illnesses or severe disabilities who lack the care they need in the community or at a long-term care facility. Leveraging our close cooperation with a large number of hospitals across China, we are able to precisely identify potential patient groups with needs for continuing care, and, accordingly, convert them to users of our cloud hospital platforms. This also aligns with the interests of the hospitals, as the connectivity of data of patients receiving continuing care through our platforms enables hospitals to have better visibility of bed access and more efficient remote monitoring of individual patients. We commenced the Internet home care services in Ningbo in 2016, one of earliest in the PRC healthcare industry, according to Frost & Sullivan. As of December 31, 2022, Internet home care services provided by approximately 870 medical institutions were available on our platforms, with approximately 38,000 registered nurses. In 2020, 2021 and 2022, the volume of the Internet home care services was approximately 16,400, 29,900 and 54,000 over our platforms, respectively, growing at a CAGR of 81.5% from 2020 to 2022.

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Moreover, we provide offline health management services to institutions and individuals, customized based on customer groups' varied needs. Capitalizing on our own medical institutions, we offer health check-ups, health information as well as related value-added services, and customers can opt to utilize the professional healthcare services available on our cloud hospital platforms. In addition, we provide EMR-based chronic disease management services to patients. They can upload measurement data to our platforms through mobile devices, which is then accessible by doctors to carry out real-time monitoring and intervention. In particular, our chronic disease management services provided to rural hypertension patients in certain regions of China were found to associate with approximately 33.3% risk reduction of cardiovascular disease events and improvement in blood pressure control. We are also proactively working with medical insurers in promoting a managed healthcare project with respect to outpatient chronic disease patients in a city in China.

In-depth understanding of medical specialties to integrate quality medical resources and ensure quality of healthcare delivery

Leveraging our in-depth understanding of medical specialties, we are able to integrate quality medical resources and implement stringent quality control measures to safeguard the quality and security of care delivery.

We team up with renowned medical institutions and top medical groups in China to form "medical specialty consortiums." Collaborating with such consortiums, we have formulated standard medical specialty-based processes, systems and programs in areas such as cardiology, obstetrics, pediatrics, oncology and specialized care. Such programs are designed to optimize the delivery of healthcare, and help other medical institutions offer professional, standardized and specialized medical services. We also built these programs into our cloud hospital platforms, to further empower the healthcare providers in our network, particularly primary medical institutions and primary care practitioners. Such collaborations also enable us to develop diversified service offerings on our platforms to serve the elderly, patients with chronic diseases, women, children and tumor patients, among others.

We have cooperated with the cardiology department of a Class III Grade A hospital in Shanghai to develop standard processes for post-discharge follow-ups, with a view to enhancing recovery of patients with cardiovascular diseases and preventing re-admissions. As of December 31, 2022, standard processes for post-discharge follow-ups were developed for 43 cardiovascular diseases. We have also collaborated with a renowned national medical group of cardiologists in forming and operating the cardiology consortium, and established a sorting system for patients with cardiovascular diseases based on the capabilities of medical institutions and complexity of treatments to optimize the deployment of medical resources and patient welfare. Through such sorting system, large hospitals are able to focus on intractable medical conditions and urgent and acute cases such as valve and artificial heart surgeries with general hospitals focusing on diagnosis and treatment services for relatively complex medical conditions such as percutaneous coronary intervention treatment and coronary artery bypass surgeries, while primary medical institutions are also responsible for basic healthcare services such as chronic disease management and recovery.

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Moreover, we have formed and operate a maternal and child health consortium in Shanxi province through cooperation with a Class III Grade A hospital. As of December 31, 2022, this consortium served 242 alliance hospitals in Shanxi province in organizing a well-rounded maternal and child health practice. We have also founded and operate a reproductive health consortium with medical institutions, including a Class III Grade A hospital in Jilin province, which connected 50 alliance hospitals in 28 cities of four provinces as of December 31, 2022.

Leveraging years of experience gained from operating and managing medical institutions on our own as well as our capabilities in building regulatory supervision platforms for Internet healthcare services, we are equipped with strong abilities to oversee the quality of care delivery. We believe such abilities are the cornerstone of sustainable and long-term growth of our platforms and solutions. For example, for Internet home care services, we strictly require nurses to have more than five years' working experience in accordance with relevant PRC requirements. Before they commence services, all the nurses must complete nursing care training carried out by medical institutions. For certain specialized nursing care projects, such as wound stoma care, peripherally inserted central catheter care, peritoneal dialysis care, pressure ulcer care and T-tube care, nurses must obtain relevant certificates after passing academic training and tests approved by medical institutions. For postpartum rehabilitation, infant rehabilitation and other maternal and child nursing programs, nurses are required to have first-hand nursing experience and relevant nursing qualifications.

Visionary management team and industry-leading and supportive shareholders

Our management team consists of members with in-depth understanding of China's Internet and healthcare industries, and rich management experience or entrepreneur success in big data analytics and delivery of care. On average, our senior management members have 15 years' experience in technology, healthcare, insurance and/or regulatory affairs.

Our Chairperson, Dr. Liu Jiren, is a well-regarded leading figure in the PRC software industry, with more than 35 years' experience. As a co-founder of Neusoft Corporation, he has led the growth of Neusoft Corporation since its establishment in 1991. Before then, Dr. Liu was a lecturer and director of the Software Research Center at Northeastern University in China. At present, Dr. Liu serves as vice chairman of the China Software Industry Association and executive council member of the China Association of Automation. Dr. Liu was honored with the 2019 EY Entrepreneur Of The Year Alumni Award for Societal Impact. In 2018, Dr. Liu was among the "100 Outstanding Entrepreneurs of the Private Sector during the 40 Years since the Chinese Economic Reform" issued by the All-China Federation of Industry and Commerce. In addition, Dr. Liu was recognized as the 2009 CCTV China Economic Person of the Year.

Our CEO, Ms. Zong Wenhong, has over 12 years' management experience in the healthcare industry. She was previously a general practitioner with extensive clinical experience and received intermediate qualifications in obstetrics and gynecology, internal medicine and general medicine from the National Health Commission of the PRC. Ms. Zong also holds a master's degree in software engineering, and previously served at local administrations of health technology and informatization as well as social security.

BUSINESS

We also benefit from our industry-leading and strategic shareholders, such as Neusoft Corporation along with its pan-healthcare alliance, and PICC P&C. Their respective well-established market positions and expertise in software and insurance can help us better promote our platforms and solutions. We also receive endorsement from leading financial investors including Hony Capital, 6 Dimensions Capital and Goldman Sachs.

In particular, Neusoft Corporation is a large-scale service provider in healthcare solutions and data technology in China, with 30 years' industry experience in software engineering and IT. We have gained valuable insights into the healthcare and technology industries and acquired deeper understanding of the pain points of the PRC healthcare system from the industry experience shared by Neusoft Corporation, and benefitted from the extensive business relations maintained by Neusoft Corporation in our business development activities. Meanwhile, we have also benefited from our participation in a pan-healthcare alliance led by Neusoft Corporation, which alliance was formed among certain Neusoft Corporation's investee companies in the healthcare and related sectors with an aim to create smart and healthy cities with data and technology. Our collaboration with other alliance members has both generated business opportunities and helped strengthen our service capabilities. For example, we have cooperated with members of the pan-healthcare alliance in the integration of social medical insurance into our platforms and development of IT solutions for hospitals, and in respect of a managed healthcare project that aims to control social medical insurance spending relating to chronic diseases.

OUR STRATEGIES

To realize our mission to empower the healthcare transformation through information technology, we plan to pursue the following strategies:

Further expand our cloud hospital network

We plan to further expand our cloud hospital network to new cities and enrich our service offerings and capabilities on our existing city-specific cloud hospital platforms, thereby enlarging our network of medical institutions and attracting new and maintaining existing users. We plan to use approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], for expansion of city-specific cloud hospital platforms to enlarge our medical networks and user base. For details, see "Future Plans and Use of [REDACTED]." In particular, we intend to further expand our presence of city-specific cloud hospital platforms to other affluent and remote parts of China. We aim to form a nationwide network of cloud hospital platforms to achieve more efficient distribution of medical resources in the healthcare system.

With reference to evolving regulatory dynamics, we also intend to focus on the integration of social medical insurance into our platforms to cover more types of eligible services and serve more patients in more cities.

BUSINESS

Enrich specialized healthcare service offerings and clinical application settings

We aim to further strengthen our collaborations with medical specialists of different areas at top medical institutions, and enhance and diversify our medical specialty-based service offerings to address the diversified needs of patients, thereby further improving their experience and enlarging the user base of our cloud hospital platforms. Meanwhile, we intend to continually work with medical specialty consortiums to develop medical specialty-based processes, systems and programs to diversify the clinical application settings in which we empower primary medical institutions. Accordingly, we expect to further improve the quality of care delivered at such primary medical institutions and the overall satisfaction of both care providers and patients. In particular, we expect to expand our portfolio of processes, systems and programs to cover medical specialties such as diabetes and oncology. We plan to use approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], approximately HK\$ [REDACTED], for enriching our offerings across the industry value chain to provide more professional and diversified healthcare services. For details, see “Future Plans and Use of [REDACTED].”

In addition, we intend to diversify monetization channels through expanding our service coverage to insurance and health management services, while continually exploring the potential of online to offline healthcare services including long-term care management, chronic disease management and elderly care.

Continually strengthen our technology and data capabilities

We plan to continually improve the technology infrastructure of our platforms and our data processing and security capabilities. We intend to increase investments in research and development to enhance the security, reliability and flexibility of our cloud hospital platforms. We also intend to continually integrate big data analytics, AI and blockchain technology into our platforms to further enhance our service capabilities. Specifically, we plan to use blockchain technology to: (i) further enhance the connections between local governments and medical institutions, including the management of patients’ medical record and health record; (ii) further strengthen the protection of personal private information; and (iii) enhance the operating efficiency with business partners using blockchain technology to provide more comprehensive services to individuals going forward. We plan to use approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], for research and development on technology infrastructure and data capabilities. For details, see “Future Plans and Use of [REDACTED].”

In addition, we plan to increase cooperation with leading technology companies and attract more talents in healthcare, technology, insurance, big data, AI and other areas to join our workforce.

BUSINESS

Improve quality controls of healthcare services

We intend to continually improve quality control of healthcare services on our cloud hospital platforms. Through close cooperation with regulators and professional institutions such as public health agencies, medical associations and nursing societies in major cities, we aim to enhance the quality control systems over quality of care, and reinforce the supervision of services rendered through our cloud hospital platforms. In particular, we expect such cooperation could further increase the servicing capabilities of primary medical institutions to provide professional, standardized and specialized medical services.

Selectively pursue strategic cooperation and mergers and acquisitions

We plan to enrich the healthcare service offerings on our platforms through strategic cooperation and mergers and acquisitions, so as to create additional value for stakeholders of the healthcare system. We prefer (i) companies that focus on servicing particular medical specialties and patients with chronic diseases, (ii) tech companies in AI, data mining and security, among other things, and (iii) smart healthcare device manufacturers as our strategic partners or investment and merger and acquisition candidates, with a view to integrate their capabilities into our cloud hospital platforms and solutions. We also actively seek strategic cooperation opportunities with commercial insurers. We plan to use approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], approximately HK\$[REDACTED], in the next three to five years, for potential mergers and acquisitions opportunities. For details, see “Future Plans and Use of [REDACTED].”

As of the Latest Practicable Date, we have not identified any potential investment or acquisition target or entered into any definite investment or acquisition agreement.

OUR VALUE PROPOSITIONS

Leveraging the integration of technology and data, our cloud hospital platforms connect healthcare providers, medical professionals, patients and insurers in China with a seamless flow of information to aid the healthcare system to achieve greater productivity and efficiency while allowing patients to access sustainable, comprehensive and high-quality care.

We intend to involve all relevant participants to solve diverse and systemic problems. In particular, we work closely with local governments to establish and operate city-specific cloud hospital platforms based on our cloud-based infrastructure, which unites regional medical resources and enables the sharing of data, knowledge and patients’ demand among healthcare providers. We also provide management tools to insurers to help them control risks.

Meanwhile, we empower medical institutions to provide convenient online and offline integrated healthcare services to patients throughout the whole cycle of healthcare. Our service offerings cover the typical course of hospital visit, post-discharge care on an ongoing basis, and daily health management to maintain a healthy lifestyle. In addition, we also offer smart healthcare devices and other products to assist healthcare providers and patients in better monitoring patients’ health conditions, thereby increasing satisfaction among both providers and patients.

BUSINESS

Our cloud hospital platforms have value propositions for each of their participants. Our collective relationship with them is crucial to the continuing strength and value of our platforms. We believe our solution is poised to empower these participants, transform the PRC healthcare industry and enable efficient utilization of healthcare resources.

- ***Value proposition to local governments:*** The digitization and standardization of healthcare services enabled through our city-specific cloud hospital platforms can effectively enhance the equitable access to quality care among people in the region and foster meaningful utilization of medical resources to save costs, thereby helping increase the efficiency of healthcare spending (for example, through our online hospital services). This also provides government agencies with visibility into demographic health trends for purposes of strategic planning. The integration of social medical insurance systems into our cloud hospital platforms also gives local governments transparency in the reimbursement of medical bills.
- ***Value proposition to healthcare providers:*** Our cloud hospital platforms and solutions aggregate and organize healthcare data for healthcare providers, thereby helping them streamline medical processes and improve efficiency. Medical institutions and professionals are empowered by our cloud hospital platforms to provide online and offline integrated healthcare services to individuals, including internet consulting, online prescription processing, value-added follow-up management services, internet nursing services, and premium health management and consultation services provided online or out-of-hospital, to some extent relieving the pressure on the capacity of medical institutions. In particular, primary medical institutions are able to improve their service capabilities through access to specialty-based medical resources on our platforms, through our remote medical services and internet nursing services, so as to offer better quality of care to an aging population. Our smart healthcare products are connected to our platforms and can provide real-time health statistics of patients to healthcare providers to aid efficient clinical decisions and reduce hospital re-admission.
- ***Value proposition to patients and other healthcare consumers:*** Our solutions help address the issue of poor healthcare service experience for individuals in the PRC healthcare services industry. Our platforms offer a one-stop portal for individuals to easily access extensive healthcare resources in a cost-effective and convenient manner both online and offline and within- or out-of-hospital through the apps or WeChat accounts of local governments and hospitals, and our own "Xixin Health" channel and our own medical institutions. Individuals also enjoy a user experience that is different from the traditional healthcare experience. Our service offerings cover patients' and other healthcare consumers' needs when they are seeking care for illness and seeking to maintain a healthy lifestyle, and facilitate the continuity of healthcare in primary, secondary and convalescent care. In particular, the Internet home care services extend nursing care from hospitals to households, enabling individuals with complex or progressive illnesses or severe disabilities to receive specialized care. Patients with chronic diseases can also connect their smart healthcare devices to their accounts on our platforms, which allows medical professionals and themselves to track and manage their health.

BUSINESS

- Value proposition to insurers:** We collaborate with commercial medical insurers to provide their policyholders with health management services to promote health behaviors and improve their health conditions, and help these insurers implement standardized review procedures regarding reimbursement of medical bills, thereby facilitating the efficient use of insurance proceeds through improved single hospital service capabilities and better coordination of medical institutions within the region, as well as access to top-tier medical resources outside the region.

OUR SOLUTIONS

Cloud Hospital Platform Services

We provide local governments, medical institutions and insurers with: (i) platform construction services that construct or upgrade the cloud hospital platforms for local governments or independent cloud hospital systems for large medical institutions; and (ii) platform connection services that connect medical institutions to our cloud hospital platforms, which enables them to provide Internet medical services.

The following table sets forth a breakdown of our revenue from the cloud hospital platform services by customer for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>					
Local governments ⁽¹⁾	57,240	72.8	82,354	64.4	61,171	50.0
Medical institutions	11,718	14.9	29,443	23.0	48,363	39.5
Others ⁽²⁾	9,653	12.3	16,170	12.6	12,835	10.5
Total	78,611	100.0	127,967	100.0	122,369	100.0

(1) The revenue contribution from local governments decreased as a percentage of the segment revenue from cloud hospital platform services during the Track Record Period, mainly because the local governments or relevant health authorities had devoted many resources to combating COVID-19, which had slowed down the business negotiation or engagement process with us in respect of their cloud hospital platform projects.

(2) Others mainly refers to corporations such as pharmaceutical suppliers and delivery companies. Meanwhile, we did not charge any fees for our cloud hospital platform services provided to insurers during the Track Record Period. For details, see “– For Insurers.”

BUSINESS

We generally adopt a cost-plus pricing strategy for cloud hospital platform services. After evaluating the scale and complexity of a potential project, we evaluate the time and human resources needed for undertaking such project and charge a markup to formulate the bidding price. The bidding price may be further adjusted based on various commercial considerations, such as level of competitiveness in the bidding phase, customer relationship, industry norm pricing for similar projects, and whether the project can bring any strategic benefits to us. In 2020, 2021 and 2022, the percentage of recurring revenue (calculated as the repurchase revenue, regardless of the type of services it relates to, from existing customers of this segment as a percentage of the total segment revenue of that year) remained relatively stable at about 30% of the total revenue of our cloud hospital platform services segment.

We believe the creation of a cohesive architecture for healthcare will diminish the walls between healthcare participants, as information travels seamlessly among care settings.

Our cloud hospital platform is the foundation of our solutions. We started to develop the technological infrastructure for our cloud hospital platform for cloud hospital platform services in 2014, when we were constructing the first city-specific cloud hospital platform in Ningbo, according to Frost & Sullivan. It is a cloud-based digital healthcare platform, which is a patient-centric and provider-centric cloud computing architecture that integrates clinical, financial and management information systems. Designed to scale at a population level, our cloud hospital platform is able to aggregate multiple data sources and organize actionable data for multiple participants in the healthcare system. Based on the cloud hospital platform, we have created a unique city-specific cloud hospital platform model. For details, see “– Technology and Infrastructure.”

Local governments and medical institutions are able to choose one or a bundle of several modules in accordance with their specific needs. These modules are developed by us, and the functions of such modules can be modified and tailored for different contexts. We continue to customize solutions to meet the evolving demands for local governments, medical institutions, doctors and nurses on such platforms to address the needs of patients. There are six typical modules available on our cloud hospital platforms, the details of which are set forth below:

- Online hospital services module (互聯網醫院服務模塊). The online hospital services module enables medical institutions to provide a comprehensive array of online hospital services that covers the whole cycle of healthcare. It primarily comprises (i) a smart hospital service system, (ii) an Internet consultation system, and (iii) a follow-up management system. The smart hospital service system has functions such as smart patient-sorting, appointment-making and payment for consultations. The Internet consultation system has functions such as online consultations, follow-up consultations and prescription processing. The follow-up management system has functions such as in-patient check-in and follow-up planning.

BUSINESS

- Remote medical services module (遠程醫療服務模塊). The remote medical services module comprises a (i) remote diagnosis system, (ii) remote consultation system, (iii) bidirectional referral system, and (iv) remote medical training system. The remote diagnosis system provides functions such as cloud storage, cloud-based picture archiving and communication system (cloud PACS), imaging diagnosis tools and cloud reporting. The remote consultation system provides functions such as collaborative outpatient services and remote clinical consultations. The bidirectional referral system provides functions such as hospital bed information-sharing, referral appointment-making and referrals among medical institutions of all levels. The remote medical training system allows medical experts of large hospitals to provide training to practitioners at primary medical institutions.
- Family doctor services module (家庭醫生服務模塊). The family doctor services module comprises a (i) family doctor sign-up system, and (ii) family doctor service system. The family doctor sign-up system has functions such as resident health record registration and sign-up management. After a resident signs up for a family doctor through our system, he or she can further access the family doctor service system, where online consultation, follow-up consultation and prescription processing services are provided. The family doctor service system can also connect to our smart healthcare products, medical institutions' information systems and local governments' public health management systems.
- Internet nursing care services module (互聯網護理服務模塊). The Internet nursing care services module comprises (i) a home care system, and (ii) an online care inquiry system. The home care system provides functions such as order taking, patient management, order management and consumables management. This system also provides functions such as service recording, privacy protection of calls and service location recording for record-keeping purposes; while it also provides functions such as an emergency SOS and bundled care recorder to ensure the safety of nurses that provide care. The online care inquiry system provides the online inquiry function.
- Health management services module (健康管理服務模塊). The health management services module comprises a (i) health management operation system, (ii) smart check-up system, and (iii) post-check up health management system. The health management operation system provides functions such as service package management, sales management and billing management. The smart check-up system provides functions such as check-up appointment, smart check-up guidance, specialty workstation and check-up report smart analysis. The post-check up health management system provides functions such as report interpretation, follow-up management and health information.

BUSINESS

- Chronic disease management services module (慢病管理服務模塊). The chronic disease management services module provides functions such as smart healthcare device management, chronic disease planning management, chronic disease record-keeping, smart monitoring and alerts and medication reminders. This module supports real-time monitoring, uploading and management of personal health data generated from smart healthcare devices produced by a number of mainstream manufacturers in China and overseas. This module covers medical specialties relating to chronic diseases such as hypertension and diabetes.

Our competitive edges for cloud hospital platform services mainly include: (i) a comprehensive suite of six function modules which caters to the needs of our platform users; (ii) economies of scale and reduced development and implementation costs of establishing new cloud hospital platforms, benefiting from years of expertise and experience in developing and operating such platforms; and (iii) solid business development capabilities and relationships with local governments and medical institution customers, given our established market position and first-mover advantages within respective cities.

For Local Governments

We provide platform construction services to enable local governments to quickly develop digital healthcare infrastructure to facilitate the digitization of the local healthcare landscapes and the standardization of healthcare services. In some cities, we enter into agreements with local governments to establish city-specific cloud hospital platforms, on which one or more of our service offerings under the Internet medical services segment are made available to facilitate the digitization and connection of city-wide medical resources. We construct city-specific cloud hospital platforms based primarily on requirements of the local governments, and may include different platform functions from one another. We also help operate and upgrade such infrastructure on an ongoing basis, depending on the terms of the contracts with local governments.

In 2015, we developed China’s first city-specific cloud hospital platform in Ningbo, according to Frost & Sullivan. For details about our Ningbo Cloud Hospital platform, see “– Our Solutions – Case Study: Ningbo.” Since then, we have contracted to provide platform construction and platform connection services to several local governments at a municipal or provincial level to build city-specific cloud hospital platforms in cities.

Meanwhile, in other cities, we provide local governments with standalone function modules that help them to build their own cloud hospital platforms as part of their medical information infrastructure.

BUSINESS

Regional Supervision Platforms

Through city-specific cloud hospital platforms, we help certain local governments aggregate and process multisource heterogeneous data from medical institutions and various government agencies at city and provincial levels, so that these data are leveraged to generate insights and evidence for policy-making and outcome evaluation. We have also built regulatory supervision platforms for local governments. In accordance with relevant regulations, a hospital seeking to acquire Internet hospital licenses must connect to the provincial-level Internet medical service supervision platform of its location. These regulatory supervision platforms are designed to safeguard the safety and compliance of the provision of Internet healthcare services. The major functions of such platforms include review of Internet hospitals, supervision of operations of Internet hospitals, safety and quality controls and policy-making analysis. As of December 31, 2022, we had established and operated three provincial-level Internet healthcare service supervision platforms including in Jiangsu, Liaoning and Yunnan province. The contract terms of our agreements with the such provincial-level Internet healthcare service supervision platforms range from one to three years. Under such agreements, we charge service fees for the establishment and maintenance of the relevant platforms.

Key Contractual Terms

We provide platform construction services to enable local governments to quickly develop digital healthcare infrastructure to facilitate the digitization of the local healthcare landscapes and the standardization of healthcare services. Such infrastructure is scalable to serve and connect with the population and medical institutions of a whole city. It is able to aggregate and organize data from multiple sources across the entire process of medical care, with a view to creating synergistic optimization of the city-wide healthcare operations in terms of cost saving, efficiency and experience.

We typically go through a tender and bidding process in obtaining contracts with local governments to provide cloud hospital platform services. Our tender success rate with local governments was 83%, 83% and 89%, respectively, in 2020, 2021 and 2022. For more details on the tender and bidding process, see “– Our Customers – Project Tender and Bidding.”

BUSINESS

We typically enter into long-term master or framework agreements with local governments. After signing such agreements with local governments and completing the construction of city-specific cloud hospital platforms, we focus more on the operation of our city-specific cloud hospital platforms. This may be followed by separately signed individual contracts pursuant to the relevant master or framework agreements on subjects such as connection by medical institutions to the city-specific cloud hospital platforms or continual platform upgrade when the need arises. These individual contracts may have their own respective expiration dates. The terms of such agreements typically range from three to ten years, or the agreements do not specify any expiration year. The following table sets forth a breakdown of the number of city-specific cloud hospital platforms by expiration year of the master or framework agreements as of December 31, 2022:

	As of December 31, 2022
By 2023.	2
By 2024.	5
By 2025.	2
By 2026.	1
By 2027.	3
By 2028.	1
Without specific expiration year	15
Total.	29

In addition, these master or framework agreements with local governments typically set out terms including, but not limited to, scope of services and deliverables, contract amount, the length of the agreement (if with expiry dates), milestones and the respective required dates of completion, payment terms, and obligations and liabilities of each party. Furthermore, in general, the payment under such agreements is by installment, and the payment for each installment is subject to the achievement of certain milestones, which is typically evaluated by personnel designated by the relevant local government customer. The terms in each agreement may vary depending on our negotiation with the relevant local governments based on their specific request.

We also help medical professionals to become familiarized with the functions on such platforms to increase user stickiness and conduct suitable marketing activities to increase visibility to patients. We continue to customize solutions to meet evolving demands of local governments, medical institutions, doctors and nurses on such platforms to address the needs of patients.

BUSINESS

We believe the likelihood of each of the current agreements of city-specific cloud hospital platforms to be renewed is high, given our satisfactory performance under each agreement, and high switching costs for local government customers not to renew such agreements with us. It is also highly unlikely that multiple local government customers decide not to renew such agreements within the same year. During the Track Record Period, the agreements of four city-specific cloud hospital platforms reached their respective original expiration dates, all of which have been renewed with us. In addition, the agreements for Ningbo Cloud Hospital platform and Shenyang Cloud Hospital platform are without any expiry dates.

Should any of the agreements for the 29 city-specific cloud hospital platforms other than the Ningbo Cloud Hospital platform and the Shenyang Cloud Hospital platform not renewed with us, the maximum adverse impact on our total revenue would be less than 3.0%, based on the maximum revenue of cloud hospital platform services and Internet medical services generated from such other city-specific cloud hospital platforms. Accordingly, we expect there will be no material adverse effect on our operational and financial performance if any of the agreements for the 29 city-specific cloud hospital platforms other than the Ningbo Cloud Hospital platform and the Shenyang Cloud Hospital platform with us is terminated.

For Medical Institutions

We provide platform construction services and platform connection services to medical institutions, enabling them to quickly offer Internet hospital-related services. In particular, by utilizing our cloud hospital platform services, hospitals may find it cost-effective in acquiring Internet hospital licenses in compliance with relevant laws and regulations. In general, hospitals seeking to acquire Internet hospital licenses are required to either establish their own Internet hospital infrastructure or connect to digital healthcare platforms such as our cloud hospital platforms. The former approach typically requires much more capital investment and takes longer to complete than the latter approach. In 2021, we helped more than 30 hospitals establish their Internet hospital in Ningbo. As of December 31, 2022, 99 Internet hospitals connected to our cloud hospital platforms in China had obtained the Internet hospital licenses based on such connection. Through the Internet hospitals, it is expected that these hospitals will conduct comprehensive Internet hospital-related services to supplement and optimize their daily operations.

For medical institutions, our platform construction services are fee-charging, whereas, for platform connection services, the majority of the primary medical institutions are connected to our platform for free. Meanwhile, medical institutions that pay a fee for our platform connection services are largely hospitals. After connecting to our cloud hospital platform, medical institutions that pay for such connection can in general access a wider spectrum of functional modules to enjoy a broader scope of Internet medical services than those that do not pay for such connection. For system and operational stability and satisfaction of users served by the large hospitals, it is unlikely such hospitals will choose to reduce or downgrade the scope of Internet medical service offerings only to avoid paying connection fees. During the Track Record Period, none of the large hospitals connected to our platform that paid for the connection subsequently opted for free connection.

BUSINESS

In contrast, primary medical institutions connected to our platform for free are allowed to access basic functional modules and mostly provide basic Internet medical services like smart family doctor services after connection. These primary medical institutions contributed a substantial majority of the service volume of smart family doctor services during the Track Record Period. In 2020, 2021 and 2022, the service volume of the smart family doctor services was 1.4 million, 2.3 million and 5.2 million, respectively. We believe that the primary medical institutions connected to our platform can drive user traffic for the Internet medical services, thus bringing synergistic effects. In particular, the utilization of smart family doctor services by patients can introduce them to the Internet medical services. For instance, a primary medical institution that is connected to our platform for free can access the family doctor services module, and a doctor at such primary medical institution can provide smart family doctor services to patients. After a patient signs up with the doctor as a family doctor, he or she may consult the family doctor about common and chronic illnesses, and for conditions and cases that require further examination, the family doctor may refer the patient to the online hospital services, through which the patient can utilize the online medical consultation and prescription processing services. Meanwhile, the family doctor may also suggest that patients seek guidance from specialists of large hospitals through the remote medical services over our platform. Accordingly, the free connection of medical institutions to our platform can drive the service volumes of the Internet medical services and hence the revenue of the Internet medical services segment.

Similar to the overall pricing strategies of cloud hospital platform services, our platform connection services generally adopt a general cost-plus pricing strategy. For the free platform connection services, the majority are primary medical institutions and only provide basic Internet medical services after connection, such as smart family doctor services, and we generally do not incur additional costs for such free platform connection services. For the paid platform connection services, a range from RMB100,000 to RMB250,000 is our most typical price range for annual fees charged to projects. However, each project's individual price also depends on the number and complexity of the functions that the medical institutions wish to use after they are connected. For medical institutions that offer only one or two types of Internet medical services, the connection service fee may be lower than the foregoing range. However, such types of connection projects did not contribute to a significant portion of the revenue of the cloud hospital platform services during the Track Record Period. For medical institutions that offer all types of Internet medical services or further with additional customized services after connection, the connection service fee may be higher than such range. We generally do not expect to change our arrangement with the relevant medical institutions as to free or paid connection services after they are connected.

BUSINESS

As of December 31, 2020, 2021 and 2022, there were 30,885, 34,751 and 35,500 medical institutions connected to our platform, respectively. The following table sets forth a breakdown of the total number of medical institutions that contributed revenue to our cloud hospital platform services segment as of the dates indicated:

	As of December 31,		
	2020	2021	2022
Outside the city-specific cloud hospital platforms	64	42	52
Within the city-specific cloud hospital platforms	178	96	93
Total	242	138	145

The number of medical institutions that contributed revenue to our cloud hospital platform services segment and the number of those within the city-specific cloud hospital platforms decreased in 2021. The decrease in such numbers was mainly because: (i) in 2020, we focused on small-scale hospitals, mostly non-Class III or Class II, and their connection to modules that only cover part of the Internet medical service offering such as prescription processing services, which were relatively simple projects with relatively small contract values and could be accomplished quickly; and (ii) in 2021, we strategically focused more on large-scale hospitals to help them improve overall Internet hospital-related servicing capabilities via constructing independent Internet hospital infrastructure with access to all or most of the Internet medical service offerings, which were large projects with generally higher contract values, which led to stronger customer stickiness to continually utilize our platform.

Despite such fluctuations, we have recorded improving revenue from both the cloud hospital platform services segment contributed by medical institutions and the Internet medical services segment. In 2020, 2021 and 2022, revenue from the cloud hospital platform services contributed by medical institutions was RMB11.7 million, RMB29.4 million and RMB48.4 million, respectively. During the same years, revenue from the Internet medical services was RMB55.1 million, RMB93.4 million and RMB137.8 million, respectively. Meanwhile, other than the level of the average service fees, the growth of the Internet medical services segment essentially depends on the growth in service volume, which further depends on the activeness of connected medical institutions to provide, and that of patients to utilize, the Internet medical services over our platform. Accordingly, we do not expect these fluctuations to materially affect the results of the cloud hospital platform services and Internet medical services segments going forward.

BUSINESS

The fluctuations in the number of medical institutions that contributed revenue to our cloud hospital platform services segment and the number of those within the city-specific cloud hospital platforms during the Track Record Period were mainly due to changes in our focus on target customers when carrying out our business strategies. As we continue to expand our business and our business model becomes more mature, we do not expect to experience material fluctuations in the number of medical institutions that contributed revenue to our cloud hospital platform services segment and the number of those within the city-specific cloud hospital platforms.

Platform Connection Services

For medical institutions located in cities where city-specific cloud hospital platforms are established, they are able to connect with other medical institutions to streamline the flow of information. By connecting to our city-specific cloud hospital platforms, medical institutions benefit from the sharing of healthcare data upon patients' authorization, which increases the efficiency of medical services.

At present, for a majority of our city-specific cloud hospital platforms, it is not mandatory for medical institutions within the relevant regions to connect to such platforms. Only a small number of cities require mandatory connection by medical institutions to our city-specific cloud hospital platforms in accordance with local policies. Nonetheless, medical institutions typically are encouraged and incentivized to connect with us, as they can use our platform to enhance their ability to provide Internet medical services. Meanwhile, we have formed operational centers in the relevant cities to conduct business development activities to attract all classes of medical institutions.

Platform Construction Services

Certain medical institutions, particularly large-scale hospitals, have the need to establish independent cloud hospital systems. By establishing their own cloud hospital systems, medical institutions are able to enjoy more tailored cloud hospital platforms to provide services as they can decide which modules to implement based on their particular needs. Leveraging our established city-specific cloud hospital platforms, we are well-positioned to compete with other similar cloud hospital platform service providers as we can build up independent cloud hospital systems based on the same technology infrastructure of the existing city-specific cloud hospital platform such medical institutions have already connected to, and thereby enabling us to offer more a competitive price and, at the same time, enabling medical institutions to streamline their access to their medical data and resources on both the city-specific cloud hospital platform and their own independent cloud hospital systems.

BUSINESS

Key Contractual Terms

We typically go through a tender and bidding process in obtaining contracts with medical institutions to provide platform construction and platform connection services. Our tender success rate is relatively high due to our cost-effective way of platform construction, technological advantages and well-established reputation, which was 81%, 86% and 97%, respectively, in 2020, 2021 and 2022. For more details on the tender and bidding process, see “– Our Customers – Project Tender and Bidding.”

In general, our contracts with medical institutions range from one to three years, and we charge fees depending on factors such as technical complexity and scale of medical institutions, and the scope of modules for development. Our renewal rate of the contracts with the medical institutions (the number of contracts renewed during a year as a percentage of the number of contracts expired during that year) was 90%, 88% and 89% in 2020, 2021 and 2022, respectively.

Under the relevant service contracts that we entered into with medical institutions, we are obliged to implement data protection measures to ensure the security of patients’ confidential information, while the medical institutions shall ensure compliance with relevant laws and regulations concerning the provision of services by their medical professionals over our platforms. See “– Data Privacy and Protection.”

For Insurers

We provide platform connection services to commercial medical insurers to assist them with cost control. For example, by connecting to our platforms, insurers can utilize the health management services module to help policyholders maintain good health complementary to the insurance products. For insurers, such health management services can potentially improve the health status of the policyholders, and therefore lower the incidence rate and increase the competitiveness of their insurance products. During the Track Record Period, we did not charge any fees for our cloud hospital platform services provided to insurers; rather, we monetized through the health management services. This is because we consider the insurers’ connection to our cloud hospital platforms is only a gateway for us to reach their vast number of policyholders and beneficial for the expansion of other services. The services that can bring value to the insurers, such as the health management services, are what we strategically focus on for continual revenue generation. For details on the health management services that we provide in cooperation with a commercial medical insurer, see “– Health Management Services – Chronic Disease Management Services – Managed Healthcare Project with Rongsheng Insurance.”

At present, we are proactively seeking cooperation opportunities with other commercial insurers. We intend to provide rich healthcare service offerings to customers of commercial medical insurers, including online consultations, drug delivery and health management services.

BUSINESS

Revenue Breakdown by City

In 2020, 2021 and 2022, we generated 84.4%, 54.8% and 71.0 % from our cloud hospital platform services offered via city-specific cloud hospital platforms, respectively. The following table sets forth a breakdown of revenue of the cloud hospital platform services from our city-specific cloud hospital platforms for the years indicated, along with their respective year of completion, as applicable:

	Year of completion	Year ended December 31,		
		2020	2021	2022
<i>(RMB in thousands)</i>				
Ningbo	2016	5,512	7,088	4,765
Shenyang	2017	38,610	16,902	13,844
City A	2020	3,383	6,795	6,264
City B	2019	1,408	13,559	15,551
City C	2020	5,657	5,943	9,804
City D	2021	488	521	7,022
City E	Completion expected in 2023	–	1,083	3,899
City F	Completion expected in 2023	–	717	5,478
City G	2016	603	211	16
City H	2017	5,206	5,389	5,323
City I	2018	1,832	1,415	943
City J	2019	1,369	475	46
City K	2020	343	487	252
City L	2020	–	202	217
City M	2020	946	–	–
City N	2020	–	31	63
City O	2020	310	90	560
City P	2020	24	–	382
City Q	2021	–	2,196	2,524
City R	2021	–	–	–
City S	Has not commenced	–	–	–
City T	Has not commenced	–	–	–
City U	Has not commenced	–	–	–

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	Year of completion	Year ended December 31,		
		2020	2021	2022
		<i>(RMB in thousands)</i>		
City V	Has not commenced	–	–	–
City W	Has not commenced	–	–	–
City X	Has not commenced	642	726	113
City Y	Completion expected in 2024	–	1,918	3,535
City Z	Completion expected in 2023	–	4,423	3,798
City AA	Completion expected in 2023	–	–	2,488
Total revenue from city-specific cloud hospital platforms . .		66,333	70,171	86,887
Revenue from sources other than city-specific cloud hospital platforms ⁽¹⁾		12,278	57,796	35,482
Total revenue of the cloud hospital platform services . . .		78,611	127,967	122,369

(1) The fluctuations in the revenue of cloud hospital platform services from sources other than city-specific cloud hospital platforms during the Track Record Period are mainly due to the relevant business being largely conducted on a single project basis and does not necessarily lead to long-term cooperation, and the revenue is more dependent on our identifying and grasping appropriate business opportunities.

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Revenue attributable to cities other than Ningbo and Shenyang showed a growing trend in 2020, 2021 and 2022, while the percentage of the total revenue generated from our city-specific cloud hospital platforms decreased in 2021 compared to 2020, and increased in 2022 compared to 2021, mainly because: (i) revenue generated from other cities usually fluctuates significantly depending on the specific service offerings we offered as entry points under tailored development strategies; and (ii) we are still in the process of enhancing the performance of the city-specific cloud hospital platforms in cities other than Ningbo and Shenyang.

Revenue of the cloud hospital platform services segment from sources other than city-specific cloud hospital platforms is derived from services in essence of a similar business nature to those provided in respect of the city-specific cloud hospital platforms. Such revenue increased from RMB12.3 million in 2020 to RMB57.8 million in 2021, and decreased to RMB35.5 million in 2022. Our cloud hospital platform services offered outside of the 29 cities help to expand our customer base and build our brand awareness in new cities. If those are developed successfully to the satisfaction of these customers, the local governments of such cities can potentially enter into further agreements with us to establish city-specific cloud hospital platforms. We generally become acquainted with such customers through existing client referral, offline marketing activities in new cities, and other various business development initiatives.

During the Track Record Period, the city-specific cloud hospital platforms for a number of cities generated only minimal or no revenue, for reasons set out below:

- (i) *Low willingness of local governments to develop the platforms.* Some platforms were completed prior to the Track Record Period, and the relevant local governments did not have much further upgrade or expansion need for the platform due to their respective own considerations and low willingness to put much effort into developing the platforms. This is the case for Cities G, K, L, M, N, O and P.
- (ii) *Historical reasons including backward information infrastructure and regulatory framework.* We signed framework or master agreements with a number of local governments around 2018, but have not commenced the construction of the city-specific cloud hospital platforms. These projects emerged with the accelerated development in the Internet healthcare industry pursuant to favorable policies promulgated around then, details of which are as follows:
 - Since the publication of a series of regulations or trial guidelines on online consultations, remote consultations and Internet hospitals, and favorable government policies that promote the integration of Internet and healthcare in 2018, Internet hospital-related services became more prevalent. According to Frost & Sullivan, the number of Internet hospitals in China increased from approximately 20 to over 150 within the year of 2019.

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- Meanwhile, Internet hospital-related services became more accepted by more local governments, given the clearer regulatory guidelines and favorable government policies. Accordingly, there emerged a large number of local governments willing to explore, or interested in exploring, the potential development of city-specific cloud hospital platforms in their respective cities, and we actively conducted business development to tap into these opportunities to obtain first-mover advantages.
- However, according to Frost & Sullivan, due to pre-existing backward information infrastructure and regulatory framework in lower-tiered cities, the construction of some of the city-specific cloud hospital platforms was halted or exhibited slow progress.

For these incomplete projects, we have limited the resources devoted to such projects in line with our business strategies. This is the case for Cities X, S, T, U, V and W.

- (iii) *Exceptional case for City R.* We entered into a framework agreement with the local government for establishing a city-specific cloud hospital platform in 2019. In 2021, the health commission of such local government engaged us after a tender and bidding process to provide 1,252 All-in-One Healthcare Devices and signed a sales agreement of a total amount of RMB8.5 million with us accordingly.

Pursuant to the sales agreement, the delivery of the All-in-One Healthcare Devices was subject to inspection and a trial period. Our pricing of such smart healthcare products is comparable to those sold to other independent customers. The unit price of the All-in-One Healthcare Devices under this contract is RMB6,800, which was within the normal price range that we offer to customers (namely, from RMB5,000 to RMB20,000).

In accordance with the framework agreement, in light of our well-established cooperative relationship with the local government, and to facilitate the synergistic growth of the Internet medical services, we constructed a city-specific cloud hospital platform for City R based on certain standard functional modules of cloud hospital platforms, which enabled some local medical institutions to access the remote medical services module. Accordingly, we did not incur additional costs for such construction. As the terms of the sales agreement do not involve any purchase of cloud hospital platform services from us, we did not allocate any of the revenue received under this agreement to our cloud hospital platform services segment. If all or part of such revenue and the corresponding costs were reallocated to our cloud hospital platform services segment, we would not expect the gross profit margin of this segment to be materially affected.

In light of the foregoing, we have become more selective in obtaining city-specific cloud hospital platform projects. Since 2020, all of our new city-specific cloud hospital platform engagements have begun or completed construction.

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Internet Medical Services

Supported by our cloud hospital platforms, third parties and our own medical institutions can provide patients with online and offline integrated medical services throughout the whole diagnosis and treatment cycle. The Internet medical services comprise: (i) online hospital services; (ii) remote medical services; (iii) smart family doctor services; and (iv) Internet home care services. These services are provided by the medical institutions to which we provide cloud hospital platform services. Our competitive edges for Internet medical services mainly include: (i) rich medical resources; (ii) support from local governments and medical institutions, given the valuable benefits brought to ease the scarcity and uneven distribution of quality medical resources and in accordance with favorable national policies; (iii) additional quality services safeguarded by the three provincial-level Internet healthcare service supervision platforms operated by us in Jiangsu, Liaoning and Yunnan provinces; and (iv) user traffic synergy brought by our health management services. Users of the health management services can conveniently access Internet medical services after health check-up services.

The following table sets forth a revenue breakdown by business line of the Internet medical services segment for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>					
Online hospital services	49,240	89.4	80,144	85.8	117,972	85.6
Remote medical services	4,325	7.9	10,248	11.0	13,871	10.1
Smart family doctor services ⁽¹⁾	–	–	–	–	–	–
Internet home care services	1,492	2.7	3,015	3.2	5,991	4.3
Total	55,057	100.0	93,407	100.0	137,834	100.0

(1) We do not charge fees for smart family doctor services.

As of December 31, 2020, 2021 and 2022, there were 30,885, 34,751 and 35,500 medical institutions connected to our platform, respectively. In 2020, 2021 and 2022, the average revenue from Internet medical services per medical institution (calculated as the total revenue generated from Internet medical services in the relevant years divided by the total number of medical institutions connected to our platform at the relevant year-end) was approximately RMB1,800, RMB2,700 and RMB3,900, respectively. During the same years, the average volume of Internet medical services per medical institution was 116, 147 and 249, respectively. In addition, the average revenue from Internet medical services per medical professional (calculated as the total revenue generated from Internet medical services in the relevant years divided by the total number of doctors and nurses registered with our cloud hospital platforms at the relevant year-end) was approximately RMB770, RMB787 and RMB913 in 2020, 2021 and 2022, respectively.

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The Internet medical services can bridge the gap between patients and hospitals through the online hospital services, connect hospitals with primary medical institutions through the remote medical services, link patients with primary care practitioners through the smart family doctor services, and extend nursing care services from hospitals to households via Internet home care services. Together, these service offerings facilitate the continuity of healthcare and meet patients' needs for primary, secondary and convalescent care.

We have been continually making efforts to stimulate the activeness of medical institutions, particularly hospitals, over our cloud hospital platforms. Furthermore, we collaborate with local social medical insurance administrations and currently have achieved online payment for Internet medical services by social medical insurance in Ningbo and Shenyang.

We have also implemented quality control measures over consistency in the quality of healthcare delivery on our platforms, regardless of whether such services are provided by medical professionals at or registered with our own or third-party medical institutions. See “– Risk Management, Internal Control and Compliance Culture – Healthcare Quality and Safety.”

Our competitive edges for Internet medical services mainly include: (i) rich medical resources which provide wide geographical coverage and adequate supply of medical professionals; (ii) support from local governments and medical institutions, given the valuable benefits brought to ease the scarcity and uneven distribution of quality medical resources and in accordance with favorable national policies; (iii) quality services safeguarded by our quality control measures, as well as the three provincial-level Internet healthcare service supervision platforms operated by us in Jiangsu, Liaoning and Yunnan provinces; and (iv) user traffic synergy brought by our health management services. Users of our health management services can conveniently access Internet medical services after health check-up services.

Our Service Offerings

Online Hospital Services

The online hospital services mainly focus on patients' consultations and management in respect of chronic diseases, and are designed to increase patients' stickiness through high value-added services that are not available under the traditional offline hospital setting, especially through leveraging our participation in the specialty medical consortiums. These services primarily comprise the following:

- Smart hospital services. The smart hospital services encompass appointment-making for in-patient and check-up services as well as check-up report inquiries, among other things, to facilitate hospital visits within our hospital network.

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- Online medical consultation and prescription processing services.
 - (i) Online medical consultation services. The online medical consultations are offered to individuals, covering a wide range of conditions and cases with a primary focus on common and chronic illnesses. In accordance with relevant PRC rules and regulations, Internet diagnosis and treatment activities shall not be carried out for any patient receiving initial diagnosis. Accordingly, doctors, through our platforms, may only provide diagnosis to patients who had first consultations at medical institutions. The doctors can either review the patients’ past EMR if available upon consent or the medical records and prescriptions uploaded by patients as required for their receiving consultation services to make sure that they are not providing initial diagnosis. Patients may start the consultation by describing their symptoms via text, picture or audio. Online consultation services include three types of consultation: (i) free consultations, which are wellness consultations that focus on wellness and well-being issues such as fitness and personal care; (ii) consultation via instant messages, where customers can send pictures and texts to doctors directly for medical consultation (“Instant Message Consultation”); and (iii) consultation via multi-media, where customers can directly talk to doctors through telephone or video (“Multi-media Consultation”). Doctors may prescribe based on historical prescription records for the patients. Upon approval of pharmacists with respect to unredeemed prescriptions, patients may choose to pick up their drugs at offline pharmacies, or request home delivery services.

In 2020, 2021 and 2022, approximately 512,900, 1,111,400 and 1,674,000 total online consultations took place over our platforms, respectively. The increases in the volume of online consultations over our platforms during the Track Record Period are mainly due to our continuous efforts to package and provide online consultation services through our city-specific cloud hospital platforms based on the different situations and needs in different cities. The following table sets forth the service volume of each type of online consultation services we offered during the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(in thousands)</i>		
Free consultation services	251	263	1
Instant message consultation	254	836	1,649
Multi-media consultation	7	12	24
Online consultation services	<u>512</u>	<u>1,111</u>	<u>1,674</u>

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(ii) Prescription processing services. In 2020, 2021 and 2022, approximately 925,800, 787,000 and 839,000 prescriptions were processed over our platforms, respectively. We commenced the prescription processing services in connection with the online consultation services in 2020. In 2020, 2021 and 2022, there were approximately 150,100, 342,700 and 530,000 prescriptions arising directly from online consultations processed over our platforms, respectively. Other than arising from online consultations, the other prescriptions arose either from pharmacies connected to our platforms or offline channels of Internet hospitals.

(iii) Pricing. We price online consultation services primarily based on the types of consultation we provide, while also considering the qualifications of the doctors who provide the relevant services. In general, we price the services provided by chief and deputy chief doctors higher than the same provided by regular doctors, and price the services provided by doctors from first-class hospitals higher than the same provided by those from primary medical institutions. During the Track Record Period, depending on the qualifications of the relevant doctors, the common price range for Instant Message Consultation and Multi-media Consultation ranged from nil to RMB20 and RMB20 to RMB500, respectively. According to Frost & Sullivan, the prices we charged for different types of consultation during the Track Record Period are comparable to the prevailing market price.

The following table sets forth the common price range charged for (i) online consultation services and (ii) prescription processing services arising directly from the provision of online consultation services during the years indicated:

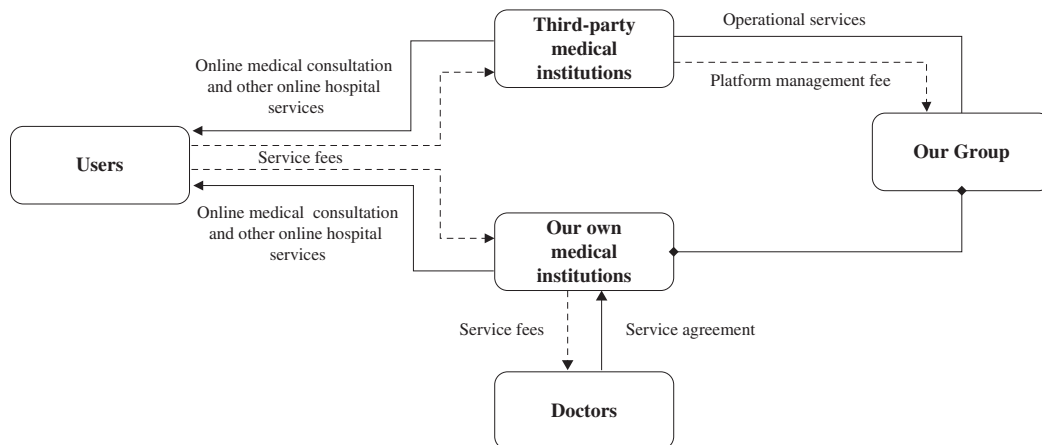
	Year ended December 31,		
	2020	2021	2022
	<i>(RMB)</i>		
Online consultation services	5 to 500, depending on the type of consultation provided and the qualifications of doctors	5 to 500, depending on the type of consultation provided and the qualifications of doctors	5 to 500, depending on the type of consultation provided and the qualifications of doctors
Prescription processing services arising directly from the online consultation services	20 to 100	50 to 300	50 to 1,000

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- Value-added follow-up management services. The value-added follow-up management services are provided to better manage patients' post-discharge health. These include recovery planning, reminders for follow-up consultations, disease information, health condition monitoring and recovery intervention. For example, we have designed and offered service packages that integrate the offline medical services and functionalities of our cloud hospital platforms to enable medical institutions to provide premium services that they are not able to provide previously. An example of such service packages is the weight loss service package, which spans online appointment making of health check-up, consultation with a medical professional, to exercise schedule planning and diet tracking after the consultation. Another example is the post-surgery home care service package, which allows patients to enjoy professional care at home while freeing the hospital beds for those with more urgent needs. We believe the provision of value-added follow-up management services can substantially increase the engagement of doctors and stickiness of patients to our platforms, enabling us to further monetize our city-specific cloud hospital platforms.

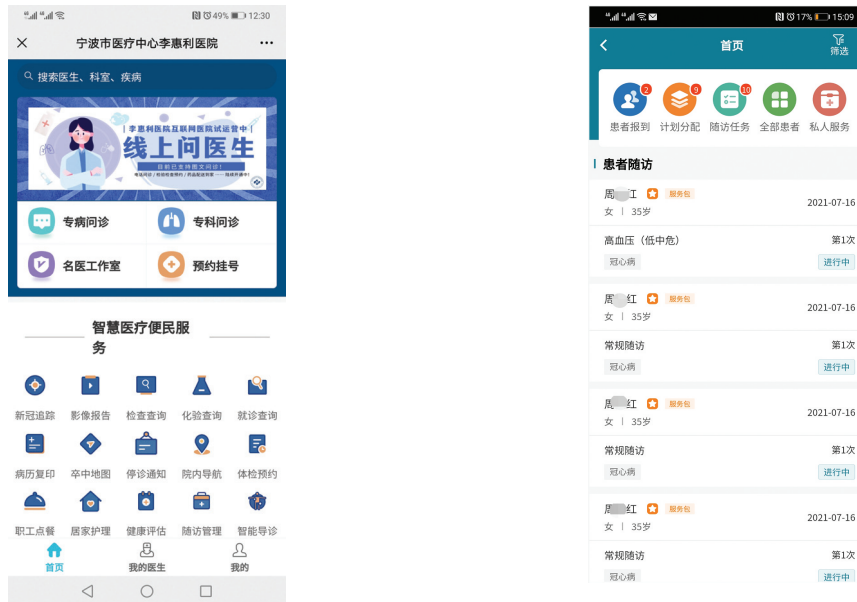
As we continue to optimize value-added services, we expect the stickiness of medical institutions in our cloud hospital network to further increase.

The following flowchart sets forth the transaction flow of our online hospital services:



BUSINESS

The following screenshots show some examples of the interface of our online hospital services from the viewpoints of patients (left) and doctors (right):



Remote Medical Services

The remote medical services available under institutional setting through our platforms help primary medical institutions expand their service capabilities so as to achieve the same coverage and quality of care as large hospitals.

Our remote medical services primarily include remote diagnosis, remote consultation, bidirectional referral, and remote medical training services. In particular, we found a major dilemma for the primary medical institutions is that they are often equipped with advanced medical equipment but lack medical professionals with professional imaging diagnosis capabilities. Accordingly, we have established an imaging center comprising specialists from departments of imaging, ultrasound and nuclear medicine. After a patient completes a check-up at the primary medical institutions, imaging data are automatically uploaded to our cloud hospital platforms, through which specialists at our imaging center can provide imaging diagnosis recommendations. Such recommendations, upon review and quality control procedures, will be provided to the primary medical institutions to facilitate the healthcare decision-making processes by their doctors. Third-party medical institutions may also offer remote imaging diagnosis services to primary medical institutions through our cloud hospital platforms. In addition, doctors at the primary medical institutions are able to apply for remote consultations with specialists for recommendations and receive training to enhance their service capabilities.

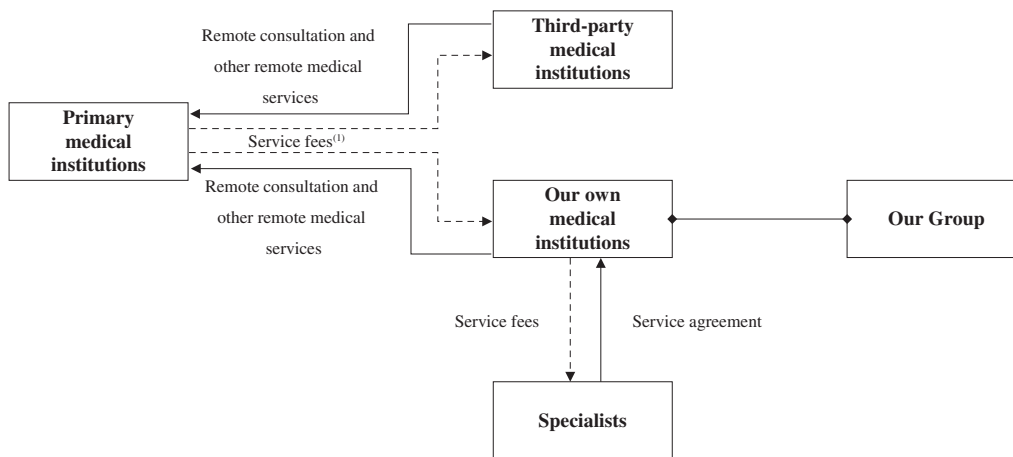
In 2020, 2021 and 2022, the volume of our remote medical services was approximately 701,000, 860,600 and 1,067,000, respectively.

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Leveraging our extensive relationships with healthcare providers in the PRC healthcare industry, we have established connections with leading experts of various medical specialties across the nation to provide remote clinical support to primary medical institutions. Such collaborations also create a stable source of demand for our remote medical services, and correspond with the national policy that encourages the establishment of specialty medical consortiums in China. Currently, our cloud hospital platforms have integrated medical resources of over 50 specialties including internal medicine, surgery, gynecology, pediatrics and Chinese medicine. We have focused on forming specialty medical consortiums, particularly those with respect to cardiology, oncology and reproductive health, as we pay special attention to serving customer groups such as the elderly, patients with chronic diseases, women and children, and tumor patients. For example, we have liaised with a Class III Grade A hospital in Shanghai and a renowned national medical group of cardiologists to form a cardiology consortium over our platforms. We expect to explore new types of service offerings through participation in specialty medical consortiums and integrate such offerings into our cloud hospital platforms, to further drive our revenue growth.

We typically enter into cooperation agreements with individual specialists or institutions, with a term ranging from one to five years, under which the specialists or institutions charge fixed fees for diagnoses based on the volumes of services rendered. Such fees are typically paid by primary medical institutions to us as our revenue, and we then pay such specialists certain fees for their services rendered. When selecting individual specialists or institutions for cooperation, we consider geographical location, reputation, brand awareness and existing business relationships.

The following flowchart sets forth the transaction flow of our remote medical services:



- (1) For remote medical services provided by third-party medical institutions, the service fee is paid directly by the primary medical institution to the third-party medical institutions, and we do not charge any platform management fee during the process. However, to enable the provision of such third-party remote medical services, we provide platform construction or connection services and generate revenue under the cloud hospital platform services segment.

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Smart Family Doctor Services

Through our smart family doctor services, patients and other healthcare consumers are able to enroll with family doctors, who are typically general practitioners of primary medical institutions. The family doctors serve as the first point of contact for patients and other healthcare consumers to manage basic and daily healthcare needs such as measuring and monitoring vital signs and other health indicators including pulse and blood pressure, providing guidance on preventing and managing chronic diseases, and advising on improving mental and physical well-being. Through our platform, family doctors can utilize smart tools such as the smart family doctor workstation and access health data from smart healthcare products, medical institutions' information systems and local governments' public health management systems, to help them provide personalized healthcare solutions that can accurately match patients' needs. They may also seek guidance from specialists of large hospitals through our remote medical services.

We do not charge fees for smart family doctor services. Notwithstanding, we believe such services can help introduce patients to our cloud hospital platforms and other solutions, such as smart healthcare products, and accordingly increase their stickiness to our cloud hospital platforms.

In 2020, 2021 and 2022, the volume of our smart family doctor services was approximately 1,417,600, 2,306,600 and 5,218,000, respectively.

The following screenshots show some examples of the interface of our smart family doctor services from the viewpoint patients:



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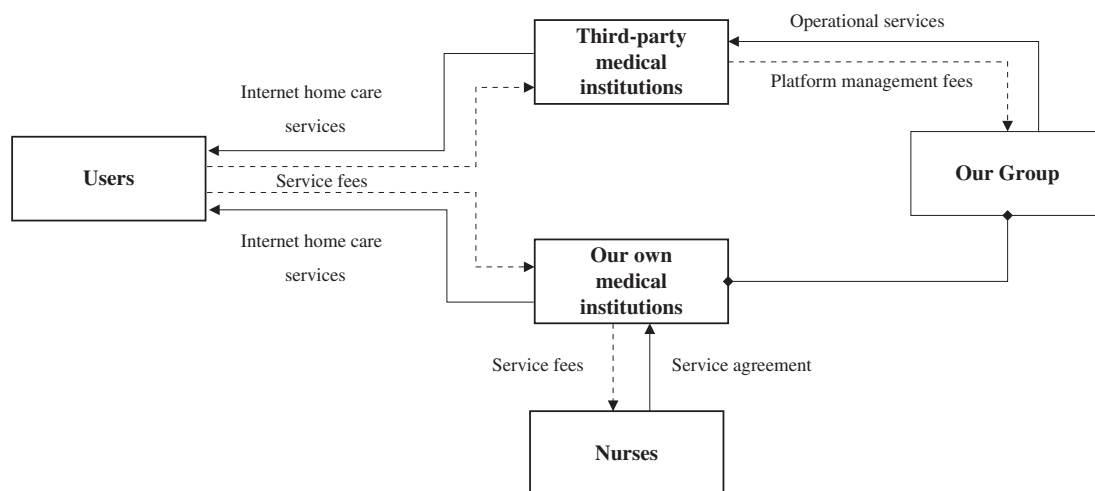
Internet Home Care Services

Our Internet home care services enable nurses to utilize their fragmented spare time to provide professional care services at the patients' location, thereby extending the nursing care from hospitals to households. Our Internet home care service offerings are specialized and diverse, which mainly cover the following five categories: (i) clinical care (such as Foley catheter care and subcutaneous injection); (ii) specialized care (such as peripherally inserted central catheter care and T-tube care); (iii) maternal and infant care (such as treatment of clogged milk ducts and newborn care); (iv) traditional Chinese medicine care (such as scraping treatment and retention enema); and (v) rehabilitation care (such as auricular plaster therapy and acupressure massage).

In 2020, 2021 and 2022, the volume of the Internet home care services was approximately 16,400, 29,900, and 54,000 over our platforms, respectively. In relation to the Internet home care services, we also offer online consultations, providing guidance to the elderly, patients with chronic diseases or other complications, as well as pregnant women. The customer retention rate of our Internet home care services is relatively high as patients with demands for Internet home care services often have long-term medical needs. For example, 48% of customers of our Internet home care services on our Ningbo Cloud Hospital platform repurchased such services in 2021.

We believe quality and safety are the most important requirements for delivering healthcare services; and these are also the core concerns of third-party medical institutions when conducting out-of-hospital services. We are equipped with strong abilities in overseeing the quality of care delivery, leveraging years of experience gained from operating and managing medical institutions as well as our capabilities in building regulatory supervision platforms for Internet healthcare services. For Internet home care services, we impose strict requirements on the qualifications of nurses based on the different types of nursing care programs and provide training accordingly.

The following flowchart sets forth the transaction flow of our Internet home care services:



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The following screenshots show some examples of the interface of our Internet home care services from the viewpoints of patients (left) and nurses (right):



Business Models of Internet Medical Services

According to the Notice for Issuing the Measures for the Administration of Internet Diagnosis and Treatment (for Trial Implementation) and Other Two Documents (《關於印發互聯網診療管理辦法(試行)等3個文件的通知》) by the National Health Commission and the State Administration of Traditional Chinese Medicine, online hospital services can only be provided by medical institutions possessing valid practice licenses for medical institutions (醫療機構執業許可證) with legends of Internet hospital. As of December 31, 2022, we had three medical institutions possessing licenses with such legends, enabling us to provide online hospital services through our cloud hospital platforms.

In general, Internet medical services are either provided by medical professionals at or registered with (i) medical institutions owned by us (the “proprietary model”) or (ii) third-party medical institutions (the “platform model”.) Medical professionals, whether practicing in or registered with our own or third-party medical institutions, are indentically empowered to serve patients. As of December 31, 2022, we had a chain of ten self-owned medical institutions. See “– Medical Resources – Our Own Medical Institutions” for details on our self-owned medical institutions.

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The following table sets forth the revenue breakdown from services provided by medical professionals at or registered with our own medical institutions and third-party institutions for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in millions)</i>		
Services provided under the proprietary model	54.2	92.3	135.0
Services provided under the platform model	0.9	1.1	2.8
Total	55.1	93.4	137.8

– *Services Provided under the Proprietary Model*

The Internet medical services provided under the proprietary model comprise all types of Internet medical services other than smart family doctor services. We typically receive service fee income from patients and institutions on a gross basis for services rendered under the proprietary model.

Most doctors or nurses involved under this business model are practicing doctors or nurses from third-party medical institutions, with whom we typically enter into platform registration agreements. Pursuant to the platform registration agreements, doctors and nurses shall submit their respective certifications and relevant filings for our review, and are responsible for keeping users' information confidential, while we are able to utilize their information (such as their professional and education background, as well as users' reviews of them) based on actual business needs to the extent reasonable. Except that medical specialists are usually from large hospitals for the provision of remote medical services, other doctors and nurses are typically from primary medical institutions that have not obtained licenses to conduct Internet healthcare services in accordance with PRC laws and regulations.

As of the Latest Practicable Date, our three own medical institutions in Ningbo, Shenyang and Dandong possessed valid practice licenses for medical institutions (醫療機構執業許可證) with legends of Internet hospital. As confirmed by our PRC Legal Advisor, by registering with our own medical institutions that hold the practice licenses for medical institutions with legends of Internet hospital, doctors and nurses who are from primary medical institutions and hospitals possessing licenses without such legends are able to provide online hospital services through our cloud hospital platforms. We are in charge of the controls over the quality of medical services provided. We also enter into service agreements with the doctors or nurses to whom we pay service fees, and separately settle the service fees to be paid to these medical professionals registered with our own medical institutions based on the actual services rendered by them under a standard fee schedule maintained by us on a monthly basis. In addition, a small number of doctors or nurses are our own doctors or nurses, with whom we typically enter into employment contracts.

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– *Services Provided under the Platform Model*

The Internet medical services provided under the platform model comprise all types of Internet medical services. We generate a platform management fee from third-party medical institutions as a percentage of service fees received by them from patients on a net basis for consultation and other services they provide, typically ranging from 5% to 20%. The contract term of our agreements with third-party medical institutions is generally one to three years. Under such agreements, we charge service fees for platform establishment and maintenance services under our cloud hospital platform services segment, and platform management fees under our Internet medical services.

The doctors or nurses involved in the provision of online hospital services, smart family doctor services and Internet home care services under this business model are practicing doctors or nurses from third-party medical institutions licensed to conduct Internet healthcare services, largely hospitals. The relevant third-party medical institutions are in charge of the controls over the quality of medical services provided.

We do not consider the relationship between the two business models is competitive; rather, they are complementary to each other. In particular:

- The two business models cater to the needs of professionals of different types of medical institutions. In relation to services provided through our own medical institutions, the medical professionals are mostly doctors and nurses from primary medical institutions registered with our own medical institutions, as their primary medical institutions are not licensed to perform Internet healthcare services in accordance with PRC laws and regulations. In relation to services provided through third-party medical institutions licensed to conduct Internet healthcare services, the medical professionals are mostly doctors and nurses from hospitals. Our provision of cloud hospital platforms enables them to both improve efficiency in providing medical services and diversify revenue streams.
- The two business models are adopted in respect of different pricing mechanisms that apply to services. In relation to services provided through our own medical institutions, the relevant services rendered are typically those that can be priced at our discretion. In relation to services provided through third-party medical institutions, the relevant services rendered are typically those that are largely subject to guidance prices set by the PRC government.
- The two business models serve different types of end customers. In relation to services provided through our own medical institutions, the target customer groups are typically elderly and patients with chronic diseases, who are mostly residents of local communities served by the relevant primary medical institutions with the doctors and nurses registered with our own medical institutions. In relation to services provided through third-party medical institutions, their customer groups are relatively more diverse.

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Revenue Breakdown by City

In 2020, 2021 and 2022, we generated 95.0%, 93.0% and 95.6% from our Internet medical services offered via city-specific cloud hospital platforms, respectively. The following table sets forth a breakdown of revenue of Internet medical services from our city-specific cloud hospital platforms for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Ningbo	45,080	70,922	97,277
Shenyang	6,545	14,061	27,391
City A	83	129	418
City B	2	77	2,593
City C	179	278	923
City D	–	2	51
City E	–	1	23
City F	–	257	387
City G	42	90	167
City H	218	359	636
City I	72	394	307
City J	–	30	7
City K	2	109	161
City L	6	24	35
City M	13	29	36
City N	–	–	–
City O	–	–	–
City P	–	11	55
City Q	54	74	1,322
City R	6	6	3
City S	–	–	–
City T	–	20	20
City U	–	–	–
City V	–	–	–
City W	–	–	–
City X	–	–	2
City Y	–	–	–
City Z	–	–	–
City AA	–	–	–
Total revenue from city-specific cloud hospital platforms	52,302	86,873	131,814

BUSINESS

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Revenue from sources other than city-specific cloud hospital platforms ⁽¹⁾	2,755	6,534	6,020
Total revenue of the Internet medical services	55,057	93,407	137,834

(1) The revenue of Internet medical services from sources other than city-specific cloud hospital platforms increased from RMB2.8 million in 2020 to RMB6.5 million in 2021, mainly due to an increase in the volume of remote consultation services in 2021, contributed by certain medical institutions outside the city-specific cloud hospital platforms based on satisfactory experience with the Internet medical services offered.

To better serve the unique situations of different cities, we carefully tailor development strategies and offer packages of Internet medical services for each city-specific cloud hospital platform based on local situations. For example, if the information technology development level of primary medical institutions in certain cities in Southern China is relatively low, they are more incentivized to connect to our platform to digitalize their operations. Accordingly, we may elect to connect with a large number of primary medical institutions first, and then hospitals in such cities, or vice versa in other cities. Also, we may initially offer various types of services in different cities based on our understanding of the local needs. For example, one of the first services we provided through the city-specific cloud hospital platforms in Kunming was the Internet home care services; and in Liaoyang, it was the smart family doctor services. As a result, the specific service offerings and revenue growth from the city-specific cloud hospital platforms in different cities may vary significantly depending on the development strategies we adopt.

Going forward, we intend to further (i) connect with more medical institutions with the expansion of our city-specific cloud hospital platforms to offer a more comprehensive selection of Internet medical services; (ii) advance the construction of our existing city-specific cloud hospital platforms and include more types of service offerings; and (iii) stimulate user interaction and strengthen our relationship with medical institutions by our local operational team.

Revenue of the Internet medical services segment from sources other than city-specific cloud hospital platforms is primarily generated from the provision of Internet medical services by medical institutions via their connecting to our cloud hospital network or establishing institutional-based independent cloud hospital systems in cities where we have not yet begun construction of any city-specific cloud hospital platform. Such revenue was RMB2.8 million, RMB6.5 million and RMB6.0 million in 2020, 2021 and 2022, respectively, which was generated under both the proprietary model and the platform model. We generally become acquainted with such customers through various business development activities conducted by our designated local sales and marketing teams, as well as customer referrals.

BUSINESS

Case Study: Ningbo

The following sets forth the development history of the Ningbo Cloud Hospital platform:

- In 2015, we developed the first city-specific cloud hospital platform in China, according to Frost & Sullivan, the Ningbo Cloud Hospital platform and established our own hospital in 2015 through which we started to provide Internet medical services on a trial basis. The Ningbo Cloud Hospital platform is among the first in the PRC healthcare industry to integrate cloud computing, IoT, mobile Internet, big data and other technology into its infrastructure.
- From 2014 to 2016, the Ningbo Cloud Hospital platform was under construction, initiated under the direction of local governments. We established the Ningbo Cloud Hospital platform to enable secure and shared access to EHRs and integrate online and offline medical resources.
- From 2016 to 2019, we focused more on providing Internet medical services through the Ningbo Cloud Hospital platform. We started with offering smart family doctor services, enabling patients and other healthcare consumers to sign up for family doctors and obtain healthcare services in real time. Such services have helped us effectively expand our customer base, allowing us to further monetize our platform, and at the same time, introduced to patients our smart healthcare products, through which family doctors can track patients' health data and provide guidance to treat the relevant chronic diseases, and accordingly increased their stickiness to our Ningbo Cloud Hospital platform. Meanwhile, in 2016, we started to provide Internet home care services through the Ningbo Cloud Hospital platform based on local needs. We also proactively focused on the integration of Internet medical services with social and commercial medical insurances over the Ningbo Cloud Hospital platform. In September 2018, we initiated pilot trials at two hospitals in Ningbo and were able to accomplish mobile payment by social medical insurance with respect to 23 chronic diseases and 153 medications. Since April 2019, Internet medical consultations and prescription drug purchases have gradually become payable by social medical insurance online. In addition, we also helped to establish remote medical service centers at hospitals to offer these to primary medical institutions through the Ningbo Cloud Hospital platform.
- Since 2019, our Ningbo Cloud Hospital platform has continued to drive our business growth. We continue to work with connected medical institutions to further expand the scale of services based on local needs.
- Starting in 2020, we have been taking further steps to empower over 30 large-scale hospitals in Ningbo to establish their own cloud hospital systems connecting to the Ningbo Cloud Hospital platform. Such cloud hospital systems allow such large-scale hospitals to tailor their Internet medical services and provide more value-added services. We believe that hospitals with their own cloud hospital systems connecting to the Ningbo Cloud Hospital platform will drive both service volumes and average service prices, increasing our customer stickiness and enhancing our competitive edge over competitors, and contributing meaningful revenue from Internet medical services going forward.

BUSINESS

The following table sets forth the revenue generated from our Ningbo Cloud Hospital platform for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Cloud hospital platform services	5,512	7,088	4,765
Internet medical services	45,080	70,922	97,277
Total	50,592	78,010	102,042

We have been continually expanding our network of medical institutions, optimizing and developing the functional modules of the platform, and developing independent cloud hospital systems for medical institutions. The number of medical institutions connected to our Ningbo Cloud Hospital platform continued to increase from 647 in 2020 to 744 in 2021 and further to 754 in 2022. By December 2020, all of the medical institutions in Ningbo had become connected to the Ningbo Cloud Hospital platform, according to the Health Commission of Ningbo. In collaboration with medical institutions connected to our Ningbo Cloud Hospital platform, we provide patients with access to approximately 13,000 doctors and 8,700 nurses, serving over 8.5 million residents in 11 districts and counties in Ningbo as of December 31, 2022. As of the same year, the Ningbo Cloud Hospital platform offered 37 types of healthcare services covering 53 medical specialties.

The Internet home care services increased considerably on the Ningbo Cloud Hospital platform during the Track Record Period. The service volume of our Internet home care services increased from 5,900 in 2020 to 11,000 in 2021 and further to 23,000 in 2022, combined with an increase in the number of nurses on the Ningbo Cloud Hospital platform from 5,600 in 2020 to 6,200 in 2021 and further to 8,700 in 2022. The service volume of Internet home care services of approximately 11,000 in 2021 accounted for approximately 60% of the total service volume in Zhejiang province in the year.

We maintained a high customer retention rate of our Internet home care services in Ningbo with 48% of customers repurchasing such services in 2021. In 2022, among the 49 types of Internet home care services we provide, three top services relating to the peripherally inserted central catheter, urinary catheter and nasogastric tube became payable by social insurance over the Ningbo Cloud Hospital platform. These three top services were provided 700,000 times by hospitals in Ningbo in 2021. We believe the integration of such services with social insurance over the Ningbo Cloud Hospital platform will help to further grow our business going forward. Because of its proven success in delivering home care services, our Ningbo Cloud Hospital platform was selected by the provincial government as an example to promote province-wide Internet home care services.

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There has also been growth in the remote medical services on the Ningbo Cloud Hospital platform. As of December 31, 2022, there were 44 remote medical service centers at hospitals offering remote medical services to 273 cloud clinics at primary institutions through the Ningbo Cloud Hospital platform. The 44 remote medical service centers at hospitals also offered remote medical services to cloud clinics at the primary medical institutions outside of Ningbo. In 2020, 2021 and 2022, the remote medical services provided through the Ningbo Cloud Hospital platform covered approximately 70,000, 82,000 and 72,000 patients, respectively.

Our Ningbo Cloud Hospital platform gained global attention and was awarded eHealth Champion Prize at the World Summit on the Information Society for its contributions. The proven success of the Ningbo Cloud Hospital platform exemplified how we helped local healthcare system improve the efficiency of healthcare services and achieve a reduction in the costs of delivering care through patient-centric and market-oriented operations.

Case Study: Shenyang

Our Shenyang Cloud Hospital platform is another example of the successful implementation of the city-specific cloud hospital platform with customized strategies and tailored services adapting to specific cities. The following sets forth the development history of the Shenyang Cloud Hospital platform:

- In 2015, we started to build our Shenyang Cloud Hospital platform and established our own hospital.
- In 2018, the platform construction was completed. We began with addressing the demands for infrastructure at the primary level in Shenyang, and undertook projects to construct and update platforms for governmental bodies at different levels. From 2018 to 2020, we expanded our platform to two more districts in Shenyang to upgrade the medical information infrastructure. Furthermore, in 2019, we helped the Liaoning provincial government to establish a monitoring platform that covered all cities across Liaoning Province, which strengthened our capability and increase our potential to provide services to Shenyang and other cities in Liaoning province. Upon the completion of our city-specific cloud hospital platform, we adopted a strategy of providing healthcare services in Shenyang by prioritizing smart family doctor services and remote medical services at primary level as the entry points. We launched our smart family doctor services in Hunnan district in 2018 and in Yuhong district in 2019. In March 2019, we started cooperating with the Shenyang NHSA to conduct pilot projects for reimbursing medical expenses arising from family doctor subscription services, online consultations, and prescriptions with social medical insurance.

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We focused on offering remote medical services after having identified and strategized to match the abundant medical resources at hospital levels and the high demands from primary medical institutions by forming medical specialty consortiums to offer remote medical services, primarily in reproductive medicine and oncology. For example, as of December 31, 2022, our medical specialty consortium in reproductive medicine covered 31 hospitals across the province. Primary medical institutions can identify potential patients for in vitro fertilisation and provide preoperative examinations. Patients can undergo in vitro fertilisation procedures at prestigious large hospitals and return to local primary medical institutions for rehabilitation treatment. This enhances the operational efficiency of hospitals and increases the volume of services provided by primary medical institutions, promoting more efficient cooperation between hospitals and primary medical institutions and concomitantly providing patients with a better medical experience at lower expense. With these medical specialty consortiums, we were also able to extend the scope of our online hospital services offerings to include direct online medical consultation and prescription processing services in February 2019. We also began to implement additional value-added services in the reproductive area, such as routine examination report analysis and embryo report analysis.

The following table sets forth the revenue generated from our Shenyang Cloud Hospital platform for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Cloud hospital platform services	38,610	16,902	13,844
Internet medical services	6,545	14,061	27,391
Total	45,155	30,963	41,235

In 2020, 2021 and 2022, the penetration rate (calculated as the number of hospitals connected to our platforms as a percentage of the total number of hospitals in 2020 in the respective city) of Shenyang was generally higher than 40%. During the same year, remote medical service volume was approximately 218,000, 369,000 and 610,000, respectively. Our comprehensive health management services volume was approximately 72,000, 93,000 and 79,000, respectively. We have been continuing to build and implement new service modules to meet the evolving needs of governments, medical institutions, patients, and healthcare consumers. For example, with the Internet home care services policy introduced in Liaoning in June 2021, we are currently developing Internet home care services as part of our Internet medical services to be implemented on the Shenyang cloud hospital platform. With our proven record with the Shenyang Cloud Hospital platform, we have extended our coverage to additional five cities in Liaoning Province since 2016.

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Health Management Services

We provide offline health management services through our own medical institutions to institutional and individual clients. Our institutional clients typically are government agencies, corporations, banks and insurers, who purchase our services for the benefit of their employees. Our service offerings include the comprehensive health management services and chronic disease management services, covering the full healthcare life cycle. As of December 31, 2022, we had a chain of ten self-owned medical institutions with an average gross floor area of 3,000 square meters and an average of 50 to 70 employees located in nine cities. See “– Medical Resources – Our Own Medical Institutions” for details.

As of December 31, 2022, our health management services served approximately 6,700 institutional clients, increased from approximately 4,902 as of December 31, 2020. In 2020, 2021 and 2022, the volume of our health management services was approximately 475,000, 525,900 and 480,000, respectively.

Our competitive edges for health management services mainly include: (i) quality services and well-established reputation in regional markets; (ii) strong business development capabilities with institutional customers; and (iii) better use experience than with other traditional offline health check-up service providers realized through our offering of Internet medical services. Users of the health management services can store their EHR via an online portal and seek an online consultation if any health issue is identified.

The following table sets forth a breakdown of our revenue from health management services by customer for the year indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>					
Institutional clients	193,491	87.0	205,905	85.5	179,372	85.7
Individual clients	28,974	13.0	35,013	14.5	29,827	14.3
Total	222,465	100.0	240,918	100.0	209,199	100.0

In general, we charge service fees for health management services based on factors such as the scope of services of the health management packages selected, the number of employees of the institutional clients to be covered, and the duration of such package.

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The revenue of this segment is generally of a recurring nature, as the demand for check-up services normally recurs on an annual basis. We had a strong track record of revenue growth for this segment. Our large base of institutional clients for health management services accounted for more than 70% in terms of revenue contribution of this segment. Such institutional clients are mostly corporations who entered into contracts with us for the provision of health management services to their employees on an annual basis. The relevant contracts typically have a term ranging from one to three years and tend to be renewed upon expiration, as the health check-ups are normally included in the employee benefits pack offered by the corporations and is a recurring need. In 2020, 2021 and 2022, the retention rate of our institutional clients in this segment (calculated as the number of institutional clients who purchased our services in both the current year and the preceding year divided by the total number of institutional clients we served in the preceding year) was 53%, 67% and 68%, respectively. In the same years, the utilization rate (calculated as the volume of health management services divided by the annual theoretical service volume capacity (which is ascertained based on each health management center's gross floor area and operational conditions)) was 53%, 60% and 67%, respectively.

Our competitive edges for health management services mainly include: (i) better user experience than with other traditional offline health check-up service providers realized through our offering of Internet medical services, as users of the health management services can store their EHR via an online portal and seek Internet medical services if any health issue is identified; (ii) quality services and well-established reputation in regional markets; and (iii) strong business development capabilities with institutional customers.

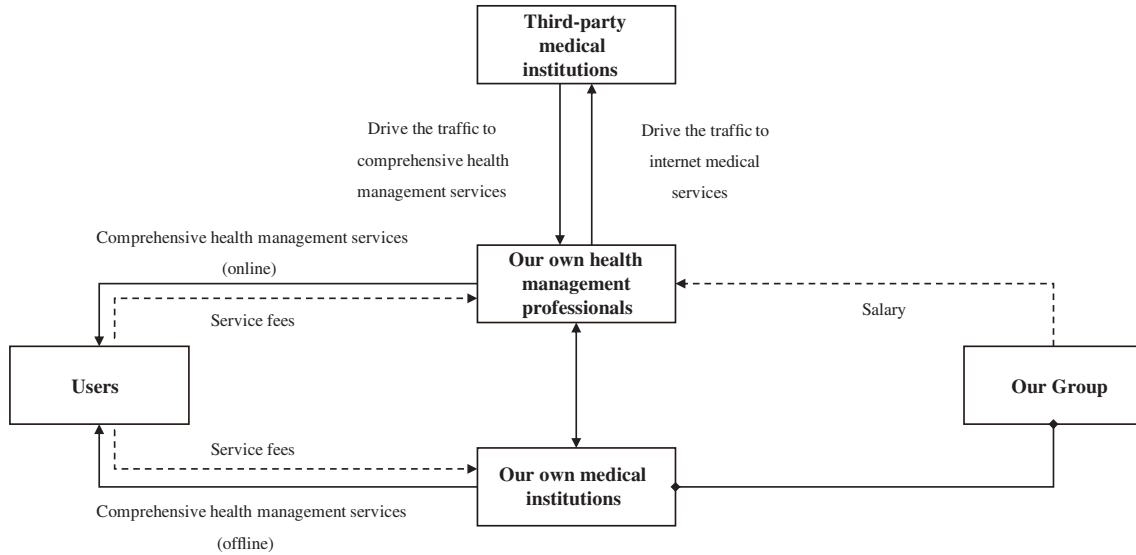
Comprehensive Health Management Services

We offer comprehensive health management services to both individual customers and institutional clients, who purchase package services from us for their employees. Our comprehensive health management services include (i) offline health check-ups through our own medical institutions and (ii) online health management services including virtual well-being tutorials and lifestyle planning recommendations provided by our online health management professionals. In addition, our online health management professionals also conduct follow-up surveys on patients' satisfaction level of our Internet medical services to better cater to their long-term medical needs and ensure the consistency of quality of our services. Consumers who have particular medical demands or who have identified health risks can further seek professional medical advice by purchasing add-on services under our Internet medical services, including smart hospital services and online medical consultations.

As our own medical institutions are directly connected to our cloud hospital platforms, such customers and our on-site medical professionals are able to access the rich offerings and medical resources available on such platforms. For example, after a patient completes a check-up at our own medical institutions, health information and check-up results will be automatically uploaded to our cloud hospital platforms and such customers can receive professional advice over the platforms.

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The following flowchart sets forth the transaction flow of our comprehensive health management services:



The following screenshots show some examples of the interface of our comprehensive health management services:

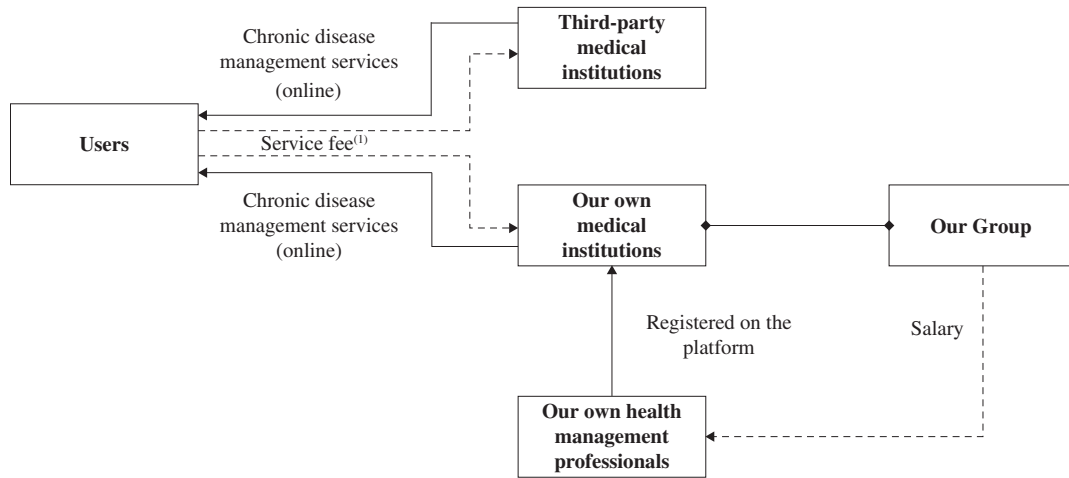


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Chronic Disease Management Services

We provide online chronic disease management services to patients based on EMRs and digital health records generated from our smart healthcare products, enabling our own online health management professionals to monitor the patients' chronic disease condition on a real-time basis and formulate healthcare news feed services and intervention plans for the patients based on their chronic disease condition.

The following flowchart sets forth the transaction flow of our chronic disease management services:



(1) For chronic disease management services provided by third-party medical institutions, the service fee is paid directly by the users to the third-party medical institutions, and we do not charge any fee during the process. However, to enable the provision of such chronic disease management services, we provide platform construction or connection services and generate revenue under the cloud hospital platform services segment.

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The following screenshots show some examples of the interface of our chronic disease management services:



Managed Healthcare Project with Rongsheng Insurance

During the Track Record Period, we cooperated with Rongsheng Insurance, a commercial medical insurer and an associate of Neusoft Corporation, with respect to a managed healthcare project on chronic disease management in Anshan, under the initiatives of the local branch of the National Healthcare Security Administration (“NHSA”). This managed healthcare project was intended by the Anshan branch of NHSA to explore ways to actively manage the review process of medical bills relating to chronic diseases and facilitate the health management of patients with chronic diseases to reduce medical expenditures, as opposed to passively reimburse them for their expenses.

In particular, we were engaged by Rongsheng Insurance to (i) set up the procedures and standards relating to identification of patients with chronic diseases, the scope and dosage of chronic disease medication and review of prescriptions on chronic diseases, (ii) monitor the implementation of such procedures and standards at outpatient departments of target medical institutions and report any issues discovered. We also help Rongsheng Insurance with prescription reviews and cost saving efforts. With respect to identified patients with chronic diseases at the relevant outpatient departments, we offer health management services and provide health information, including establishing health records and signing up family doctors over our platforms, and periodically reviewing their status. The term of this cooperation is two and half years, subject to a renewal mechanism if both parties agree to continue the cooperation

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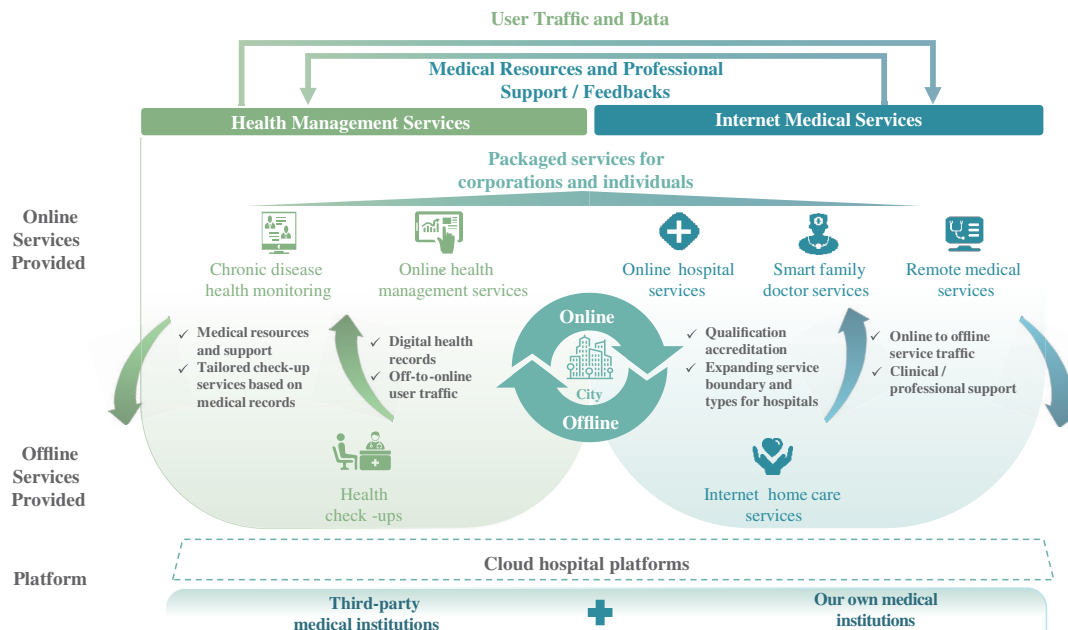
within 30 days before its expiry. We charge project management fees based on the number of patients with chronic diseases under our management, and a lump sum medical service fee. In 2020, revenue generated from Rongsheng Insurance from the managed healthcare project amounted to RMB120,000.

We believe that this managed healthcare project is valuable to patients, medical institutions and local governments, and illustrates how our solutions can be utilized in various settings. In particular, those patients with chronic diseases were given access to our cloud hospital platforms and received chronic disease management services conveniently to manage health and improve treatment results. Through strict implementation of the procedures and standards relating to chronic diseases, we helped medical institutions and local social medical insurance administrations reduce unnecessary medical expenditure and save healthcare costs.

This type of collaboration also represents a new way of how our solutions can contribute to the improved efficiency of medical expenditures and create value for both social medical insurance administrations and commercial medical insurers. Leveraging our in-depth understanding of various medical specialties, we are well positioned to grasp similar cooperative opportunities to establish business relationships and channel patients of particular groups to our cloud hospital platforms and solutions.

Synergy between Internet Medical Services and Health Management Services

The following diagram illustrates the synergies between our Internet medical services and health management services:



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The Internet medical services and health management services address the needs of patients who seek medical care and healthcare consumers who seek to maintain a healthy lifestyle, thereby covering the full cycle of healthcare. They are offline and online integrated as such two services can both be directly accessed by patients and other healthcare consumers primarily through local governments’ or hospitals’ apps, WeChat official accounts and their other channels, or through the “Xixin Health” (熙心健康) app as well as its WeChat official account and WeChat mini program. Users of our Xixin Health app and its WeChat official account and WeChat mini program are able to access most of the medical resources in our platform networks upon authorization by relevant local governments, medical institutions or practitioners to enjoy convenient Internet healthcare services. In addition, they can also enjoy the services available on our cloud hospital platforms through our Digital Clinic product or via practitioners at primary medical institutions who utilize the remote medical services for more precise diagnosis and treatment.

The Internet medical services and health management services have generated considerable synergistic effects. On the one hand, our health management services can effectively enhance our understanding of the local needs for Internet medical services, allowing us to precisely provide Internet medical services in collaboration with local medical institutions.

On the other hand, consumers can receive one-stop healthcare services from healthcare management to professional medical consultation, as (i) our comprehensive health management services can be accessed through the same online portals (for example, our “Xixin Health” channel) as our Internet medical services on the city-specific cloud hospital platforms; and (ii) consumers’ electronic health records (the “EHRs”) collected from our offering of comprehensive health management services with consent can be stored and retrieved for doctors from our own medical institutions or at third-party medical institutions registered on our platforms, forming a dynamic and comprehensive basis for them to give professional medical advice.

In particular, customers can check their health check-up results on the online portal. If any health issues are identified through the check-up, customers can access our internet medical services, including online hospital services, remote medical services, smart family doctor services, and Internet home care services through our platforms, creating strong synergies with the Company’s Internet medical services.

Meanwhile, our Internet medical services can effectively support our provision of chronic disease management services by providing real-time medical resources, professional support and feedback. For example, we are able to recommend doctors at hospitals registered on our platform for patients or healthcare consumers to seek medical advice via remote consultation in specialized area. In cases where high risks are identified, we also refer such patients to third-party medical institutions through our cloud hospital platforms.

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Smart Healthcare Products

We offer a variety of smart healthcare products embedded with IoT technology to medical institutions, businesses and individuals to cover the various healthcare needs under settings such as communities, workplaces and households.

Our smart healthcare product offerings mainly include: Digital Clinic (智慧雲診室) and Digital Pharmacy (智慧雲藥房) products for primary medical institutions, All-in-One Healthcare Device (健康一體機) for practitioners in rural communities, and smart healthcare devices for households. Our smart healthcare products are aimed at institutions and individuals. In particular, smart healthcare products are aimed at institutional settings are those that meet the needs of primary medical institutions and doctors to enhance their operational efficiency, including, for example, Digital Clinic and Digital Pharmacy products and All-in-one Healthcare Device. Our smart healthcare products aim at individual settings are those that meet their needs for personal health management, including smart blood pressure monitors, smart blood glucose meters, and smart wearables.

Our smart healthcare products are integrated into our cloud hospital platforms. They supplement the offerings in our Internet medical services and health management business, as these products are able to digitize and transmit vital signs and test results to our platforms, to facilitate remote medical consultations, drug delivery and establish EHRs for individuals. These products also help healthcare providers (for example, family doctors of the smart family doctors services) and family members to continually monitor the patients' health conditions and provide necessary and timely intervention, allowing for more efficient and effective care.

We typically have a fixed purchase price for the smart healthcare devices, but not for Digital Clinic and Digital Pharmacy products and the All-in-One Healthcare Device, which typically also include software and services components. Our customers in this segment primarily include local governments, primary medical institutions and corporations. In particular, we typically go through tender and bidding processes for sales of smart healthcare products to local government and medical institution clients. Meanwhile, for corporate clients, we typically negotiate and set the prices directly with customers. For details with respect to the manufacturing, raw material and inventory, quality control and customer services of our smart healthcare products, see “– Our Suppliers – Manufacturing,” “– Our Suppliers – Raw Materials and Inventory,” “– Our Suppliers – Quality Controls” and “– Our Customers – Customer Support and Services.”

We also provide other medical and wellness products to medical institutions and individuals to meet their customized needs, such as ultrasound equipment, surgical consumables and meal replacement products. In particular, in early 2020 we were approached by six overseas companies which purchased pulse oximeters and other healthcare products, as the outbreaks and rapid spread of COVID-19 caused shortages of relevant healthcare devices in certain overseas markets. These companies are mostly foreign-based distributors in the healthcare industry, offering medical and healthcare products such as medical devices and personal hygiene products to medical institutions, practitioners and households. While these

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companies resold the medical devices they purchased from us to their respective end customers, we mainly entered into one-off sales and purchase agreements. In 2020, 2021 and 2022, we generated revenue of RMB2.7 million, RMB2.7 million and nil, respectively, from such sales to overseas companies.

The following table sets forth a breakdown of our revenue from the smart healthcare products by setting for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	<i>(RMB in thousands, except for percentages)</i>					
Smart healthcare products targeted at institutional settings.	98,829	67.3	140,969	92.7	215,930	99.0
Smart healthcare products targeted at individual settings.	48,046	32.7	11,041 ⁽¹⁾	7.3	2,083	1.0
Total	146,875	100.0	152,010	100.0	218,013	100.0

(1) Revenue from our smart healthcare products targeted at individual settings decreased in 2021 primarily because we focused more on providing smart healthcare products targeted at institutional settings in 2021.

Our competitive edges for smart healthcare products mainly include: quality value-added features of products that can digitize and transmit vital signs and test results to our platforms, and facilitate remote medical consultations, among other advantages.

Digital Clinic (智慧雲診室) and Digital Pharmacy (智慧雲藥房) Products

We provide Digital Clinic and Digital Pharmacy products to empower primary medical institutions in lower tier cities and rural areas of China. Our customers for these products typically include local governments, primary medical institutions and corporations. The Digital Clinic and Digital Pharmacy products are intelligent interactive equipment that provides convenient and accessible self-service healthcare services including testing, remote medical consultations and prescription pick-ups that cater to the customized needs of primary medical institutions. We do not directly operate any Digital Clinic and Digital Pharmacy.

Through our Digital Clinic product, patients are able to measure their basic physical information and vital signs, such as blood pressure, weight, height, blood temperature and pulse rate. Such measurement data are uploaded in real-time to our platforms and stored under the patients’ accounts, which they can subsequently access through their mobile devices. The Digital Clinic is also equipped with a computer on which patients can access the Internet

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medical services over our cloud hospital platforms. As a result, patients can also initiate online medical consultations through our Digital Clinic product, whereby medical professionals can remotely access and analyze the patients' measurement data and make recommendations or issue prescriptions accordingly.

The patients can collect the prescribed drugs through our Digital Pharmacy once the prescription is approved and processed and payment made. The drugs available in our Digital Pharmacy product are typically supplied and sold by the primary medical institutions. To help patients seeking to purchase drugs outside their visiting hours, the primary medical institutions may designate doctors on evening and weekend duty to remotely serve such patients through our Digital Clinic product. Access to Digital Clinic and Digital Pharmacy is controlled by the primary medical institutions, which may also assign medical professionals to guide residents in using such facilities.

We typically enter into sales agreements with customers, principally local governments, primary medical institutions and corporations, to sell our Digital Clinic and Digital Pharmacy products. Depending on the customer needs, we may also offer complementary services that connect such smart healthcare products to particular health systems or platforms; we typically bundle such products and services together for pricing. In general, the sales price of a standard set of our Digital Clinic and Digital Pharmacy products ranges from RMB50,000 to RMB200,000. In addition, we can customize our products based on the customers' specifications such as the size of equipment or the scope of health check-up items at a premium. The sales price of such advanced sets typically ranges from RMB200,000 to RMB500,000. In 2020, 2021 and 2022, the sales volumes of our Digital Clinic and Digital Pharmacy products were 191, 188 and 178, respectively.

All-in-One Healthcare Device (健康一體機)

Our All-in-One Healthcare Device is a portable smart health measurement device designed to aid practitioners in the rural areas of China. This device can help practitioners establish individual health records for public health purposes, conduct post-treatment follow-up visits, measure vital signs and perform diagnostic tests, and monitor patients with chronic diseases, among other things. Our primary customers for this product are local governments.

The All-in-One Healthcare Device has basic functions of blood pressure measurement, oxygen saturation, electrocardiogram and pulse rate, and can be connected through USB or Bluetooth to a series of add-on devices including blood glucose meter, thermometer gun, urine analyzer, blood lipid analyzer, blood uric acid meter, body fat tester, hematology analyzer, body composition analyzer, spirometer, biochemistry analyzer, fetal heart rate monitor and weight scale. The measurement data can be uploaded via the Internet to our platforms, or the local public health platforms to meet local regulatory requirements.

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In general, the sales price of our All-in-One Healthcare Device products ranges from RMB5,000 to RMB20,000. In 2020, 2021 and 2022, the sales volumes of our All-in-One Healthcare Device products were 1,994, 4,144 and 815, respectively. We had higher sales in 2021 compared with both 2020 and 2022, mainly because we secured more large contracts from institutional clients in 2021, particularly through our cooperation with local health administrations to provide such devices to primary medical institutions. As of December 31, 2022, our All-in-One Healthcare Devices were used in approximately 27,900 primary medical institutions.

Smart Healthcare Devices

We offer a rich portfolio of smart healthcare devices to patients and other healthcare consumers, including smart blood pressure monitors, smart blood glucose meters, smart voice assistant speakers, and smart wearables such as smart bands and ECG patches. These devices allow patients or healthcare consumers and their family members to better monitor and manage health. Our primary customers for smart healthcare devices are corporations and individual customers.

Patients and healthcare consumers can subscribe to our ancillary services for a periodic fee, to establish their EHRs over our platforms based on the measurement data generated from our smart healthcare devices, engage medical professionals to provide health management recommendations and report their interpretations based on the measurement data, and send real-time measurement data or alerts regarding abnormal results to family members.

MEDICAL RESOURCES

Medical Institution Network

As of December 31, 2022, there were 35,500 medical institutions connected to our platform, the majority of which were in the public sector. We have been continually working on the technological integration within our network of medical institutions to maximize the synergies of such collaboration. The number of medical institutions connected to our platform increased consistently during the Track Record Period. The table below sets forth a breakdown of medical institutions connected to our platform as of the dates indicated:

	As of December 31,		
	2020	2021	2022
Class III hospitals	501	586	700
Class II hospitals	892	1,099	1,200
Other hospitals.	403	441	500
Subtotal of hospitals⁽¹⁾	1,796	2,126	2,400
Primary medical institutions	29,005	32,533	33,000
Specialized public health institutions⁽²⁾	84	92	100
Total	30,885	34,751	35,500

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- (1) According to Frost & Sullivan, as of December 31, 2021, the total number of Class III and Class II hospitals in the PRC was 14,123, 49.6% of which had connected to one or more digital healthcare platforms. As there are 1,685 Class III and Class II hospitals connected to our platform as of the same date, our penetration rate was approximately 24.1% in terms of the number of Class III and Class II hospitals connected to digital healthcare platforms.
- (2) Specialized public health institutions include disease control institutions, specialized disease prevention and treatment institutions, and maternal and child health institutions, among others.

As of the Latest Practicable Date, there were 35,600 medical institutions in our network. The majority of the primary medical institutions are connected to our platform for free, mostly providing smart family doctor services through our platform.

As of December 31, 2020, 2021 and 2022, our city-specific cloud hospital platforms were connected with 26.8%, 30.9% and 31.5% of the hospitals available in our network, respectively, and with 19.1%, 19.2% and 19.3% of the primary medical institutions available in our network, respectively. The following table sets forth the number of hospitals and primary medical institutions in our network, including those connected to our city-specific cloud hospital platforms, as of the dates indicated:

	As of December 31,					
	2020		2021		2022	
	Hospitals	Primary medical institutions	Hospitals	Primary medical institutions	Hospitals	Primary medical institutions
Cities with city-specific cloud hospital platforms						
Ningbo	77	570	109	635	110	650
Shenyang	112	997	134	997	140	1,000
Others	292	3,965	450	4,641	570	4,750
Subtotal	481	5,532	693	6,273	820	6,400
Others	1,315	23,473	1,433	26,260	1,580	26,600
Total	1,796	29,005	2,126	32,533	2,400	33,000

BUSINESS

Medical Professionals

As of December 31, 2020, 2021 and 2022, we had a team of approximately 61,200, 102,200 and 113,000 doctors, respectively, registered with our cloud hospital platforms. As of the same dates, there were approximately 10,300, 16,500 and 38,000 nurses, respectively, registered with our cloud hospital platforms. All of these doctors and nurses were registered practitioners with the relevant medical institutions (including our own medical institutions) in our network of medical institutions. We do not enter into any exclusive service arrangements with the doctors and nurses from third-party medical institutions, although we typically enter into platform registration agreements with them.

Our Own Medical Institutions

As of December 31, 2022, we had a chain of ten self-owned medical institutions with an average gross floor area of 3,000 square meters and an average of 50 to 70 employees, comprising two hospitals in Ningbo and Shenyang and eight medical institutions in Shanghai, Shenyang, Changsha, Hefei, Fuzhou, Chengdu, Xi'an and Dandong. These medical institutions offer customized comprehensive health management services for individuals and institutional clients. As of the same date, check-up services at nine of our medical institutions can be reimbursed through social medical insurance.

Integration with Social and Commercial Medical Insurance

We have achieved the integration of our city-specific cloud hospital platforms in Ningbo and Shenyang with social medical insurance. When medical insurance designated medical institutions commence operations on such platforms, the medical costs for the online hospital services offered by them to patients can be conveniently settled via social medical insurance to the extent eligible. These two platforms have accumulated a large number of medical insurance designated medical institutions of different classes.

We conduct rigorous review procedures before payment is settled under medical insurance, including patient ID verification, follow-up visit verification, diagnosis and treatment information, settlement scope management, expenses payment and operation analysis, in order to minimize the risk of fraudulent medical bill settlement.

For commercial medical insurers, we currently cooperate with Rongsheng Insurance in a managed healthcare project in Anshan. For details, see “– Our Solutions – Health Management Services – Chronic Disease Management Services – Managed Healthcare Project with Rongsheng Insurance.”

BUSINESS

BUSINESS SUSTAINABILITY

We had achieved sustained business development but were loss-making during the Track Record Period. The following table sets forth certain financial data for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands, except for percentages)</i>		
Revenue	503,008	614,302	687,415
Gross profit	134,108	170,229	168,450
Gross profit margin	26.7%	27.7%	24.5%
Net loss	(198,544)	(294,407)	(243,364)
Net loss margin	(39.5)%	(47.9)%	(35.4)%
Adjusted net loss margin (non-HKFRS measure)	(29.6)%	(20.4)%	(21.4)%

Our loss-making position is primarily due to the following reasons:

- In the early stage following inception, our primary revenue sources were the health management services and smart healthcare products segments. In 2020, revenue from both segments together accounted for 73.4% of our total revenue. The revenue of the cloud hospital platform services and Internet medical services was relatively small both in absolute numbers and as percentages of the total revenue. Our cloud hospital platforms (including city-specific cloud hospital platforms) are deployed based on our cloud hospital platform technology infrastructure. For details, see “– Technology and Infrastructure.” We have been enriching and enhancing the standard functions and modules along with the establishment of cloud hospital platforms in more cities and for more medical institutions. Such enrichment and enhancement require continual research and development investment of a significant amount in the early stage, but once such functions and modules are developed, they can be applied towards future engagements. As these functions and modules become more diversified and complete, we encounter fewer customization request from clients when providing platform construction services, thereby obtaining economies of scale.
- The growth of our city-specific cloud hospital platforms is characterized by progressive growth rather than a rapid surge. For example, our first two city-specific cloud hospital platforms, Ningbo and Shenyang Cloud Hospital platforms, completed initial construction in 2015 and 2016, respectively. However, in 2019, the revenue from Ningbo and Shenyang Cloud Hospital platforms (from the cloud hospital platform services and Internet medical services) was RMB20.7 million and RMB3.4 million, respectively, which was relatively small. For the other city-specific cloud hospital platforms, contracts were signed and initial construction has since been or will be completed at different points of time. In general, the organic growth within each of our city-specific cloud hospital platforms as well as the replication of such model in other cities needs several years to materialize.

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As a result of our continued efforts to achieve sustainability, our financial performance steadily improved from 2020 to 2022. Our revenue grew from RMB503.0 million in 2020 to RMB687.4 million in 2022, a CAGR of 16.9%. Our gross profit margin improved from 26.7% in 2020 to 27.7% in 2021. Our adjusted net loss margin (non-HKFRS measure) narrowed from 29.6% in 2020 to 20.4% in 2021, and increased slightly to 21.4% in 2022.

Future Plans to Improve Our Business Sustainability

Revenue

Revenues generated from each of our business segments witnessed growth during the Track Record Period. The following table sets forth the development of our revenue by business segment for the years indicated:

	Years ended December 31,					
	2020		2021		2022	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(RMB in thousands, except for percentages)</i>					
Cloud hospital platform services	78,611	15.6	127,967	20.8	122,369	17.8
Internet medical services	55,057	11.0	93,407	15.2	137,834	20.1
Health management services	222,465	44.2	240,918	39.2	209,199	30.4
Smart healthcare products	146,875	29.2	152,010	24.8	218,013	31.7
Total	<u>503,008</u>	<u>100.0</u>	<u>614,302</u>	<u>100.0</u>	<u>687,415</u>	<u>100.0</u>

Our total revenue increased from RMB503.0 million in 2020 to RMB687.4 million in 2022, realizing an increase by RMB184.4 million or roughly 1.4 times. Among the four segments, the cloud hospital platform services and Internet medical services are the two fastest growing segments in terms of revenue. As compared with the cloud hospital platform services and Internet medical services, health management services and smart healthcare products are relatively mature segments in terms of revenue, especially, with respect to the period prior to 2021; these two segments are our major revenue contributors with stable revenue growth. For details, see “Financial Information – Consolidated Statements of Comprehensive Income – Revenue from Contracts with Customers” and “Financial Information – Results of Operations.” Generally, we expect that our revenue will continue to grow due to the increase in customer numbers, our deepening relationships with customers, and increased average selling prices, as we further enhance the quality of our service offerings.

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Cloud Hospital Platform Services

The revenue from the cloud hospital platform services increased from RMB78.6 million in 2020 to RMB122.4 million in 2022, realizing an increase by roughly 1.6 times, at a CAGR of 24.8%. We expect our revenue from the cloud hospital platform services to grow as a result of (i) the expansion of our customer base for our cloud hospital platforms, including local governments and medical institutions, among others, (ii) an increase of the number of our city-specific cloud hospital platforms, (iii) efforts to encourage our existing customers to continually upgrade city-specific cloud hospital platforms by equipping more customized modules, and (iv) our development of independent cloud hospital systems for medical institutions. In addition, upon the completion of the platforms or the medical institutions becoming connected, customers are deterred from switching to other service providers as such switching costs are high, thereby driving the growth of our platform connection services.

Our city-specific cloud hospital platforms have continual revenue generating capabilities for this segment after the initial platform construction is complete. In 2020, 2021 and 2022, the percentage of recurring revenue (calculated as the repurchase revenue, regardless of the type of services it relates to, from existing customers of this segment as a percentage of the total segment revenue of that year) remained relatively stable at about 30% of the total revenue of our cloud hospital platform services segment. For example, our Ningbo and Shenyang Cloud Hospital platforms have concluded their respective initial construction over three years, yet we are still generating considerable revenue from cloud hospital platform services over both platforms. The following table sets forth a revenue breakdown of the Ningbo and Shenyang Cloud Hospital platforms from this segment for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Ningbo Cloud Hospital platform	5,512	7,088	4,765
Shenyang Cloud Hospital platform	38,610	16,902	13,844
Total	44,122	23,990	18,609

Our strategic focus on establishing city-specific cloud hospital platforms avails us of favorable government policies promoting the development of “Internet + Healthcare” services. In particular, according to the “Implementation Guideline for Promoting High-Quality Development of Healthcare Industry (2019-2022)” issued by the NDRC in 2019, the construction of healthcare information platforms within provinces to connect medical institutions and share medical resources and data through such platforms, promoting the digitalization and balanced distribution of medical sources within provinces is encouraged. As of December 31, 2020 and 2022, our network grew from 24 to 29 city-specific cloud hospital platforms.

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The business opportunities outside our existing city-specific cloud hospital platforms also constitute an important part of our cloud hospital platform services. In 2020, 2021 and 2022, 15.6%, 45.2% and 29.0% of the revenue from cloud hospital platform services came from sources other than the city-specific cloud hospital platforms, respectively. We typically provide cloud hospital platform services by establishing functional modules for local governments and developing independent cloud hospital systems for medical institutions.

The business drivers for our cloud hospital platform services mainly include (i) large customer demand for the functional modules of our platform; (ii) strong sales and marketing team and network to address the particular needs of users; (iii) competitiveness of our products and services; and (iv) well-established brand awareness in the industry. We believe that the functional modules established for local governments can lay the groundwork for future engagements with local governments, including the continual provision of platform upgrade services, and with such upgrades, it can be potentially developed into a city-specific cloud hospital platform. We believe such offerings showcase our service capabilities and lay a solid basis for cooperation potential in the establishment of city-specific cloud hospital platforms in such cities in future. Notably, we generated respectable revenue generated from cloud hospital platform services in cities other than those with established city-specific cloud platforms as our revenue sources expanded, which demonstrated that we did not solely rely on cities where there are established city-specific cloud hospital platforms.

Internet Medical Services

The revenue from the Internet medical services increased from RMB55.1 million in 2020 to RMB137.8 million in 2022, realizing an increase by roughly 2.5 times, at a CAGR of 58.2%. We expect that revenue from our Internet medical services will grow significantly due to (i) the growth of service volume attributable to (a) the expansion of our city-specific cloud hospital platform network to cover more cities; (b) the increase in the number of medical institutions connected to our city-specific cloud hospital platforms; and (c) increased user engagement (including by both medical institutions and patients) on our platforms based on our tailored development strategies and dedicated operation teams; and (ii) the increase in average service fees with less promotional efforts and more premium services. For example, as part of our tailored strategies, in some cities we initially offered more free or discounted Internet medical services to attract users, but gradually reduce such efforts over time as we built up our brand awareness.

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There have also been significant increases in the service volumes the Internet medical services during the Track Record Period. In particular, from 2020 to 2022, the service volume of the online hospital services (comprising online consultations and prescriptions processed) increased from 1.4 million to 2.5 million, the service volume of the Internet home care services increased from 16,400 to 54,000, and the service volume of the smart family doctor services (although free of charge) increased from 1.4 million to 5.2 million. The following table summarizes the volumes of the services offered over our cloud hospital platforms for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	<i>(in thousands)</i>		
Online consultations	512.9	1,111.4	1,674.0
Prescriptions processed	925.8	787.0	839.0
Remote medical services	701.0	860.6	1,067.0
Smart family doctor services	1,417.6	2,306.6	5,218.0
Internet home care services	16.4	29.9	54.0

We have been continually making efforts to stimulate the activeness of medical institutions, particularly hospitals, on our cloud hospital platforms. In 2020, 2021 and 2022, the average volume of the Internet medical services per medical institution was 116, 147 and 249, respectively. The generally increasing trend demonstrates an increase in the activeness of hospitals connected to our cloud hospital platforms. We actively seek to increase the activeness of such hospitals by deploying local operational teams and devoting more resources to them.

We have witnessed a growing number of healthcare participants in our cloud hospital network over the years. As of December 31, 2020, 2021 and 2022, 1,796, 2,126 and 2,400 hospitals were connected to our cloud hospital network, respectively.

Historically, revenue breakdown by city-specific cloud hospital platform for this segment fluctuated considerably, largely due to different circumstances in each city. We have identified and focused on 8 cities (including Ningbo and Shenyang) with strong potential and favorable local factors for Internet medical services. We actively promote Internet medical services by deploying local operational teams and devoting more resources to these cities. It took one and three years, respectively, for Ningbo and Shenyang to reach RMB2 million of revenue from Internet medical services after the completion of platform initial construction. We expect the remaining six cities to demonstrate similar growth trajectories. Most of such cities' platform construction was completed in 2020 or shortly afterwards. Accordingly, historically, these cities have not contributed much to the Internet medical services segment in terms of revenue. The city-specific cloud hospital platforms of most of these eight cities (except for Ningbo and Shenyang) were initially constructed or pending completion in or after 2020, hence it is reasonable that they have not yet contributed significant Internet medical services revenue. Among these eight cities, City B's platform construction was completed in 2019, and it had

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generated revenue of RMB2.6 million of Internet medical services in 2022, which already significantly exceeded its full year revenue of this segment, or RMB77,000, in 2021. For the other cities of which the initial construction of city-specific cloud hospital platforms was completed in 2020, namely City A and City C, they both demonstrated significant growth trajectories in 2021 and 2022.

Health Management Services

Our health management services contributed a significant portion of our total revenue prior to 2021. It has witnessed a relatively slow yet stable revenue growth, and such trend is expected to continue. The segment revenue in the year ending December 31, 2022 was expected to be adversely affected by the COVID-19 pandemic, which has led to the temporary closure of several of our self-owned medical institutions.

We expect that our revenue will grow moderately in line with an increase in service volume. The revenue of this segment is generally of a recurring nature, as the demand for check-up services normally recurs on an annual basis. Our large base of institutional clients for health management services accounted for more than 70% in terms of revenue contribution of this segment. Such institutional clients are mostly corporations who entered into contracts with us for the provision of health management services to their employees on an annual basis. As of December 31, 2022, our health management services served approximately 6,700 institutional clients, increasing from approximately 4,902 as of December 31, 2020. In 2020, 2021 and 2022, the retention rate of our institutional clients in this segment (calculated as the number of institutional clients who purchased our services in both the current year and the preceding year divided by the total number of institutional clients we served in the preceding year) was 53%, 67% and 68%, respectively. The slightly increased retention rate of our institutional clients demonstrated improved customer satisfaction, which can help us retain more customers effectively.

Smart Healthcare Products

The smart healthcare products segment was growing slowly in terms of revenue during the Track Record Period, and is expected to maintain such growth rate. We expect our revenue from smart healthcare products to grow as a result of increased sales volume of our smart healthcare products. We expect to benefit from the general expansion of our local government and medical institution client base, and increasing brand awareness as a result of our other service offerings to fuel the expansion of this segment.

Gross Profit and Gross Margin

We had positive gross profit and gross margins in 2020, 2021 and 2022. The level of our gross margins is largely affected by our business mix. In general, we expect our gross profit and gross margin to improve as we achieve economies of scale of our cloud hospital platforms and as we continue to enrich our service offerings and provide premium services.

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Cloud Hospital Platform Services

Our cloud hospital platform services segment had relatively high gross margins during the Track Record Period, mainly because the costs of this segment, comprising the costs for development and connection of cloud hospital platforms, are shared among different platforms given the replicability and scalability of our cloud hospital platform technology infrastructure.

Our gross margin of this segment is also expected to improve due to reduced costs resulting from economies of scale and reduced development and implementation costs of establishing new cloud hospital platforms. This is because once the standard functions and modules are developed, they can be applied towards other engagements in the future, and as the functions and modules over the cloud hospital platforms become more diversified and complete, we encounter fewer customization requests from clients when providing platform construction services.

Internet Medical Services

Our Internet medical services segment had generally relatively lower gross margins compared to other segments during the Track Record Period.

The gross margin of our Internet medical services is also expected to improve as we increase the average service fees and offer more premium Internet medical services. In particular, as part of our tailored strategies, in some cities we offered more free or discounted Internet medical services to attract users to try out and utilize the services offered at an early stage when we first began to promote our services in those cities. As we operate for a longer period of time and build up our brand awareness in such cities, we will gradually reduce the portion of free services or offer fewer discounts. Meanwhile, we expect to enjoy economies of scale as more users and healthcare providers are utilizing our cloud hospital platforms and Internet medical services. In addition, we plan to increase the service volume of the Internet medical services provided by third-party medical institutions and generate platform management fees, which have a higher gross margin.

Health Management Services

Our health management services had generally relatively higher gross margins during the Track Record Period as fixed costs of this segment remained relatively stable regardless of the changes in the scale of our health management services.

We expect the gross margin of our health management services to slightly further improve, as more fixed assets become fully depreciated, and as a result of our continued efforts to proactively improve the operational efficiency of our medical institutions.

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Smart Healthcare Products

Our smart healthcare products segment had relatively low gross margins during the Track Record Period, mainly due to our competitive pricing strategies to increase the market presence of our smart healthcare products, which, we believe, will allow us to generate additional synergy with our other business segments in the long term. For details, see “Financial Information – Consolidated Statements of Comprehensive Income – Gross Profit and Gross Margin” and “Financial Information – Results of Operations.”

Although the gross margin for our smart healthcare products will not necessarily increase since we plan to continue to implement competitive pricing strategies, we expect to increase our market presence and generate synergy for our other business segments.

Operating Expense Leverage

During the Track Record Period, we were able to achieve rapid growth with strong operating leverage. Because of the growth of our revenue base, our selling and marketing expenses, research and development expenses, and administrative expenses accounted for a lower percentage of our revenue, despite the increases of these expenses in absolute amount. The following table sets forth our selling and marketing expenses, research and development expenses and administrative expenses, in each case excluding share-based compensation and [REDACTED] expense, as a percentage of revenue for the years indicated:

	Year ended December 31,		
	2020	2021	2022
		(%)	
Selling and marketing expenses excluding share-based compensation as a percentage of revenue.	18.6	17.5	15.7
Research and development expenses excluding share-based compensation as a percentage of revenue	12.7	11.2	10.3
Administrative expenses excluding share-based compensation and [REDACTED] expense as a percentage of revenue	17.0	14.3	11.2
Total operating expenses excluding share-based compensation and [REDACTED] expense as a percentage of revenue	48.3	43.0	37.2

Our operating expenses excluding share-based compensation and [REDACTED] expense as a percentage of total revenue were 48.3%, 43.0% and 37.2% in 2020, 2021 and 2022, respectively. We expect to further improve the efficiency of our selling and marketing, research and development, and administrative activities and our spending on such activities. As a result of our continuous business expansion, we expect our operating expenses to increase in absolute amounts but decrease as a percentage of total revenue in the long term due to economies of scale. We have been making efforts to control expenses by adopting more stringent expense controls and budget approval policies.

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In the future, we expect to continually rapidly grow our revenue and gradually improve our gross profit margin, and we do not expect to have significant investments in sales and marketing, research and development and administrative matters. The efforts above have contributed and are expected to continue to support our sustainability and improve our profitability.

DATA PRIVACY AND PROTECTION

We have established a comprehensive data security system that provides security protection over management, technology and operation. Our information architecture, the cloud hospital platform, has obtained Level 3 certifications in Chinese classified protection of information system security. In addition, our information systems have been certified by various ISO standards, including ISO/IEC 27001 (Information Security Management System Certification), ISO/IEC 20000 (Information Technology Service Management System Certification), ISO 9001 (Management System Certification), ISO 45001 (Occupational Health and Safety) and ISO 14001 (Environmental Management System Certification). Meanwhile, we have also passed Maturity Level 3 of Capability Maturity Model Integration (CMMI). We continually develop and protect our information security infrastructure from multiple dimensions, including the following aspects:

- **Infrastructure physical security.** Our information infrastructure has been deployed in a professional cloud data center, which is one of the most advanced green data centers in China, equipped with professional protection capacities in physical security, hardware security, software security and network security.
- **Network security.** To ensure network stability, we have adopted a redundant network structure and installed professional load-balancing equipment. Meanwhile, we created different security zones in our information networks and adopted appropriate network security policies. In addition, we installed intrusion detection and defense equipment in critical locations to monitor and defend against cyberattacks.
- **Application security.** We apply server alarm policies to check for malfunction of each server and fix malfunctions timely. Meanwhile, the multi-factor user password policies and role-based access controls were adopted to secure user login and user access. Moreover, practices such as access authorization and time policies enable us to ensure security of user privacy.
- **Data security.** We apply methods including cloud storage, redundancy policies and backup policies to prevent accidental data loss, and we leverage encryption technology, CA authentication and digital signature to ensure the authenticity, integrity and accountability of the data in the cloud hospital platform.

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- **Privacy protection.** We implement hierarchical protection of user information, and apply privacy policies including access authorization, encrypted storage, encrypted transmission and de-identification to prevent the loss or leak of personal privacy information. Meanwhile, we have established a complete privacy management mechanism to provide a full range of personal privacy information protection under different settings such as software development, utilization of systems, daily inspection, and emergency response.
- **Cybersecurity management system.** We have built a unified monitoring system to oversee the operating status of the host and systems, and assign personnel to conduct system inspections, upgrade system patches, and perform virus and vulnerability scans on a regularly basis.
- **Auditing and compliance.** We have implemented a comprehensive audit procedure and regularly perform audits on major security incidents and conduct comprehensive reviews over the overall condition of platform security and measures and processes taken in security management.

We are responsible for ensuring the accuracy of our deliverables regarding cloud hospital platforms and system data to customers in accordance with relevant agreements. To ensure that the data collected and database formed within the cloud hospital platform are complete, accurate and comply with national and industry standards, we have established internal data protection procedures with respect to data access authorization controls, data encryption and decryption management, data classification management and data de-identification management in accordance with relevant PRC laws and regulations, and obtained various certifications in relation to cybersecurity such as Level 3 certifications in Chinese classified protection of information system security and certifications under various ISO standards. In particular, our data access authorization controls are designed to prevent unauthorized access to data by third parties. Our data encryption and decryption management ensures the confidentiality of data, and allows the recipients of data to ascertain whether data have been altered and the identity of the sources of data. Our data classification management focuses on different levels of protection measures over the three major categories of data. Our data de-identification management further enhances the confidentiality of sensitive personal data, while maintaining data consistency.

For example, we have designated three security categories of data based on confidentiality, completeness and undeniability status, and adopted differentiated measures and technology to restrict access to such data. With respect to public data such as those relating to publicity of our Group and our solutions, and those for purposes of showcasing the service offerings available over the cloud hospital platforms (such as basic information regarding the hospitals and doctors in our network, and service contents), we adopt basic data management measures, which mainly include data authorization controls and basic level of back-up duplicates and disaster recovery clusters. We have in place strict controls over unidentifiable personal information (such as age, gender and location) and basic healthcare data (such as allergies, diagnosis and medication history, vital signs and medical-related activity logs),

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which mainly include web security authentication, whitelisting, authorization management over database access, and local back-ups and remote disaster recovery. We implement even more stringent management over transaction data (such as payment information) and identifiable personal data (such as name, contact number and identification document number). These management measures mainly include web security authentication, whitelisting, authorization management over database access, data encryption and decryption, data de-identification, operation and maintenance fortress machines, measures against cyberattacks, and local back-ups and remote disaster recovery. Our employees shall abide by our data protection policies, which contain detailed safety and security requirements concerning the workplace, office computers, Internet and emails, user account and data and documents. We offer regular training on data protection matters. We have also set up a whistle-blower mechanism and a clear award and penalty system for exemplary behavior or violations of data protection policies by employees.

We have employed data encryption and decryption techniques in the storage, transmission and processing of business data. We de-identify data such as identification document numbers and contact numbers through encrypted storage and data masking techniques to ensure patients' identities and information are protected. We have assigned a unique personal health record code, or PHRCODE, to each patient, generated based on special encryption algorithms. No personal identities or information can be deduced from such PHRCODE.

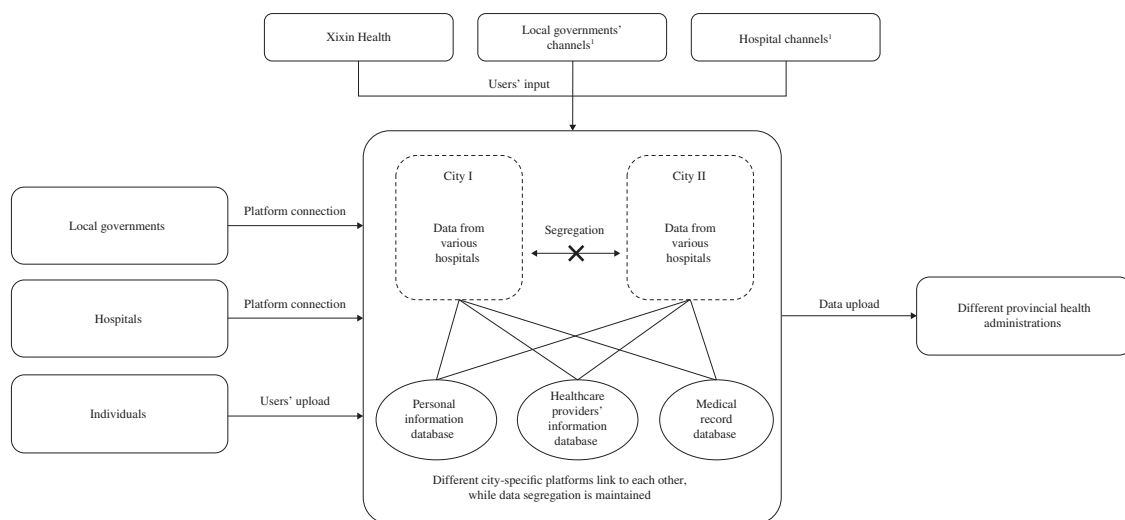
We apply Level 3 information security protection management to the cloud hospital platform in accordance with PRC laws and regulations as well as relevant national specifications and technical standards to ensure the security of the cloud hospital platform and the data collected and database formed within the cloud hospital platform are complete, accurate and comply with the relevant standards. We have filed our Level 3 information security protection management of the cloud hospital platform with the governmental public security authority in accordance with PRC laws and regulations. After examination by the governmental public security authority, we have obtained the Level 3 Certification in classified protection of information system security since 2018. In addition, as required by those PRC laws and regulations as well as relevant national specifications and technical standards, we conduct self-evaluation and inspection over our information systems at least once a year, and no material issue concerning the cloud hospital platform has been found as a result. Additionally, we have also obtained certifications under various ISO standards in respect of information security management, which are widely recognized by organizations and entities internationally. We continually integrate the PRC and international standards for information security on which the relevant certifications are based into our own information security management systems, and set up and implement the relevant procedures, including carrying out risk assessment, vulnerability scans and penetration testing on a regular basis, so as to ensure that the data collected and database formed within our cloud hospital platform are complete, accurate and comply with the relevant standards.

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The data of the cloud hospital platforms are either stored in public cloud servers owned by us or private cloud servers owned by our customers, and the types of data stored do not differ between private or public cloud servers. Most of the city-specific cloud hospital platforms are based on public cloud servers owned by us, while the rest are based on customers' private cloud servers. In general, public cloud platforms do not differ from private cloud servers in terms of platform functions and development processes. The major difference is that private cloud platforms are deployed in private data centers designated by the relevant local governments. Regardless whether it is based on public or private cloud servers, a city-specific cloud hospital platform shall typically be utilized by medical institutions within that city only, though its access by residents is not limited to those of that particular city. In terms of data privacy and security, we have implemented comprehensive data protection mechanisms over public cloud platforms to realize data segregation between cities and different medical institutions, while the physical separation ensures data protection and segregation over private cloud platforms.

Data stored in the private cloud server is separated from data stored on the public cloud server. On the public cloud servers, data from each city-specific hospital platform is only accessible within the specific city as data from different city-specific platforms are stored separately from each other. For data stored in the public cloud servers, we established security safeguards such as virtual firewalls, virtual private networks and traffic monitoring to prevent data leaks. For data stored in the private cloud servers, data can be accessed and protected by techniques such as data visit controls and authorization, and we help customers to establish and maintain effective data privacy measures. For data stored in the private cloud servers, we use data encryption technology to ensure data from different sources are effectively segregated. For data stored in the public cloud servers, we assign a globally unique identifier ID to each entity so that each entity can only gain limited access to data through the assigned ID.

The following flowchart sets forth the data flows and linkage within the cloud hospital platform:



Note:

- (1) Local governments' and hospitals' channels include apps and WeChat official accounts.

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We strive to comply with all applicable laws, regulations and industry standards for data arrangements, privacy and security in our operations. In general, according to our terms of service and except as required by relevant laws and regulations, by registration with and logging into our cloud hospital platforms, individual users and healthcare providers acknowledge that they permit and authorize our use of the information we are provided with and the information generated in the course of utilizing our cloud hospital platforms. The individual users also acknowledge under the terms of service that they authorize the relevant healthcare providers to use their information that is necessary for such healthcare providers to provide services to them or to improve their service quality. The individual users have the right to withdraw their consent and authorization at any time pursuant to the terms of service by deleting their accounts from our platforms. We also need to obtain authorization from local governments and medical institutions for utilizing individuals' data sourced from them. We will proactively work with the local governments and medical institutions on agreement renewal before expiry. Upon the expiry of the relevant agreements with particular local governments and medical institutions and in the absence of renewal, we will handle the data sourced from them in accordance with the relevant agreement terms and PRC laws and regulations (for example, return or delete such data). We give the relevant healthcare providers the necessary user information only pursuant to the authorized scope. To ensure the security of user information, we and our healthcare providers owe a duty of confidentiality to the users with respect to such information.

For public data such as those relating to our publicity and our solutions, and those for purposes of showcasing the service offerings available over the cloud hospital platforms (such as basic information concerning the medical institutions and medical professionals in our network, and the service contents), we have the right to utilize such data without consent for as long as we are authorized to do so pursuant to our agreements with the relevant parties. Meanwhile, we do not own the personal information data that are collected or generated in the course of the users' utilization of our cloud hospital platforms, but we have the right to utilize such data in accordance with and subject to the consent and authorization by these users and in accordance with applicable laws and regulations. We do not directly monetize such data. Rather, we organize and transform such data to standardized and structured data, and then facilitate the sharing of the data over our cloud hospital platforms so that the relevant healthcare participants are able to access and make decisions based on such data with prior consent and authorization in rendering their healthcare services, thereby increasing the overall efficiency of the healthcare system.

We have established a data security management committee responsible for devising data security strategies, comprising five members of our senior management in charge of operations and data protection and headed by our CEO, Ms. Zong Wenhong. For details, see "Directors and Senior Management." We have also designated two special teams under this committee, namely the data security incident team and data security management team. The data security incident team is responsible for handling specific data security incidents, which consists of six members from our technology, maintenance security, product, finance, legal and medical service quality departments. The data security management team is responsible for management of data security work in our daily operations, which consists of three members from our maintenance security, finance and legal departments.

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Our PRC Legal Advisor, after reviewing relevant materials provided by us and based on our confirmation of certain facts relating to our operations, is of the view that the Internet security, data security and personal information protection involved in the operation of our business in the PRC in all material respects did not violate PRC laws and regulations on Internet security, data security and personal information protection during the Track Record Period and up to the Latest Practicable Date, based on the following:

- In situations where we process personal information as a personal information processor, in all material respects, our processing of personal information does not violate the principles of lawfulness, fairness and necessity and we have fulfilled our obligations to notify individuals and obtained authorization from individuals in accordance with PRC laws and regulations, and our protection of personal information rights does not violate PRC laws and regulations; and in situations where we are entrusted by our cooperating clients to process personal information and other data, we are not in violation of any PRC laws or regulations or agreements with such cooperating clients in all material respects.
- Our processing of data other than personal information does not violate PRC laws and regulations in all material respects.
- The data processed by us in our business operations is stored in the PRC, without involving cross-border data transmission, and is not in violation of PRC laws and regulations related to cross-border data transmission in all material respects.
- We have established an Internet and data security-related organizational system, designated a responsible person and management committee in charge of Internet and data security, and implemented Internet and data security training.
- We have developed and implemented an internal management system and relevant technical measures for Internet and data security.
- Our information platform for conducting our business operations in the PRC has obtained the Level 3 Certification in classified protection of information system security.
- The PRC Internet sector has experienced intense scrutiny over data protection and privacy in recent years. In particular, in June 2021, the Beijing Branch of CAC, jointly with other local authorities, issued a notice that they would perform special regulatory actions on apps' collection and use of personal information in Beijing from June to November in 2021. Accordingly, we have been continuously enhancing our internal controls over data collection and privacy while working closely with the regulators since then. The relevant regulators had an inquiry meeting with us in July 2021 regarding certain issues of data collection and use of personal information, and we reported the results and our rectifications accordingly. As of the date of this document, we had not received any formal notice from the relevant regulators regarding any subsequent administrative actions or comments on our rectification,

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nor did we receive any penalties as a result. As of the same date, we were not the subject of any review, inquiry, notice, warning, investigation or sanction by the CAC. Except for the foregoing, we have not been subject to any complaint or claim relating to non-compliance issues including Internet security, data security or personal information protection, nor have we been subject to any investigation, penalty, rectification order or other regulatory measure due to Internet security, data security or personal information protection matters.

On November 14, 2021, the CAC published for public comment the Draft Administration Regulations on Internet Data Security (《網絡數據安全管理條例(徵求意見稿)》) (the “Draft CAC Regulations on Internet Data Security”). The final version and effective date of such Draft CAC Regulations on Internet Data Security may be subject to change. As of the date of this document, the Draft CAC Regulations on Internet Data Security had not come into effect and we had not received any notices or inquiries from relevant competent authorities requiring us to apply for cybersecurity review.

On December 28, 2021, the CAC together with other regulators jointly announced the Cybersecurity Review Measures (《網絡安全審查辦法》) (the “Cybersecurity Review Measures”), effective from February 15, 2022. Pursuant to the Cybersecurity Review Measures, besides the procurement of network products and services by critical information infrastructure operators, any data processing activities by network platform operators that affect or may affect national security shall be subject to cybersecurity review as well. In accordance with the Cybersecurity Review Measures, network platform operators handling personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when listing abroad (國外上市). On February 7, 2022, the Company’s PRC Legal Advisor made a telephone consultation with the China Cybersecurity Review Technology and Certification Center (中國網絡安全審查技術與認證中心), which is delegated by the CAC to accept applications for cybersecurity review. During the consultation, the Company’s PRC Legal Advisor informed the staff regarding the Company’s proposed [REDACTED] plan, and the staff confirmed that currently the Company need not to apply for the cybersecurity review. The Company’s PRC Legal Advisor is of the view that the staff consulted and the China Cybersecurity Review Technology and Certification Center are competent to give such confirmations. Based on the understanding of the Cybersecurity Review Measures and the consultation with the CAC mentioned above, our PRC Legal Advisor is of the view that [REDACTED] on the Main Board does not fall within the scope of “listing abroad” which triggers cybersecurity review by cyberspace administrations as provided in the Cybersecurity Review Measures currently, because there are currently no official interpretations on the scope of “listing aboard” in the above provisions, and Hong Kong is a part of the PRC. On February 8, 2022, the Sole Sponsor’s PRC Legal Advisor made a telephone consultation with the China Cybersecurity Review Technology and Certification Center, the staff of which verbally confirmed that, in accordance with the Cybersecurity Review Measures, a [REDACTED] in Hong Kong does not need to apply for the cybersecurity review. However, there can be no assurance that the PRC government authorities will take a view in the future that is not contrary to or otherwise different from the opinion of our PRC Legal Advisor stated above, and there is also the possibility that the PRC government authorities may require us to apply for the cybersecurity review for other reasons.

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Based on (i) the fact that the Draft CAC Regulations on Internet Data Security has not come into effect, (ii) the results of the telephone consultations on the Cybersecurity Review Measures made respectively by the Company’s PRC Legal Advisor and the Sole Sponsors’ Legal Advisor on February 7 and February 8, 2022, and (iii) the view of the Company’s PRC Legal Advisor, as of the date of this document, the Sole Sponsor is not aware of any material matter that indicates the Draft CAC Regulations on Internet Data Security and the Cybersecurity Review Measures will have any material adverse impact on the Group’s business operation and financial performance.

TECHNOLOGY AND INFRASTRUCTURE

We established the first city-specific cloud hospital platform in China in 2015 according to Frost & Sullivan, connecting local governments, medical institutions, insurers and other stakeholders.

Our cloud hospital platform is the core technology and infrastructure of the cloud hospital platforms. It is a set of application systems, constituted by function modules including the online hospital services module, remote medical services module, family doctor services module, Internet nursing care services module, health management services module and chronic disease management services module. For details on these modules, see “– Our Solutions – Cloud Hospital Platform Services – For Medical Institutions.” We built and developed our cloud hospital platform using our proprietary technology. The cloud hospital platform provides reliable data security and flexible operational support. Meanwhile, our cloud hospital platform promotes the integration of medical resources and the integration of online and offline healthcare services, to further enhance the quality of healthcare services and ultimately help us realize our value propositions.

- **Powerful data integration, processing and analytics capabilities.** Through unified APIs, we integrate the services and data resources from local governments, medical institutions and other participants. We create valuable data assets by utilizing our cloud hospital platform’s powerful data processing and analytic abilities, while leveraging data cleaning, data mining, data governance and business intelligence technologies. In particular, we transform raw and disparate data from multiple sources, which are siloed, underutilized and static, and convert them into computable, structured and standardized data through the following techniques:
 - ***Data aggregation.*** To aggregate data from systems located in multiple networks, we implement data preprocessing in such networks. Through unified APIs and protocol specifications, our data preprocessing can be realized through multiple means including our self-developed ETL (extract, transform, load) tools. We utilize the same storage method for data aggregated to our cloud hospital platforms as for the original raw data to retain their recoverability, so that such data can be adapted to different contexts.

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- **Data processing.** Our self-developed ETL tools make visualized data editing possible in data processing, and they can also adapt to various types of raw data processing operations and achieve a variety of cleansing and conversion processes, such as type conversion, and merging and splitting.
- **Quality controls.** To ensure consistency in quality of data sourced from different information systems, we implement ETL functions at the data preprocessing stage to perform preliminary processing and filtering. We have also developed data quality evaluation tools and conduct data cleansing based on the evaluation results.
- **Data analytics and application of AI.** By utilizing AI technology, we conduct data analyzing, data modeling and disease risk predicting and evaluation to assist doctors on our cloud hospital platforms in providing better healthcare services.
- **Smart healthcare products and open healthcare IoT platform.** Leveraging our IoT capabilities, we developed smart healthcare products that cater to various settings for medical institutions, workplaces, communities and households, which improve the efficiency, quality and accessibility of the delivery of healthcare services.
- **Flexible and accurate operational support capabilities.** We formed a multi-tenant, structured and standardized operation support system to provide flexible and accurate service operational support. We enable multiple operational modes and customized visual effects. Meanwhile, we provide precise and flexible operational tools to empower customers.
- **Professional and smart service quality control capabilities.** Based on the requirements of industry standards, service processes and risk control, we have developed professional and smart service quality control capabilities. Through digital signatures and encryption technologies, we provide trusted authentication. We apply AI technology combined with assistance from medical professionals to achieve efficient supervision over service quality.
- **Stable and reliable information security assurance capabilities.** We have implemented comprehensive and strict data security and privacy procedures to ensure the security, confidentiality, integrity, stability and reliability of data on our cloud hospital platform. For details, see “– Data Privacy and Protection.”

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Research and Development

We invest substantial resources in research and development to improve our technology, develop new solutions that are complementary to existing ones and find ways to better support our customers. Our research and development activities aim to optimize the functionalities of our solutions. The details of our major research and development activities are as follows:

- ***Improve the functionality of cloud hospital platforms.*** We continually optimize and refine the service functions of our cloud hospital platforms, utilizing technologies such as mobile Internet, IoT and AI. We conduct in-depth analysis to explore and understand the specific needs of users, and strive to improve their experience via integration of technology.
- ***Enhance performance of information infrastructure.*** We continue to enhance the security, operational performance and user-friendliness of the non-functional infrastructure of our business information systems. We have adopted dynamic management of standardized and customized modules that are utilized to establish the respective information infrastructure for our business lines, and continually upgrade and enrich the standardized modules to maximize synergy and connectivity among different business lines.
- ***Research in machine learning, AI and blockchain technology.*** We have increased our research efforts in machine learning, AI and blockchain technology, to aid us in further developing the information infrastructure of our business and enhancing the speed and flexibility of information processing in our information networks.
- ***Strengthen data safeguarding capabilities.*** In response to data privacy and protection requirements by local governments and the relevant laws and regulations, we continually develop and upgrade the data safeguarding capabilities of our information infrastructure. In particular, we continue to work on the best solutions in terms of version management of platforms, database sharing and big data analysis.

As of December 31, 2022, our research and development team had 210 personnel, with on average ten years of working experience in relevant fields. As of the same date, our research and development team comprised (i) 116 software development personnel with on average ten years of working experience, (ii) 36 testing and maintenance personnel with on average 12 years of working experience, and (iii) 58 other research and development personnel with on average 12 years of working experience. In 2020, 2021 and 2022, our research and development expenses were RMB66.8 million, RMB86.4 million and RMB79.0 million, respectively. For a breakdown of our research and development expenses, see “Financial Information – Consolidated Statements of Comprehensive Income – Research and Development Expenses.” We believe maintaining a dedicated and stable team of talents in research and development is crucial to the enhancement of our technology capabilities and our solutions. During the Track Record Period, the majority of our research and development expenses were attributable to employee benefits expenses and share-based compensation expenses.

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COMPETITION

The following table sets forth our major types of competitors by business line:

Business line	Major types of competitors
Cloud hospital platform services	Healthcare IT solution providers, such as traditional IT solution companies with business footprint in the healthcare industry as well as specialized health-tech companies
Internet medical services	Digital medical services companies, such as online medical appointment-making and consultation platform companies and online prescription processing platform companies
Health management services	Health management service companies, such as franchises of private health check-up companies and the health check-up departments of public hospitals
Smart healthcare products	Digital healthcare product companies, such as medical equipment companies and traditional IoT product companies with healthcare offering

We anticipate that the digital healthcare services market will continue to grow in response to rapid technological changes and innovation, rising health awareness, evolving industry standards and shifting customer preferences. We must continually innovate to remain competitive.

AWARDS AND RECOGNITIONS

During the Track Record Period, we had received awards and recognitions for the quality of our services and products. Representative awards and recognitions are set forth below:

Award/Recognition	Award Year	Awarding Institution/Authority
The first batch of online and offline integrated digital business enterprises of the Ministry of Commerce (商務部首批線上線下融合數字商務企業).	2020	Ministry of Commerce (商務部)
Excellent Software Products of 2020 (2020年度優秀軟件產品)	2020	China Software Industry Association (中國軟件行業協會)
2020 China Health Industry Innovation Award-Best Smart Medical Innovation Enterprise (2020中國大健康產業創新獎—最佳智慧醫療創新企業).	2020	Tianfu Talkative Organizing Committee (天府健談組委會)
Liaoning Medical and Health Big Data Engineering Research Center (遼寧省醫療健康大數據工程研究中心).	2019	Liaoning Provincial Development and Reform Commission (遼寧省發改委)
China Smart Healthcare Innovation Achievement Award (中國智慧健康醫療創新成果獎)	2019	Chinese Society of Health Information and Healthcare Big Data (中國衛生信息與健康醫療大數據學會)

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Award/Recognition	Award Year	Awarding Institution/Authority
New Type Information Consumption Demonstration Project of the Ministry of Industry and Information Technology (工信部新型信息消費示範項目)	2018	Ministry of Industry and Information Technology (工業和信息化部)
Smart Health Care Products and Services Promotion Catalog (《智慧健康養老產品及服務推廣目錄》).	2018	Ministry of Industry and Information Technology, Ministry of Civil Affairs, National Health Commission (工業和信息化部、民政部、國家衛生健康委員會)
eHealth Champion Prize	2017	World Summit on the Information Society (信息社會世界峰會)

SALES AND MARKETING

We believe that the most effective form of marketing is to continually enhance our user satisfaction, which can generate word-of-mouth referrals and encourage the utilization of our digital healthcare services. Particularly, our sales and marketing strategy is designed to enhance our brand recognition, promote our new and existing solutions, maintain our relationship with business partners and increase user traffic to our platforms.

Our sales and marketing team mainly focuses on expanding our customer base, and increasing customers' satisfaction with our solutions, as well as enhancing business operational efficiency.

We actively participate in large-scale marketing conferences and hold large-scale forums and seminars to expand our brand influence in the medical field. Our marketing campaigns are focused on online live broadcasts, health-related websites, frequently visited Internet portals, and social media to increase our exposure and develop potential customers. We also operate a comprehensive public relationship management system to enhance brand image by cooperating with media, properly handling complaints, and adopting crisis management. In addition, we offer business and product planning, and market operation services to our customers. As of December 31, 2022, our sales and marketing and operational support team comprised 380 experienced professionals.

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OUR CUSTOMERS

Our customers consist of individuals and institutions. As of December 31, 2020, 2021 and 2022, there were approximately 38.2 million, 43.7 million and 46.7 million registered users on our cloud hospital platforms, respectively. Meanwhile, our institutional customers include government agencies, medical institutions, insurers and corporations. The following table sets forth our major types of customers by business line:

<u>Business line</u>	<u>Major types of customers</u>
Cloud hospital platform services	Local governments, medical institutions and insurers
Internet medical services	Individuals, medical institutions and corporations
Health management services	Corporations and individuals
Smart healthcare products.	Local governments, medical institutions, insurers, corporations and individuals

For each year during the Track Record Period, our five largest customers accounted for 16.2%, 14.3% and 20.1% of our total revenue, respectively. For each year during the Track Record Period, our largest customer contributed 5.0%, 3.3% and 11.2% of our total revenue, respectively. Our five largest customers for each year during the Track Record Period, all of which are Independent Third Parties, primarily included local governments and medical institutions. We have been working with these customers for a period ranging from one to ten years, and the credit terms given to such customers were determined on a case-by-case basis and were typically within 90 days or otherwise based on the acceptance of our deliverables. Payments are generally made via bank transfers. For related risks, see "Risk Factors – Risks Relating to Our Business and Industry – We rely on business relationships with major customers and suppliers." In addition, during the Track Record Period, a major amount of our revenue from the cloud hospital platform services and smart healthcare products segment was from public sector customers. We focus on, and expect to continue to focus on, these customers in these segments. Accordingly, we are, and expect to continue to be, exposed to the risk of any payment delay from them. See "Risk Factors – Risks Relating to Our Business and Industry – We are subject to credit risk in respect of our trade receivables" and "Financial Information – Description of Certain Components of Our Consolidated Statements of Financial Position – Trade Receivables."

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The following table sets forth some details of our five largest customers for each year during the Track Record Period:

Customer ⁽¹⁾	Revenue	% of total revenue	Principal place of business	Customer background	Registered capital (unless otherwise indicated)
	<i>(RMB in millions)</i>				<i>(RMB in millions)</i>
Year ended					
December 31, 2020					
Customer A	25.2	5.0	Italy	A company established in Italy, which engages in the distribution of medical devices	EUR80.0 million (business scale of 2020)
Customer B	23.9	4.8	Liaoning province	A local branch of the PRC health administration	N/A
Customer C	13.4	2.7	Liaoning province	A local branch of the PRC health administration	N/A
Customer D	9.9	2.0	Sichuan province	A branch of a PRC company in the broadcasting business	N/A
Customer E	8.8	1.8	Liaoning province	A public hospital	396.4 (paid-in capital)
Total	<u>81.3</u>	<u>16.2</u>			
Year ended					
December 31, 2021					
Customer F	20.5	3.3	Shaanxi province	A public hospital	2,678.4 (paid-in capital)
Customer G	19.8	3.2	Liaoning province	A public hospital	36.3
Customer H	19.2	3.1	Heilongjiang province	A local branch of a state-owned telecommunications company	N/A
Customer I	15.0	2.4	Liaoning province	A public hospital	480.0
Customer E	13.9	2.3	Liaoning province	A public hospital	396.4 (paid-in capital)
Total	<u>88.5</u>	<u>14.3</u>			

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Customer ⁽¹⁾	Revenue	% of total revenue	Principal place of business	Customer background	Registered capital (unless otherwise indicated)
	<i>(RMB in millions)</i>				<i>(RMB in millions)</i>
Year ended					
December 31,					
2022					
Customer J	76.7	11.2	Shanxi province	A public hospital	33.5 (paid-in capital)
Customer F	20.8	3.0	Shaanxi province	A public hospital	2,678.4 (paid-in capital)
Customer E	15.4	2.2	Liaoning province	A public hospital	396.4 (paid-in capital)
Customer K	15.0	2.2	Shanghai	A company established in Shanghai, which engages in financial leasing	2,500.0
Customer L	10.4	1.5	Shanxi province	A public hospital	2,678.4 (paid-in capital)
Total	<u>138.4</u>	<u>20.1</u>			

⁽¹⁾ The identities of our top five customers are presented in code names as of the Latest Practicable Date. As we had not acquired consent from these customers as of the Latest Practicable Date, unauthorized disclosure may cause potential disputes.

None of our Directors and, to the knowledge of our Directors, their respective close associates or any Shareholders holding more than 5% of our issued share capital has any interests in any of our five largest customers as of the Latest Practicable Date, except that a Shareholder holding more than 5% of our issued share capital as an insurance company may invest in A share-listed companies including Neusoft Corporation or otherwise disclosed in “History, Reorganization and Corporate Structure – Corporate Structure.”

Customer Support and Services

We have a team of professional customer support personnel, and we are committed to providing convenient, efficient and quality service experience for our customers.

For our smart healthcare products, in particular, we analyze feedback from our customers and handle any customer complaints with respect to the quality of such products. Quality complaints, both verbal and written, are documented and investigated pursuant to standard procedures. We have also dedicated employees responsible for responding to complaint calls. If any product falls short of the relevant quality standards, we will replace the defective product at our own cost. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product returns or product liability claims.

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Project Tender and Bidding

During the Track Record Period, some of our customers in the cloud hospital platform services segment selected their suppliers through a tender process. These customers, mainly public hospitals and local governments, may publish information on the tender process on their official websites or local public tender websites. Published information typically includes details of the tender projects, the procurement cycle, basic conditions that the suppliers must meet and certain technical and product requirements. Throughout the tender process, we strictly follow the applicable laws and regulations as well as the requirements of the customers. The customers may invite experts in relevant fields to review and evaluate the tendering suppliers. The identity of winners will usually be published on the customers’ official websites or local public tender websites. If we win the tender, we will enter into project agreements with the customers and duly discharge our obligations under these agreements. In 2020, 2021 and 2022, our tender success rate with local governments to provide cloud hospital platform services was 83%, 83% and 89%, respectively, and during the same years, that with medical institutions was 81%, 86% and 97%, respectively.

OUR SUPPLIERS

The following table sets forth our major types of suppliers by business line:

Business line	Major types of suppliers
Cloud hospital platform services	IDC service providers, providers of terminal software and hardware equipment, system integration service providers and network service providers
Internet medical services	Medical professionals and pharmaceutical companies
Health management services	Medical equipment manufacturers, test kit producers and medical specimen delivery companies
Smart healthcare products.	Medical equipment manufacturers

For each year during the Track Record Period, purchases from our five largest suppliers accounted for 41.2%, 33.5% and 34.0%, respectively, of our total purchases. For each year during the Track Record Period, purchases from our single largest supplier accounted for 15.7%, 14.3% and 15.9%, respectively, of our total purchases. In 2020, 2021 and 2022, Neusoft Corporation was among our five largest suppliers, accounting for 4.0%, 3.4% and 2.7% of our total purchases, respectively. Our other five largest suppliers for each year during the Track Record Period, all of which are Independent Third Parties, primarily included medical equipment manufacturers and a pharmaceutical company. We have been working with these suppliers for a period of up to nine years, and we typically made payments via bank transfers within 60 days after receipt of invoice or based on the completion of milestones of the relevant project schedules. For related risks, see “Risk Factors – Risks Relating to Our Business and Industry – We rely on business relationships with major customers and suppliers.”

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The following table sets forth some details of our five largest suppliers for each year during the Track Record Period:

Supplier ⁽¹⁾	Purchase amount	% of total purchase amount	Products/ services received by us	Principal place of business	Supplier background	Registered capital
	<i>(RMB in millions)</i>					<i>(RMB in millions)</i>
Year ended						
December 31,						
2020						
Supplier A	49.6	15.7	Medical devices	Hebei province	A limited liability company established in the PRC, which engages in the manufacture and sales of medical devices	401.8
Supplier B	39.5	12.5	Pharmaceuticals	Zhejiang province	A limited liability company established in the PRC, which engages in the sales of pharmaceuticals	47.0
Supplier C	14.9	4.7	Medical devices	Hebei province	A limited liability company established in the PRC, which engages in the manufacture and sales of medical devices	54.2
Supplier D	13.6	4.3	Medical software development services and hardware	Liaoning province	A limited liability company established in the PRC, which engages in the development of software and hardware	3.0
Neusoft Corporation	12.7	4.0	Lease and software systems	Liaoning province	A large-scale service provider in healthcare solutions and data technology in the PRC	1,242.3
Total	<u>130.3</u>	<u>41.2</u>				

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Supplier⁽¹⁾	Purchase amount	% of total purchase amount	Products/ service received by us	Principal place of business	Supplier background	Registered capital
	<i>(RMB in millions)</i>					<i>(RMB in millions)</i>
Year ended December 31, 2021						
Supplier B	65.2	14.3	Pharmaceuticals	Zhejiang province	A limited liability company established in the PRC, which engages in the sales of pharmaceuticals	47.0
Supplier E	37.2	8.2	Medical devices	Liaoning province	A limited liability company established in the PRC, which engages in the sales of medical devices	2.0
Supplier A	19.9	4.4	Medical devices	Hebei province	A limited liability company established in the PRC, which engages in the manufacture and sales of medical devices	401.8
Neusoft Corporation	15.7	3.4	Lease and software systems	Liaoning province	A large-scale service provider in healthcare solutions and data technology in the PRC	1,242.3
Supplier F	14.3	3.2	Medical devices	Guangdong province	A limited liability company established in the PRC, which engages in the sales of medical devices	62.5
Total	152.2	33.5				

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Supplier ⁽¹⁾	Purchase amount	% of total purchase amount	Products/ service received by us	Principal place of business	Supplier background	Registered capital
	<i>(RMB in millions)</i>					<i>(RMB in millions)</i>
Year ended December 31, 2022						
Supplier B	83.8	15.9	Pharmaceuticals	Zhejiang province	A limited liability company established in the PRC, which engages in the sales of pharmaceuticals	47.0
Supplier G	29.7	5.6	Medical devices	Shanxi province	A limited liability company established in the PRC, which engages in the manufacture and sales of medical devices	15.0
Supplier H	26.2	5.0	Medical devices	Jiangsu province	A limited liability company established in the PRC, which engages in the sales of medical devices	10.0
Supplier E	25.1	4.8	Medical devices	Liaoning province	A limited liability company established in the PRC, which engages in the sales of medical devices	2.0
Neusoft Corporation	14.3	2.7	Lease and software systems	Liaoning province	A large-scale service provider in healthcare solutions and data technology in the PRC	1,242.3
Total	<u>179.1</u>	<u>34.0</u>				

⁽¹⁾ The identities of our top five suppliers are presented in code names as of the Latest Practicable Date. As we had not acquired consent from these suppliers as of the Latest Practicable Date, unauthorized disclosure may cause potential disputes.

None of our Directors and, to the knowledge of our Directors, their respective close associates or any Shareholders holding more than 5% of our issued share capital has any interests in any of our five largest suppliers as of the Latest Practicable Date, except that a Shareholder holding more than 5% of our issued share capital as an insurance company may invest in A share-listed companies including Neusoft Corporation, or otherwise disclosed in “History, Reorganization and Corporate Structure – Corporate Structure.”

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Manufacturing

With respect to our All-in-One Healthcare Devices as part of our smart healthcare products, we purchase raw materials, install our software systems and assemble them into goods for sale. Our manufacturing processes are in compliance with ISO 13485, the quality system regulations mandated by applicable rules and regulations for medical devices, and NMPA regulatory requirements on medical devices as we hold the relevant registration certificates for the medical devices and production permits for manufacturing medical devices issued by local branches of the NMPA.

Raw Materials and Inventory

For the production of our All-in-One Healthcare Devices, our principal raw materials are all-in-one machines and software systems. The procurement of our raw materials is driven by demand for our smart healthcare products and depends on supply cycles. We primarily use a limited number of quality suppliers for our principal raw materials. As of the Latest Practicable Date, we had two major suppliers for our principal raw materials in China, from which we purchased on an as-needed basis.

Our raw materials are typically not subject to expiration, except for perishable test kits such as blood glucose test strips with a 24-month effective period. We store our inventories primarily in our warehouses in Shenyang, China. Our products are sold on a first-in-first-out basis. To minimize the risk of building up inventory, we regularly review our inventory levels. We also carry out physical stock counts and stock inspections from time to time to identify damaged products or obsolete or about-to-expire products, which are disposed of or for which provisions are made. Our procurement department manages our inventory levels by monitoring in real time our manufacturers' production activities and our sales orders, and also taking into consideration any emerging trends through discussions with our sales and marketing department. We develop and update production and inventory plans based on demand from our sales contracts, and place orders with manufacturers or raw material suppliers for products. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage of inventory.

Quality Control

We have a quality control team that focuses on the establishment, implementation and maintenance of our quality control system, as well as monitoring the development, production, transportation and inventory management in real time to ensure compliance with the applicable regulatory and industry requirements.

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Our quality control team and our warehouse personnel take responsibility and collaborate to help ensure the quality of our inventory of raw materials and products. The quality control team is in charge of inspecting and examining raw materials and products before they are accepted as inventory. The warehouse personnel are responsible for recording the inventory to ensure the traceability of our raw materials and products, the regular storage, maintenance and inspection of the inventory and warehouse maintenance. Designated warehouse personnel inspect the inventory on a regular basis according to the required storage and maintenance conditions of relevant inventory.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, 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 labor and safety laws and regulations. We evaluate the risks involved in the workplace and operations, and take measures to eliminate or reduce such risks. For example, in order to effectively prevent, timely contain and reduce the harm against employees and workplace by the COVID-19 pandemic, we established an emergency team in charge of preparation and management in aspects of human resources, technology, supplies and equipment in times of emergency. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with health, safety or environmental regulations.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We continually pay close attention to the work of environmental, social and corporate governance (“ESG”) and the integration of such work into our daily operations. We acknowledge our responsibilities on environmental protection and social responsibilities and believe that ESG is essential to our sustainable business development. We are in the process of establishing an ESG policy (the “ESG Policy”) incorporating the following aspects: (i) the appropriate risk governance on ESG matters, including environmental, social and climate-related risks; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governance structure; (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators (“KPIs”), the relevant measurements and mitigating measures. Our Board will have overall responsibility for reviewing, approving and adopting the ESG Policy, targets and strategies of our Group, overseeing the implementation of the ESG Policy, revising the ESG overall strategies as appropriate and managing other material ESG-related matters.

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We are in the process of establishing an ESG working group at the management level. Our ESG working group is expected to be led by our CEO. Our ESG working group is expected to meet and report to the Board semiannually. Under the supervision of our Board, the ESG working group is tasked with the following:

- formulating, reviewing and implementing the ESG policies, the short, medium and long-term ESG targets and strategies to be approved by the Board;
- integrating the ESG Policy with into daily business operation;
- identifying, assessing and reporting environmental and social risks and opportunities to the Board;
- preparing the annual ESG reports to be reviewed by the Board;
- monitoring the ESG performance of our subsidiaries regularly;
- supervising and reviewing our corporate social responsibility and sustainable development policies, practices, frameworks and management guidelines, and providing suggestions for improvement; and
- reviewing our public announcements, disclosures and releases on our corporate social responsibility and sustainable development performance.

Understanding stakeholder views and opinions is crucial to our management on environmental and social issues. Therefore, we plan to set up a range of communication channels for engaging stakeholders and thus facilitating mutual communications. As a result, our Directors will be able to review issues that are material to the stakeholders, monitor the impacts of our environmental and social performance, and make business decisions from a more comprehensive perspective.

Strategies in Addressing ESG-related Risks

We plan to conduct a risk assessment once a year to cover the current and potential ESG-related risks faced by our Group, including, but not limited to, the risks arising from ESG aspects and strategic risk around disruptive forces such as climate change. Our Board is expected to assess the overall risks and review our Group's existing strategy, targets and internal controls, and necessary improvement shall be implemented to mitigate the relevant risks. Our Board and the ESG working group shall maintain oversight of our Group's approach to risk management, including climate-related risks, and risks shall be monitored as part of the standard operating processes to ensure the appropriate mitigations are in place as part of regular management reviews. If risk and opportunities are considered to be material, we shall make reference to them in the course of the strategy and financial planning process. Upon periodic review of ESG-related risks, and our Group's performance in addressing the risks, we shall revise and adjust the ESG strategies as appropriate.

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ESG Policy

We believe that our future growth is based on the integration of social values into our business. We are committed to working on the environmental, health and safety, employment and community issues that our operations affect, and to working with our stakeholders to promote sustainable development in the industry in which we operate. We undertake all reasonable efforts to ensure compliance with all applicable national and local safety, health, labor and environmental obligations.

In particular, we endeavor to apply all the following measures as part of our environmental policies: (i) continuously design and implement effective and measurable energy management measures; (ii) promote recycling schemes, seek alternative ways of disposing of and reducing waste in environmentally friendly ways, and re-use materials whenever possible; and (iii) review and seek continual improvement on the implementation of environmental management, among other things.

We intend to implement the following measures as part of our social policies: (i) provide equal opportunities in all aspects of employment, including gender, race, nationality, marital status, disability, religious belief, sexual orientation or any other characteristic protected under the law; (ii) encourage our employees to constantly improve their skills and abilities and develop competencies through the taking up of both internal and external training programs; (iii) offer promotion and job opportunities to existing employees and suitable candidates, with selection being based on assessment of work performance of all individuals on merit, qualifications and abilities, and suitability for the position; (iv) protect and respect intellectual property; (v) prohibit all employees from offering or providing corrupt payments and other advantages to or accepting the same from private persons and entities; and (vi) prohibit all employees from giving, promising, offering, or authorizing payment of anything of value to any government official to obtain or retain business, to secure some other improper advantage, or to improperly influence a government official's actions.

Social Responsibility

We are committed to social responsibility and high standards of corporate governance.

We pay close attention to fulfilling our social responsibilities. In particular, we empower participants in the healthcare system with our solutions to address the pain points present in the PRC healthcare services industry, namely scarcity and uneven distribution of quality medical resources, poor healthcare service experience for patients and potential deficit of social medical insurance. For example, our cloud hospital platforms help local governments build healthier cities that allow equitable access to quality medical resources by residents while increasing the efficiency of healthcare spending. We also empower medical institutions to provide convenient and diversified services to patients. For details, see “– Our Value Propositions.” In particular, during the COVID-19 outbreaks, we proactively fulfilled our social responsibilities by launching fever clinic online consultation services to the public, which enabled medical professionals within our platform networks to provide convenient and free of charge online consultations to residents in relation to COVID-19. Meanwhile, we are committed to protecting patients' personal information and privacy. We have established and implemented strict policies and mechanisms on data aggregation and processing. For details, see “– Data Privacy and Protection.”

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In order to mitigate and manage potential social risks and impacts, we plan to formulate a series of measures and policies:

In terms of equal opportunities, we believe our employees are an integral part of our business and we seek to provide equal opportunities to our employees in respect of recruitment, training and development, job advancement, and compensation and benefits. Our employees shall not be discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, color, sexual orientation, age, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws and regulations. We value cultural diversity in the workplace, and shall recruit employees across a wide range of ages, genders and ethnicities. We will strictly abide by the relevant laws and regulations, including, but not limited to, the Labor Law of the PRC and the Labor Contract Law of the PRC.

In terms of development and training, we acknowledge the importance of providing opportunities for development and training to our employees. It is not only essential to the career development of our employees but also ensures and improves the quality of our service offerings. Our training programs are customized to our business needs, equipping our employees with practical knowledge and skills.

In terms of compensation and benefits, the remuneration package for our employees generally includes base salary and bonuses. We determine employee base salary based on factors such as titles, qualifications and experience. The bonus is primarily subject to our regular internal review. We also provide our employees with paid time off, including public holidays, marital leaves, maternity leaves, compassionate leaves and annual leaves according to labor laws and regulations. Employees who meet certain criteria will have their salary raised. We offer our employees a competitive remuneration package which takes into account both external and internal salary benchmarks. Our remuneration structure is annually reviewed so as to ensure that competitive remuneration is offered to our employees.

In terms of prevention of corruption and fraudulent activities, we value business integrity and prohibit fraud, bribery and other corrupt practices, and have designed anti-bribery compliance risk control measures as part of our regulatory compliance management system. We require our employees to conduct business legally and ethically. In addition, we have set up an anti-bribery reporting hotline and all reports received are required to be transferred to an independent department for further investigation.

Environmental Protection

Our business operations are subject to the relevant environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed "Regulatory Overview – Regulations on Environmental Protection Related to Medical Institutions" in this document. Given the nature of our business, we believe that our operational activities do not significantly pose negative impact on the environment and we are not aware of any material environmental liability risk or compliance costs arising during the Track Record Period and up to the Latest Practicable Date. Additionally, we do not expect to incur significant costs for compliance with applicable environmental protection rules and regulations in the future.

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Measures to Reduce Our Environmental Footprint

As a supporter of environmental protection, we shall comply with all applicable environmental laws and regulations and continuously try to reduce our environmental footprint. We strictly implement classification management for treating medical waste. According to the Medical Waste Classification Catalogue (《醫療廢物分類目錄》) promulgated by the NHC, which helps to standardize storage, collection, handover, transportation and recycling and disposal of medical waste for the safe and effective management of such waste. Medical waste generally can be classified into infectious waste, damaged waste, chemical waste, pathological waste and pharmaceutical waste. Improper management of medical waste poses risks to the environment and safety and health of our staff, patients and local communities. For the year ended December 31, 2022, the total medical waste and average medical waste per service of our self-owned medical institutions was 37.4 tons and 0.08 kilograms, respectively. Taking 2022 as the baseline year, we target to reduce the average medical waste per service of our self-owned medical institutions by 2% to 5% by 2028. We have designated specialized personnel for supervising medical waste transportation and treatment. We also plan to continually conduct training on legal expertise and professional techniques, safety protection and emergency response for employees. For non-hazardous waste, we intend to adopt various measures centered on sustainable waste management, and actively respond to the national initiatives and requirements for the waste classification system by encouraging employees to reduce, recycle, reuse and classify such waste. In addition, we plan to constantly raise the awareness of environmental protection among our employees, and take account of the resources and materials we use in daily operations. We also intend to continually improve our waste management procedures and promote recycling scheme, seek alternative ways of disposing of and reducing waste in environment friendly ways and in accordance with relevant rules and regulations, and re-use materials whenever possible.

Concern about Our Scope 3 Emissions

Emissions from suppliers are counted as scope 3 emissions in ESG disclosures. Our suppliers include medical professionals, pharmaceutical companies, and medical equipment manufacturers. As scope 3 emissions tend to be reported voluntarily to avoid double counting, our impact on climate change can be heavily underestimated. To mitigate our impact through our suppliers, the following actions are expected to be taken in the future:

- Actively research the carbon footprint of our suppliers. When screening new service providers in the future, low carbon will be our top priority criteria;
- Try to calculate the footprint of our suppliers and remind them to manage their footprint; and
- Upgrade our technology infrastructure to produce a smaller environmental footprint.

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Environmental Performance

We are committed to the coexistence of corporate values and environmental protection. We promptly promote the green management philosophy and spread the concept of green development. As of December 31, 2022, we had a chain of ten self-owned medical institutions with an average gross floor area of 3,000 square meters and an average of 50 to 70 employees in nine cities. We believe that the business operation of our self-owned medical institutions did not have any significant impact on the environment and natural resources during the Track Record Period and up to the Latest Practicable Date.

The following tables set forth the water and electricity consumption of our self-owned medical institutions in 2022:

	Year ended December 31, 2022
Water consumption (m ³)	14,142.0
Electricity consumption (MWh)	2,291.5

Targets

Strategies	Approaches	Targets for the next five years
Water consumption reduction	Reduce water consumption by improving water-saving methods in our operations	Reduce water consumption by 5% of our self-owned medical institutions based on consumption in 2022
Electricity consumption reduction	Reduce electricity consumption by improving electricity-saving methods in our operations	Reduce electricity consumption by 5% of our self-owned medical institutions based on consumption in 2022

Plans and Measures to Achieve the Consumption Reduction

We intend to further reduce our water and electricity consumption in the foreseeable future through various workspace policies and measures. We expect to continue to promote green and low-carbon self-owned medical institutions by implementing green environment concepts, vigorously promoting online offices and implementing the transformation to an intelligent operational model. Meanwhile, we are also committed to increasing environmental protection and energy-saving design in our self-owned medical institutions.

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In addition, we intend to implement the plan of water and electricity consumption reduction through the following measures: (i) establishing policy for energy saving and assigning specific personnel to implement energy saving policy; (ii) conducting regular water pipe leak testing to avoid potential water wastage; (iii) arranging workers to fix dripping taps in a timely manner; (iv) putting up water saving posters and reminders to remind everyone in the self-owned medical institutions to turn off the faucet completely after use; and (v) arranging a security team to turn off lights according to set schedules.

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 the Latest Practicable Date, we had registered 35 and applied for 13 patents, and registered 273 and applied for four trademarks in the PRC. As of the same date, we had registered 123 software copyrights, nine art copyrights and 20 domain names in China. As of the same date, we have applied for four trademarks in Hong Kong. See “Appendix IV – Statutory and General Information – B. Further Information About Our Business – 2. Intellectual Property Rights.”

We had not been subject to any material infringement of our intellectual property rights or allegations of infringement by third parties during the Track Record Period and up to the Latest Practicable Date.

EMPLOYEES

We believe that our professional workforce is the foundation of our long-term growth. The following table sets forth a breakdown of our employees by business function as of December 31, 2022:

	Number of Employees	Percentage
Management and administration	181	15.0%
Sales and marketing and operational support	380	32.0%
Research and development	210	18.0%
Health management	423	35.0%
Total	1,194	100.0%

As of December 31, 2022, substantially all of our employees were in China. As of the same date, 675 employees had bachelor’s degrees or above, accounting for 56.5% of our total employees.

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We are committed to establishing competitive and fair remuneration. In order to effectively motivate our employees, we continually refine our remuneration and incentive policies through market research. We conduct performance evaluation for our employees semiannually to provide feedback on their performance. Compensation for our employees typically consists of basic salary and a performance-based bonus.

We provide social insurance plans and housing provident funds in accordance with applicable PRC laws and regulations to our employees. We pay great attention to our employees' welfare, and continually improve our welfare system. We offer employees additional benefits such as annual leave, stipend, supplementary medical insurance, annuity, health examinations and medical insurance for family members, among other things.

During the Track Record Period and up to the Latest Practicable Date, we did not have any strikes, protests or other material labor conflicts that may materially impair our business and image.

INSURANCE

In relation to online consultation services, we carry professional liability insurance covering a maximum of RMB300,000 per patient per claim for doctors rendering the services. In relation to Internet home care services for nurses rendering the services, we carry professional liability insurance covering a maximum of RMB350,000 per patient per claim. We annually renew our professional liability insurance.

We do not maintain any business interruption insurance or product liability insurance, which are not mandatory under PRC laws. We do not maintain key-man life insurance, insurance policies covering damages to our network infrastructures or information technology systems or any insurance policies for our properties. We also do not maintain insurance policies against risks relating to the Contractual Arrangements.

During the Track Record Period and up to the Latest Practicable Date, we did not make any material insurance claims in relation to our business.

PROPERTIES

Our corporate headquarter is located at Room 2070, Building 2, Lane 1800, Xinyang Road Pilot Free Trade Zone Lin-Gang Special Area Shanghai, China. As of the Latest Practicable Date, we leased 27 properties in the PRC, with an aggregate gross floor area of approximately 34,883 square meters. Our leased properties in the PRC are primarily used for business and office purposes. The relevant lease agreements have lease expiration dates ranging from 2023 to 2040. Our landlords had obtained the relevant property ownership certificates for our leased properties in the PRC. As of the Latest Practicable Date, we had not filed all of our lease agreements for the properties we leased with the local housing administration authorities as required under PRC laws and regulations. As advised by our PRC Legal Advisor, failure to register such lease agreements with the relevant PRC government authorities does not affect the validity and enforceability of the relevant lease agreements, but

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the relevant PRC government authorities may order us or the lessors to, within a prescribed time limit, register the lease agreements. Failure to do so within the time limit may subject us to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease, and from RMB27,000 to RMB270,000 for all non-registered leases in aggregate. For risks relating to our leased properties, see "Risk Factors – Risks Relating to Our Business and Industry – We may face penalties for the non-registration of our lease agreements in China, and challenges from third parties or government authorities of our certain leased properties in China may force us to relocate and thus incur additional cost." We did not own any properties in the PRC.

As of December 31, 2022, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

PERMITS, LICENSES AND APPROVALS

During the Track Record Period and as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to our operations in China, except as stated below. We renew all such permits and licenses from time to time to comply with the relevant laws and regulations. Our PRC Legal Advisor has advised us that, to their best knowledge, there is no material legal impediment to renewing such permits or licenses, as long as we comply with the relevant legal requirements and provided that we take all necessary steps and submit the relevant applications in accordance with the requirements and schedules prescribed by the applicable laws and regulations of the PRC.

Xikang Information provides Internet Pharmaceutical Transaction Services as a third-party platform, offering certain services, such as deal matching and information display to enable two or more parties to carry out Internet pharmaceutical transaction activities on such platform. According to Interim Provisions on the Examination and Approval of Internet Pharmaceutical Transaction Services (《互聯網藥品交易服務審批暫行規定》), promulgated by the CFDA on September 29, 2005 and effective since December 1, 2005, enterprises engaging in Internet pharmaceutical transaction services shall obtain the Qualification Certificate for Providing Internet Pharmaceutical Transaction Services (互聯網藥品交易服務機構資格證書). However, pursuant to relevant decisions issued by the State Counsel, the administrative approval process to approve a new Qualification Certificates for Providing Internet Pharmaceutical Transaction Services has been cancelled since 2017. According to a telephone consultation conducted by our PRC Legal Advisor and the PRC legal advisor of the Sole Sponsor with the relevant officer of the Beijing Municipal Medical Products Administration (北京市藥品監督管理局), (i) any application for new Qualification Certificate for Providing Internet Pharmaceutical Transaction Services is no longer accepted by Beijing Municipal Medical Products Administration under current regulations; (ii) although Xikang Information does not hold the Qualification Certificate for Providing Internet Pharmaceutical

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Transaction Services, it may provide individual customers and pharmacies with Internet Pharmaceutical Transaction Services as a third-party platform, given that it holds an effective Qualification Certificate for Providing Internet Pharmaceutical Information Services (for-profit services) and has filed a form of third-party platform providing service for online pharmaceutical transactions to the Second Branch of the Beijing Municipal Drug Administration in accordance with the Notice of the Beijing Municipal Drug Administration on Strengthening the Administration of Online Pharmaceutical Transactions during the Pandemic Period (《北京市藥品監督管理局關於加強疫情期間藥品網絡銷售管理工作的通知》)(京藥監發[2021]22號) (“Notice 22”); and (iii) Beijing Municipal Medical Products Administration will not impose any penalties on Xikang Information for its lack of Qualification Certificate for Providing Internet Pharmaceutical Transaction Services.

Moreover, according to the new Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) and the Regulations for the Implementation of the Drug Administration Law (《藥品管理法實施條例》), the administrative measures for Internet pharmaceutical transaction services are to be formulated by the NMPA together with other relevant departments under the State Council. According to a telephone consultation conducted by our PRC Legal Advisor and the PRC legal advisor of the Sole Sponsor with the relevant officer of the Beijing Municipal Medical Products Administration (北京市藥品監督管理局), there are no detailed rules yet promulgated on Internet pharmaceutical transaction platform services either by the state government authorities or Beijing government authorities to clarify the qualifications that shall be obtained by third-party platforms engaging in online pharmaceutical transaction services, except for the Drug Administrative Law of the PRC and the Notice 22. Our PRC Legal Advisor has confirmed that the officer consulted from the Beijing Municipal Medical Products Administration (北京市藥品監督管理局) is competent and can represent the Beijing Municipal Medical Products Administration (北京市藥品監督管理局) to provide the above confirmations regarding the Qualification Certificate for Providing Internet Pharmaceutical Transaction Services and relevant laws and regulations.

Based on the above, there is currently no access for Xikang Information to apply for the Qualification Certificate for Providing Internet Pharmaceutical Transaction Services and therefore Xikang Information does not hold such certificate. Nevertheless, Xikang Information may continue to provide Internet Pharmaceutical Transaction Services as a third-party platform. Once any specific measures for online pharmaceutical transaction services is promulgated, we will timely apply for applicable licenses or permits for online pharmaceutical transaction services in accordance with such measures, if applicable.

We have established regulatory compliance management policies stipulating internal control measures in response to changes in laws and regulations. We have appointed dedicated compliance personnel to maintain close communications with external supervisory authorities to keep track of the latest developments in laws and regulations, as well as the understanding and implementation of relevant laws and regulations. In addition, our compliance personnel closely monitor the application and renewal of licenses, approvals and permits in a timely manner. Under their supervision, we shall prepare application materials and arrange submissions to the relevant regulatory authorities.

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

Entity	Name of the License, Approval and Permit	Expiry Date
Beijing Neusoft Xikang Information Technology Co., Ltd. (北京東軟熙康信息技術有限公司)	Permit for Operation of Value-Added Telecommunication Business (增值電信業務經營許可證(ICP證))	October 21, 2025
Beijing Neusoft Xikang Information Technology Co., Ltd. (北京東軟熙康信息技術有限公司)	Permit for Operation of Value-Added Telecommunication Business (增值電信業務經營許可證(EDI證))	April 27, 2026
Beijing Neusoft Xikang Information Technology Co., Ltd. (北京東軟熙康信息技術有限公司)	Internet Drug Information Service Qualification Certificate (互聯網藥品信息服務資格證書)	November 6, 2023
Neusoft Xikang Health Technology Co., Ltd. (東軟熙康健康科技有限公司)	High-Tech Enterprise Certification (高新技術企業證書)	November 15, 2025
Neusoft Xikang Health Technology Co., Ltd. (東軟熙康健康科技有限公司)	Recordation Certificate for Business Activities Involving Class II Medical Devices (第二類醫療器械經營備案許可憑證)	December 7, 2025
Neusoft Xikang Health Technology Co., Ltd. (東軟熙康健康科技有限公司)	Business License for Medical Devices of Class III Medical Devices (第三類醫療器械經營許可證)	December 7, 2025
Shenyang Neusoft Xikang Medical System Co., Ltd. (瀋陽東軟熙康醫療系統有限公司)	Software Enterprise Certificate (軟件企業證書)	August 27, 2023
Shenyang Neusoft Xikang Medical System Co., Ltd. (瀋陽東軟熙康醫療系統有限公司)	Recordation Certificate for Business Activities Involving Class II Medical Devices (第二類醫療器械經營備案許可憑證)	June 9, 2025
Shenyang Neusoft Xikang Medical System Co., Ltd. (瀋陽東軟熙康醫療系統有限公司)	Business License for Medical Devices of Class III Medical Devices (第三類醫療器械經營許可證)	August 2, 2027
Shenyang Neusoft Xikang Medical System Co., Ltd. (瀋陽東軟熙康醫療系統有限公司)	Production and Business Operation License for Medical Devices (醫療器械生產許可證)	July 24, 2027
Ningbo Cloud Hospital Co., Ltd. (寧波雲醫院有限公司).	Recordation Certificate for Business Activities Involving Class II Medical Devices (第二類醫療器械經營備案許可憑證)	April 1, 2024
Neusoft Xikang (Ningbo) Smart Wearable Equipment Co., Ltd. (東軟熙康(寧波)智能可穿戴設備有限公司)	Recordation Certificate for Business Activities Involving Class II Medical Devices (第二類醫療器械經營備案許可憑證)	September 9, 2026
Shenyang Xikang Cloud Hospital Co., Ltd. (瀋陽熙康雲醫院有限公司).	Recordation Certificate for Business Activities Involving Class II Medical Devices (第二類醫療器械經營備案許可憑證)	July 29, 2025

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LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Legal Proceedings

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

Regulatory Compliance

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material 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.

RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE CULTURE

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 continually improving these systems.

We continually improve our internal control system and conduct our business in compliance with our established internal control system. We evaluate the operation of our internal control system routinely, and categorize the potential defects identified in the evaluation into high, medium and low levels based on the impact of the defects and determine the rectification time accordingly.

We have been committed to promoting compliance culture and will adopt policies and procedures on various compliance matters, including the Stock Exchange's requirements on corporate governance and environmental, social and governance matters. Our Board will be collectively responsible for our management and operations, including the establishment of such mechanisms. Our Directors will be involved in the formulation of the mechanisms and related policies.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as healthcare quality and safety, operational and regulatory risk management.

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Healthcare Quality and Safety

We focus on providing professional healthcare services, and therefore the quality and safety of the care delivered is the lifeline of our business. We have established comprehensive risk management systems and internal control procedures to minimize medical risks arising from our operations. During the Track Record Period and up to the Latest Practicable Date, we did not receive any written notice or penalty for material non-compliance or violation of healthcare quality and safety laws or regulations.

We have adopted stringent procedures to manage quality and safety of care delivery on our platforms, and designated special medical quality control personnel to oversee matters relating to quality of Internet home care services, medical security management, infection controls, medical oversight, medical incident and medical disputes. We perform stringent screening of the qualifications of medical professionals that provide healthcare services over our platforms, strictly monitor the medical processes, activities and results of the relevant services rendered, and closely manage the medical supplies and waste involved in the provision of our Internet home care services. We also carry professional liability insurance covering the medical professionals serving on our platforms. See “– Insurance.”

We offer pre-job training for new employees to raise their awareness of healthcare quality and safety, and provide continuous training on a periodic or *ad hoc* basis for medical personnel with respect to quality control, healthcare safety, professional ethics and legal awareness. In addition, we have established a healthcare service quality assessment mechanism that supervises all processes of the healthcare activities over our platforms.

For the Internet medical services:

- **Online consultations.** Only doctors who meet the required conditions and obtain our approval are qualified to carry out online consultation services. Suspension of services will be triggered if the doctor receives a certain number of complaints, violates relevant public health laws or regulations, or gets involved in material medical disputes for his or her misconduct.
- **EMR management.** We have established an EMR information security and confidentiality system by setting up different levels of access and modification authority and imposing varied time limits for reviewing and modifying EMRs. No individual or entity shall view or make copies of the EMRs without express authorization.
- **E-prescription management.** E-prescriptions must be issued by registered doctors providing online consultation services, and reviewed and approved by professional and qualified pharmacists. In particular, an e-prescription shall clearly and completely indicate the patients' general condition and clinical diagnosis, as well as the drug names, dosage, specifications and directions. An e-prescription can only be issued for one patient, and shall be properly stored by Internet hospitals for no less than 15 years.

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For Internet home care services, we typically provide training and conduct assessments for nurses before their commencement of services. We also strictly monitor for violative conduct by nurses during the services, and follow up with customers after the services. We retain complete records of the service process. Additionally, we are responsible for handling and coordinating disputes arising from the Internet home care services, and may impose penalties on relevant responsible personnel.

For health management services, we pay special attention to the pre-job training of new employees of all departments at our own medical institutions, and have established an assessment mechanism overseeing the quality of healthcare services rendered and preventing the occurrence of medical accidents. In particular, we monitor closely the departments that are prone to medical accidents, as well as organize investigations to handle adverse medical safety events. Moreover, we hold education sessions and training on medical safety to enhance medical safety awareness. Each department is also responsible for continual data security management in accordance with relevant laws and regulations and ensuring data backup and privacy protection of the information of check-up examinees.

Operational Risk Management

Operational risk refers to the risk of direct or indirect financial loss resulting from incomplete or problematic internal processes, personnel mistakes, IT system failures, or external events. We have established a series of internal procedures to manage such risk.

We take a comprehensive approach with regard to operational risk management, and implement a mechanism with detailed and decentralized responsibilities and clear rewards and punishment systems. Through effective operational risk management, we expect to control operational risks within a reasonable range by identifying, measuring, monitoring and containing operational risks to reduce potential losses. For details regarding our data protection and privacy management, see “– Data Privacy and Protection.”

Compliance Risk Management

Compliance risk refers to the risk of being subject to legal and regulatory sanctions, and the risk of major financial and reputational losses as a result of our failure to comply with relevant laws, regulations, rules and guidelines.

Compliance management refers to the dynamic managing processes of our effective identification and management of compliance risks and proactively preventing the occurrence of risk events. Compliance risk management is the core of our risk management activities, the foundation for effective internal controls, and an important aspect of our corporate culture. We have established a sound compliance risk management framework as part of our comprehensive risk management system, to achieve effective identification and management of compliance risk and ensure that our operations are in compliance with applicable laws and regulations.

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In particular, we have designed anti-bribery compliance risk control measures as part of our regulatory compliance management system. Specifically, our anti-bribery compliance risk control measures set forth the details of anti-bribery risks, including, for example, the detailed introduction of the identification, evaluation, monitoring and reporting of anti-bribery compliance risks. We also provide anti-bribery compliance training to our employees from time to time. Our business code of conduct management policy also stipulates that all commercial bribes are prohibited, including (1) bribes in cash, in kind, or by providing services, giving price concessions or discounts, and incurring various expenses in business activities; and (2) acceptance from or provision to customers of gifts or catering, entertainment, travelling, shopping and other types of consumer entertainment that exceed general business courtesies in business activities. In addition, we have set up an anti-bribery reporting hotline and all reports received are required to be transferred to an independent department for further investigation.

COVID-19 IMPACTS

Since late 2019, a novel strain of coronavirus was detected and emerged globally. In response to the pandemic of the contagious coronavirus disease (“COVID-19”), the Chinese government took a number of actions, which included, among other things, compulsory quarantine arrangements, travel restrictions, remote work arrangements and public activities restrictions. The COVID-19 pandemic also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. Notwithstanding the COVID-19 pandemic, our revenue increased from RMB503.0 million in 2020 to RMB614.3 million in 2021 and further to RMB687.4 million in 2022, mainly attributable to increases in revenue from all of our business segments.

The Chinese government has adjusted its pandemic prevention policies since late 2022, and with the termination of the “dynamic zero-COVID” policy, economic activities have begun to gradually recover and return to normal nationwide since early 2023.

We currently do not anticipate any material deviation from our development and expansion plan due to the COVID-19 pandemic. There can be no assurance, however, that the COVID-19 pandemic will not further escalate or have a material adverse effect on our results of operations, financial position or prospects. For details, see “Risk Factors – Risks Relating to Our Business and Industry – An occurrence of a natural disaster, widespread health pandemic or epidemic or other outbreaks could have a material adverse effect on our business, financial condition and results of operations.”

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The following sets out some details of the COVID-19 impacts on our business by segment during the Track Record Period:

- **Cloud Hospital Platform Services**

The COVID-19 pandemic has accelerated digital transformation across many processes of healthcare among multiple healthcare participants. During the pandemic, an increasing number of medical institutions started participating in digital healthcare platforms and providing online consultations, driving more patients to experience digital medical services. This general trend has contributed to our increased cooperation with local governments and medical institutions, which has led to increased revenue of our cloud hospital platform services growing from RMB78.6 million in 2020 to RMB128.0 million in 2021. Nonetheless, we have experienced delays in business negotiation and engagement confirmation with customers, mostly government and medical institutions, due to travel restrictions and quarantine requirements. The level of delay varies in different cities, depending on the local evolving COVID-19 pandemic policies. In addition, due to stretched financial condition, change in budget priorities or other factors relating to the COVID-19 pandemic, certain pipeline projects were delayed or canceled by our local government and medical institution customers for the cloud hospital platform services. As a result, the revenue of our cloud hospital platform services decreased slightly from RMB128.0 million in 2021 to RMB122.4 million in 2022.

- **Internet Medical Services**

Similarly, in light of the digital transformation in the PRC healthcare system accelerated by the COVID-19 pandemic, the online hospital services of our Internet medical services sub-segment experienced increased service volumes in 2020, particularly, the online consultations that took place over our platforms increased from approximately 512,900 in 2020 to 1,111,400 in 2021 and further increased to 1,674,000 in 2022. In contrast, the remote medical services of this sub-segment increased in 2021 compared to 2020, and in 2022 compared to 2021. As a result, revenue generated from our Internet medical services increased from RMB55.1 million in 2020 to RMB93.4 million in 2021 and further to RMB137.8 million in 2022, primarily attributable to the increased volume of our Internet medical services during the Track Record Period. However, doctors and nurses in our network of medical institutions in certain cities, such as Ningbo and Shenyang, have had less time that can be devoted to offering Internet medical services through our platforms, due to priorities relating to the COVID-19 pandemic.

- **Health Management Services**

As affected by the COVID-19 pandemic and pursuant to local government policies, we suspended the operations of our own medical institutions in the first quarter of 2020, which has contributed to a negative gross profit of RMB9.1 million for our health management services in the first half of 2020. We reopened all of our own medical institutions and rescheduled health check-ups that were delayed due to the COVID-19 pandemic from April 2020. As a result, revenue generated from our health management services increased from RMB222.5

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million in 2020 to RMB240.9 million in 2021, primarily attributable to the increased volume of our health management services in 2021. Due to the COVID-19 outbreaks in Shanghai and Shenyang in the first three quarters of 2022, we suspended the operations of one medical institution located in Shanghai for 80 days in the first three quarters of 2022 and two medical institutions located in Shenyang for 61 and 31 days, respectively, in the first three quarters of 2022. In addition, we suspended the operations of the medical institutions located in Chongqing, Xi'an, Hefei, Dandong, Fuzhou and Chengdu for an average of 32 days in the first three quarters of 2022 due to the COVID-19 outbreaks in those areas. As of December 31, 2022, we reopened all of our own medical institutions and rescheduled health check-ups that were delayed due to the COVID-19 pandemic. As a result, the revenue generated from our health management services decreased from RMB240.9 million in 2021 to RMB209.2 million in 2022.

- **Smart Healthcare Products**

We believe that the COVID-19 pandemic did not affect our smart healthcare product business because the demand for such products remained relatively stable during the pandemic as such products digitalize the business process of institutions. Revenue generated from smart healthcare products increased from RMB146.9 million in 2020 to RMB152.0 million in 2021 and further to RMB218.0 million in 2022. Nonetheless, as local governments and medical institutions devoted more resources in COVID-19 prevention and quarantine, their purchasing power for smart healthcare products showed a temporary decrease. In addition, there was also a trend showing that local governments and medical institutions leveraged their bargaining power to negotiate favorable pricing and credit terms for new projects.