

## OVERVIEW

Our Mission: Leading the digital transformation of healthcare to bring quality and accessible care to a large population.

Healthcare impacts every Chinese. The healthcare system in China has evolved to serve the basic needs of over 1.3 billion people. Nonetheless, the complex system is ridden with efficiency issues, and access to quality care is not guaranteed. Healthcare providers also struggle to meet the increasing demand for care, driven by demographic and epidemiological shifts.

We aspire to lead the digital transformation of China’s healthcare industry. As our name “Medbanks” suggests, we started our journey by building a robust “bank” of digital solutions and data insights, as well as strong operational capabilities, to support more participants in the healthcare ecosystem. Our journey will ultimately lead us to create an integrated health management network that will bring quality and accessible care to a large population.

We believe, by delivering clear values and serving and connecting the stakeholders in China’s healthcare system, including patients, doctors, medical institutions, pharmaceutical companies and payers, we build deep and trusting relationships that can be transformative to the industry landscape.

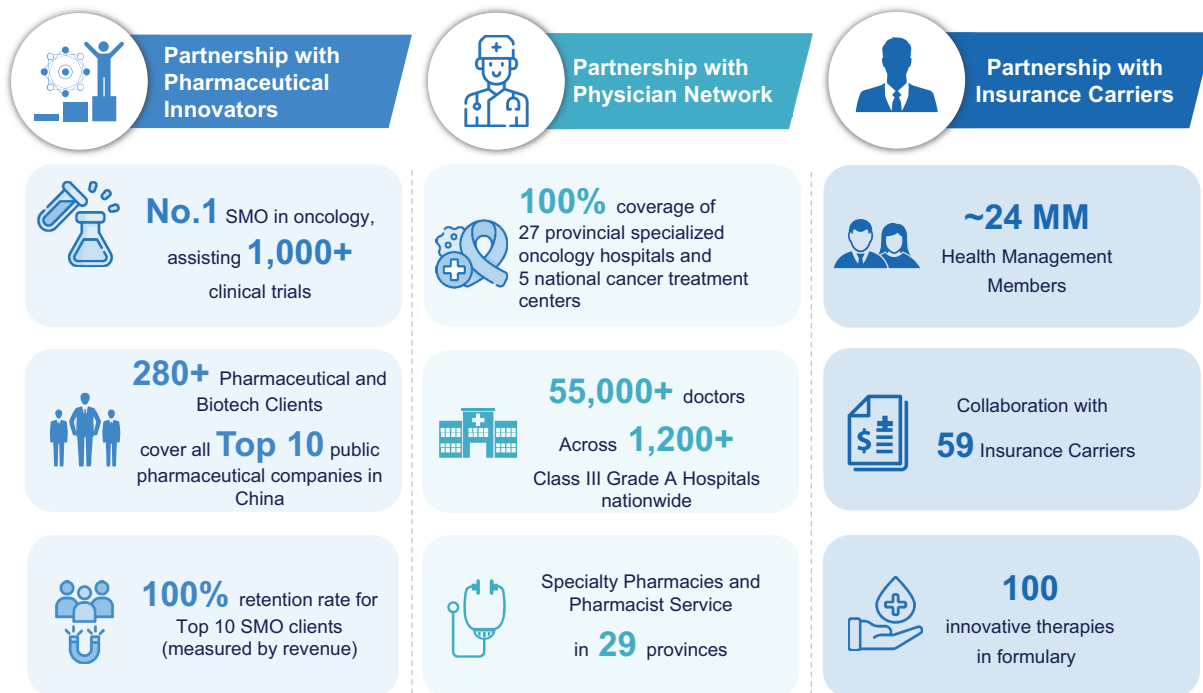
## Who We Are

We connect and deliver clear values to patients, doctors, medical institutions, pharmaceutical companies and payers across China’s healthcare system through our robust technology platform and data-enabled operational capabilities. We currently run three business lines, including Specialty Pharmacy Business, Physician Research Assistance, and Health Insurance Services. Our Specialty Pharmacy Business operates the largest privately owned specialty pharmacy, and our Physician Research Assistance runs the largest oncology site management organization (“SMO”), both measured by 2021 revenue. As of June 30, 2022, our Health Insurance Services served approximately 23.9 million members enrolled in our health insurance plans through our health service provider network connecting hospitals, general practitioners (“GPs”) and specialists in over 150 major cities across China.



## Our Achievements

Since founding our Company in 2014, we have been growing with China’s healthcare reform. We partner with pharmaceutical innovators, doctors and hospitals, and insurance carriers, empowering them to provide better healthcare and more comprehensive financial support to Chinese people.



Note: All statistics as of June 30, 2022

## Our Value Propositions

### Value Propositions to Our Members and Patients

- Access to Health Management:** We provide preventative care services, such as physical examination and general practice, to help our members identify any early signals for health issues so that critical diseases are more likely to be prevented or cured at an early stage. Once a member is diagnosed with critical diseases, we provide him access to over 55,000 doctors to receive efficient and effective treatment, particularly for cancers. Our health service provider network allows our members to locate the right medical professional for a precise treatment in an efficient manner.
- Access to Innovative Drugs and Pharmacist Services:** Thanks to our deep collaboration with pharmaceutical companies, we have the access to innovative drugs and can provide patients advanced medicines for the treatment of oncology and other critical diseases. Our SMO business provides opportunities for patients to participate in clinical trials for innovative drugs. In addition, our professional pharmacist service provides our members access to medication guidance and AE consultation. Meanwhile, we conduct follow-up assessment to ensure medication compliance, enhancing the efficacy of treatment paradigm to the extent possible.
- Flexible Payment Options:** 76 of our specialty pharmacies are designated pharmacies for social medical insurance, accounting for approximately 74% of all our specialty pharmacies. In addition, 47 of our specialty pharmacies have obtained the social medical insurance qualification for major diseases (“大病醫保雙通道資質”) from local health security administrations, allowing patients to

reimburse their expenses for medicines that are previously only covered when purchased at public hospitals. Additionally, we offer diversified health insurance plans to our members, from supplemental insurance products for basic medical insurance, tailored products for specific diseases to premium products with extensive coverage.

#### ***Value Propositions to Doctors***

- *Ease of Patient Management:* We see ourselves as assistants to doctors. Our Health Insurance Services offers members medical navigation assistance, and our Specialty Pharmacy Business service offers patients post-hospital medication management, follow-up assessment and AE consultation. These offerings significantly improve the efficiency and productivity of doctors in their outpatient and inpatient practices.
- *Efficiency in Research:* We assist physicians on various non-clinical matters to enhance the overall efficiency and compliance of clinical trials. Meanwhile, we help physicians participate in clinical trials of innovative drugs to stay at the forefront of medical research.

#### ***Value Propositions to Pharmaceutical Companies***

- *Acceleration of Drug Development and Commercialization:* Leveraging our medical expertise and data insights in oncology and other critical diseases, our SMO service assists pharmaceutical companies in clinical trial site selection and participant enrollment, effectively expediting their drug development and commercialization.
- *Market Access:* Serving patients in treatment at leading hospitals, especially oncology hospitals, our nationwide specialty pharmacy network assists pharmaceutical companies to launch new products and reach the market efficiently.
- *Patient Management:* Through our nationwide specialty pharmacy network and health service provider network, pharmaceutical companies are able to deliver effective patient management service, particularly AE consultation required for specialty medicines.

#### ***Value Propositions to Insurance Carriers***

- *Tailored Product Co-development:* Leveraging our proprietary data insights, we co-developed products with insurance carriers to better meet consumers' unique needs. For example, we have launched Hui Min Insurance in one province and 16 major cities in China, each of which plans were designed according to the local demographics.
- *Efficient Cost Management:* Our Health Insurance Services offers pre-hospital navigation and post-hospital support to our members. The service helps our members select the appropriate hospital, specialist and medication while saving their out-of-pocket spending and the insurance carriers' claim spending on medical cost.

#### **Our Competitive Advantages**

Our three business lines, Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services, are highly synergistic. Our Specialty Pharmacy Business and Physician Research Assistance businesses enable us to have an unparalleled understanding of innovative drugs and allow doctors in our Health Insurance Services to stay at the forefront of treatment options. Leveraging our extensive health service provider network and deep understanding of physicians' particular needs in scientific research, we assist pharmaceutical companies on site selection and participant enrollment.

Referrals from our health service provider network served by our Physician Research Assistance and Health Insurance Services are an important source of patients for our specialty pharmacies in Specialty Pharmacy Business line. Our rich medication selection offers patients advanced treatment options, accompanied by our professional pharmacist service that drives better medication adherence and enhances treatment paradigm efficacy. Lastly, our health insurance plans offer additional protection to members when they face critical diseases, such as cancer, while offering growth opportunities to our commercial insurance partners.

Moreover, each of our three business lines has its competitive advantages, leveraging which we believe we will further expand our business in the future.

*Specialty Pharmacy Business.* For our specialty pharmacy business, we compete with leading pharmacy service providers and differentiate from them mainly in terms of product offering and pharmacist service, which lead to our unique business model that we believe has strong competitive advantages. Specifically, our product offering focuses on specialty medicines, including 320 innovative oncology drugs and 231 innovative drugs for the treatment of other critical diseases, as of the Latest Practicable Date. Comparatively, one of our competitors, Company 1D (as disclosed in the “Industry Overview” section), which is a nationwide offline + online specialty pharmacy, offers 150 to 200 innovative drugs, among which 60 to 80 are innovative oncology drugs, according to CIC. As cancer is increasingly prevalent in China, the demand for innovative oncology drugs will continue to rise, and our product offering is well positioned to capture the market growth trend. Secondly, our pharmacist service differs from that offered by our peers, as we see follow-up assessment as a key component of our professional services for patients taking specialty medicines. Our pharmacists conduct routine follow-up assessments for patients, which help us to attract and retain customers. Comparatively, Company 1D does not provide routine follow-up assessments for patients taking specialty medicines, according to CIC. From similar perspectives, our specialty pharmacy business model also differs significantly from that of O2O pharmacy platforms, which to a large extent focuses on OTC and prescription medicines targeting common diseases, and healthcare products, and emphasizes their competitiveness on convenience in placing orders, densely distributed offline pharmacy network and short delivery time. According to CIC, one of the leading O2O pharmacy platforms in China, a Beijing-based digital medical company founded in 2014 that provides fast medicine delivery, online pharmacy services and online medical consultation services and has been listed on the Hong Kong Stock Exchange, currently offers less than 50 specialty medicines, among which less than 10 are innovative oncology drugs. In addition, pharmacist service provided by the aforementioned O2O pharmacy platform focuses on general medical and health consultation, and prescription renewal for patients taking prescription medicines, which significantly differs from our pharmacist service targeting specialty medicines. Moreover, with respect to its limited product offering of specialty medicines, the aforementioned O2O pharmacy platform does not provide routine follow-up assessments for patients taking specialty medicines either.

*Physician Research Assistance Business.* For our SMO business, we ranked first in oncology SMO market in China, as measured by revenue in 2021, with a market share of approximately 5.5%. According to CIC, in 2021, oncology drugs accounted for over 60% of the specialty medicine market in China, and newly registered clinical trials for oncology drugs accounted for over 40% of all newly registered clinical trials for innovative drugs. Clinical trials for oncology drugs are generally more complicated, because the trial design is more complex, the trial cycle is longer, the participants’ course of disease is complicated, more inspection means are used, various adverse events (AEs) are involved, and participants may have other diseases such as high blood pressure and diabetes, therefore medicines targeting such other diseases shall be taken at the same time with the oncology drugs. In this regard, our experience and expertise in oncology SMO service will continue to benefit us in our involvement

in more clinical trials for oncology drugs, which will have tremendous market opportunities in the near future. In addition, as we compete mostly with the SMO arm of CRO companies including ClinPlus, Company 1A, Company 1B and Company 1C as disclosed in the “Industry Overview” section, our focus on serving physicians avoids potential conflict of interests, which exists for CRO companies that also offer SMO service since their CRAs, whose roles are mainly to monitor and investigate physicians’ activities in clinical trials, and their CRCs, whose roles are to assist physicians in clinical trials, are the employees of the same employer. As we only provide SMO service, we face no such conflict of interests.

*Health Insurance Services Business.* For our health insurance service business, we have strong capabilities to co-design and co-develop specialized health insurance plans, leveraging our actuarial capabilities as well as our data insight generated from our Specialty Pharmacy Business and Physician Research Assistance business lines. Our nationwide footprint of specialty pharmacy stores and professional pharmacist follow-up services targeting patients taking innovative drugs, and our expertise and experience in assisting physicians in nationwide multi-site clinical trials on innovative drugs particularly oncology drugs, allow us to build up our data insight with respect to the local demographics and patient demand, which empower us to tailor the terms and coverages of our health insurance plans, including Hui Min Insurance and Enterprise Health Plans, to better meet consumers’ unique needs for insurance protection and health management services. As a result, our health insurance member base grew quickly since the inception of our Health Insurance Services business, which contributed to the significant increase of the premium we collected on behalf of insurance carriers. Consequentially, we are able to attract more market-leading insurance carriers and turn them into our customers. Moreover, unlike conventional insurance brokerage companies such as Fanhua (FANH. Nasdaq) and Huize (HUIZ. Nasdaq), we have established a comprehensive health service provider network connecting our members to medical institutions, specialists, GPs and health examination institutions, differentiating us from our competitors that only provide insurance brokerage services.

## **Our Services**

### ***Specialty Pharmacy Business***

Our Specialty Pharmacy Business line consists of specialty pharmacy and value-add professional pharmacist service, focusing on specialty medicines for the treatment of oncology and other critical diseases. Patients can access innovative medications from us and receive pharmacist services, such as medication guidance, AE consultation, and medication delivery. We also built up the first and only nationwide specialty medicine management platform, providing follow-up assessment service under a unified system, differentiating us from our peers. 76 of our specialty pharmacies are designated pharmacies for social medical insurance, accounting for approximately 74% of all our specialty pharmacies. In addition, 47 of our specialty pharmacies have obtained the “dual-channel” qualification from local health security administrations, allowing patients to reimburse their expenses for medicines that are previously only covered when purchased at public hospitals. Our specialty pharmacies also provide direct billing with major insurance carriers, offering additional payment solutions to patients.

As of June 30, 2022, we operated 103 specialty pharmacies across all provincial administrative regions in mainland China except Xizang and Qinghai. Our pharmacies specialize in prescription medicines for cancer and other critical diseases. We provide a wide selection of specialty medicines, including innovative drugs newly introduced to the market. For example, we offer a full line of PD-1 drugs currently approved to commercialize in China. Our professional pharmacist services ensure patients to have better medication adherence and treatment efficacy.

### ***Physician Research Assistance***

In our Physician Research Assistance business line, we engage in SMO business to support pharmaceutical companies in their drug R&D process from phase I to phase IV clinical trials, and we also offer Real-World Study (“RWS”) service with respect to innovative drugs after their market launch. Currently, the SMO business contributes the majority of the Physician Research Assistance revenue. Our in-depth experience and professional expertise in assisting clinical trials for oncology drugs differentiate us from our peers. As of June 30, 2022, we had cumulatively served 289 clients across trial sites in 87 cities. Notably, we have achieved 100% coverage of 27 provincial specialized oncology hospitals and five national cancer treatment centers. As of June 30, 2022, we had completed 99 SMO projects, and 936 SMO projects were ongoing. We proudly serve all top ten public pharmaceutical companies in China that engage in R&D of innovative drugs. During the Track Record Period, we achieved a 100% client retention rate with respect to our top ten SMO clients, as measured by revenue during the same period of time. Over 95% of our SMO clients engage in R&D of oncology drugs and typically contract our services for three years.

### ***Health Insurance Services***

As of June 30, 2022, our health service provider network connected over 1,200 Class III Grade A hospitals, 55,000 doctors, and 500 physical examination institutions in over 150 major cities across China. Our robust health service provider network, together with our Specialty Pharmacy Business, provides our members with high quality health management services. As of June 30, 2022, we served approximately 23.9 million individual members and 876 enterprise clients.

Leveraging our data insights and actuarial capabilities, we have co-developed differentiated health insurance plans with major insurance carriers. Hui Min Insurance serves as a supplement to the national basic medical insurance, offering additional coverage for critical diseases, medical services, and specialty medicines at a price affordable to the general population. In addition, Enterprise Health Plans provide a more comprehensive and advanced protection to employers and their employees, offering flexible quality health and disease management services.

### **Our Market Opportunity**

The healthcare industry is an important part of China’s national economy. China’s healthcare expenditure is massive and growing steadily, from RMB4,097.5 billion in 2015 to RMB8,054.0 billion in 2021, at a CAGR of 12.7%, and it is expected to further reach RMB17,734.4 billion in 2030, growing at a CAGR of 9.2% from 2021 to 2030, according to the CIC Report. Aging population, increasing prevalence of critical disease and changing healthcare payment landscape are the key growth drivers that propel the continuing development of China’s healthcare industry.

However, the following challenges impact the development of the China’s healthcare industry: (i) inefficient use of healthcare resource; (ii) unmet demand for innovative medical products and services; and (iii) underdeveloped commercial health payers. As such, SMO, specialty pharmacy, and commercial health insurance plan have emerged to address these complex challenges, which all create great growth opportunities.

Specialty Pharmacy Business coordinates the prescription flow and economic flow of medication among insurance carriers, pharmaceutical companies, medical institutions, and pharmacies to efficiently manage the spending on prescription medication, for both patients and payers. Specialty pharmacy is the main category of Specialty Pharmacy Business services in China. A specialty pharmacy is a provider of specialty medicines and pharmacist service to better manage patients taking

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specialty medicines, and to better procure, store and dispense specialty medicines. According to the CIC Report, China's specialty medicine market experienced a steady growth in the past years, increasing from RMB147.0 billion in 2015 to RMB304.8 billion in 2021, at a CAGR of 12.9%. Notably, oncology specialty medicines represented the largest specialty medicine market in China in 2021, accounting for 63.5% of the total market size. It is expected that the specialty medicine market in China will further reach RMB1,286.5 billion in 2030, at a CAGR of 17.4% from 2021 to 2030. Particularly, the proportion of out-of-hospital specialty medicine increased from 14.0% in 2015 to 23.7% in 2021, and is expected to further increase to 47.3% in 2030, indicating a huge growth potential of out-of-hospital specialty pharmacy.

An SMO is an organization that provides specialized service to clinical trials, which reduces the investigator's non-clinical workload and improves the overall efficiency and compliance of clinical trials. According to the CIC Report, the market size of SMO service in China increased from RMB1.1 billion in 2015 to RMB6.9 billion in 2021 at a CAGR of 35.3%, and is expected to further reach RMB35.0 billion in 2030 at a CAGR of 19.8% from 2021 to 2030. Increasing investment in drug R&D and stricter compliance requirements for clinical trials are likely to support the growth of the SMO market in China. Notably, the oncology SMO market is expected to account for approximately 63.7% to 67.8% of the overall SMO market size from 2021 to 2030.

China's multi-tiered health insurance system is constructed on the basis of national basic medical insurance, and supplemented by commercial health insurance, medical relief systems and charity medical donations. As of December 31, 2021, China's national basic medical insurance enrolled over 1.3 billion people, accounting for 96.6% of the total population. In 2021, China's national basic medical insurance expenditure reached RMB2,401.1 billion, and the individual medical expense reached RMB2,202.5 billion, accounting for 42.8% and 39.3% of the total medical expense, respectively. Contrary to the extensive coverage of the national basic medical insurance, commercial health insurance claim spending accounted for only 7.3% of the total medical expense in China in 2021. In the future, the national basic medical insurance will continue to provide a fundamental coverage for the broadest population, while the commercial health insurance is expected to function as an increasingly important payment solution for medical expenditure especially on critical diseases, indicating an urgent need for establishing a multi-tiered health insurance system to serve different groups of people. The market size of commercial health insurance in China increased from RMB241.0 billion in 2015 to RMB880.4 billion in 2021, and is expected to further reach RMB3,873.1 billion in 2030, in terms of premium.

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### Our Results

Our total revenues increased by 159.8% from RMB1,039.0 million in 2019 to RMB2,699.6 million in 2020, and further increased by 28.7% to RMB3,473.9 million in 2021. For the six months ended June 30, 2022, we generated revenue of RMB1,887.7 million, representing increase of 21.8% from RMB1,550.0 million for the six months ended June 30, 2021. In 2019, 2020, 2021 and the six months ended June 30, 2022, we had loss before tax for the year/period of RMB596.0 million, RMB1,040.9 million, RMB3,747.7 million and RMB344.4 million, respectively. Excluding the impact of (i) fair value changes of convertible redeemable preferred shares, (ii) share-based payment compensation, (iii) listing expenses, and (iv) transaction cost for the issue of the Company's convertible redeemable preferred shares, our adjusted loss (non-IFRS measure) was RMB254.2 million, RMB258.6 million, RMB365.1 million and RMB143.1 million for 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The following table sets forth the revenue and gross margin of our three revenue streams for the years/periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2019		2020		2021		2021		2022	
	Revenue	Gross margin	Revenue	Gross margin	Revenue	Gross margin	Revenue	Gross margin	Revenue	Gross margin
	(RMB in thousands)						(unaudited)			
Specialty Pharmacy										
Business	863,600	5.6%	2,482,006	5.5%	3,136,484	5.9%	1,407,134	6.0%	1,646,388	5.4%
Physician Research										
Assistance	173,195	19.1%	185,652	21.2%	244,857	18.3%	102,133	13.4%	149,154	17.7%
Health Insurance										
Services	2,216	39.5%	31,989	36.5%	92,589	57.4%	40,777	49.4%	92,110	67.0%
<b>Total</b>	<b>1,039,011</b>	<b>7.9%</b>	<b>2,699,647</b>	<b>6.9%</b>	<b>3,473,930</b>	<b>8.2%</b>	<b>1,550,044</b>	<b>7.6%</b>	<b>1,887,652</b>	<b>9.4%</b>

### OUR STRENGTHS

#### *Integrated Health Management Network to Transform Healthcare Industry in China*

We are an operator of health management network in China. With a deep understanding of China's healthcare industry's pain points, we connect our Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services solutions to build an integrated health management network that addresses each stakeholder's long-standing challenges and subsequently transforms China's healthcare industry.

For Specialty Pharmacy Business, we are the largest privately owned specialty pharmacy network in terms of revenue in 2021. As of June 30, 2022, we operated 103 specialty pharmacies across all provincial administrative regions in mainland China except Xizang and Qinghai. In addition to access to specialty medicines, patients can also access professional pharmacist services from medication guidance, follow-up assessment, to AE consultation.

For Physician Research Assistance, our SMO rank second, first and first for oncology drug R&D, measured by revenue in 2019, 2020 and 2021, respectively. As of June 30, 2022, we covered over 4,700 principal investigators ("PIs") and 460 hospitals across China, and served 289 clients including all top ten public pharmaceutical companies in China that engage in R&D for innovative drugs.

For Health Insurance Services, our well recognized health service provider network connects over 1,200 Class III Grade A hospitals, 55,000 doctors, and 500 physical examination institutions in over



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150 major cities across China, providing full-cycle and high quality health management services to our members. We are also the trusted partner to insurance carriers with strong product development capability. As of June 30, 2022, we had launched Hui Min Insurance in one province and 16 major cities in China, enrolling 23.7 million individual members, while our Enterprise Health Plans had served 876 enterprise clients.

### *Symbiotic Self-reinforcing Ecosystem with Strong Synergies*

Committed to enabling stakeholders of the healthcare industry, we have built a self-reinforcing ecosystem around our partners and three highly synergistic business lines.

Our Specialty Pharmacy Business and Physician Research Assistance businesses enable us to have an unparalleled understanding of innovative drugs and allow doctors in our Health Insurance Services to stay at the forefront of treatment options. Leveraging our extensive health service provider network and deep understanding of physicians' particular needs in scientific research, we assist pharmaceutical companies on site selection and participant enrollment. Referrals from our health service provider network served by our Physician Research Assistance and Health Insurance Services are an important source of patients to our Specialty Pharmacy Business, including our specialty pharmacies. Our rich medication selection offers patients advanced treatment options, accompanied by our professional pharmacist service that drives better medication adherence and enhances treatment paradigm efficacy. Lastly, our health insurance plans offer additional protection to members when they face critical diseases, such as cancer, while offering growth opportunities to our commercial insurance partners.

### *Enabler to Industry Participants, Creating a Competitive Advantage Hard to Emulate*

Our success is attributable to our profound industry knowledge and in-depth understanding of the unmet demands of key industry participants. We well understand the challenges Chinese doctors face. For instance, they want to be at the forefront of scientific development, but they do not enjoy the support from study assistants as their peers in developed countries do. Meanwhile, because of the large population in China and the relative scarcity of healthcare professionals, doctors in China have devoted most of their time to daily outpatient care and inpatient procedures. They do not have the support infrastructure to manage patients outside the hospital either. Thus, to empower doctors, we provide coordination and execution assistance in clinical studies and patient management services in daily clinical practice to free doctors from non-medical work. With our services, doctors can conduct scientific research and fulfill their daily medical work more efficiently and at higher productivity.

Efficiency in clinic trial is crucial to R&D and commercialization of any innovative drug. China's vast geographic area and diversity in demographics create significant challenges to run clinical trials in terms of site selection and participant enrollment. We assist pharmaceutical companies on site selection and coordinate for participant enrollment, speeding up the clinical trials and improving the overall efficiency. In addition, through our Specialty Pharmacy Business, pharmaceutical companies can fulfill its after-sales service, as well as benefit from our nationwide specialty pharmacy network that directly connect them to their end customers.

Leveraging our medical insights and health provider and specialty pharmacy network, we are able to co-develop differentiated health insurance plans with our insurance carrier partners, and provide the accompanying health management services. We can tailor products to different tiers of coverage or target specific diseases, allowing insurance carriers to adapt to the evolving market with diversified and competitive products.

Through long-term collaborations, we have fostered lasting trust and partnership with doctors, pharmaceutical companies, and insurance carriers. We believe such trust and partnership are unmatched competitive advantages that are difficult to emulate by our peers.

### ***Leading the Digital Transformation with Proprietary Data and Technology***

Technology is ingrained in our corporate culture. We believe the force of technology to transform the healthcare industry. Since our inception, we have been making significant efforts to build our technology infrastructure and develop data insights. By leveraging our data insights and the underlying technology infrastructure, we can quickly adapt our services to meet the evolving healthcare industry and consistently empower our ecosystem participants.

Our oncology database is a key component of our data infrastructure. It consists of 111 oncology database covering 28 varieties of cancers. Over 400,000 patients have benefited from this powerful database. Our database precisely records treatment received and health status in follow-up assessment of each patient, which makes it much easier and more efficient for doctors to track status of patients and help doctors diagnose, treat and form a long term management of each patient. Our in-house developed RWS system are helping doctors across 444 hospitals in their clinical trial and daily inpatient procedure and outpatient consultation. We have also established a unique system that integrates medication fulfillment and patient management functions. Against our data insights, we can also better design health insurance plans and have effectively improved loyalty of our Health Insurance Services members and reduced their healthcare cost.

Deep data insights into the healthcare industry is a core advantage of our business model. As our integrated health management network connects key participants in the industry, valuable healthcare data flow through our system, allowing us to extrapolate insights from our daily operations. Statistics, such as prescription patterns, medical practices and real-world clinical outcomes, enable us to continuously optimize our clinical assessment system, referral selection model, and insurance product design capability.

### ***Diverse Monetization Strategy Fueling Continued Growth***

Our synergistic business lines create diverse monetization opportunities. Currently, Specialty Pharmacy Business contributes more than 90% of our total revenue, and specialty pharmacy business generated the most Specialty Pharmacy Business revenue. As we expand our specialty pharmacy network and pharmacist service, revenue from Specialty Pharmacy Business is expected to grow rapidly. Our SMO, a part of the Physician Research Assistance business line, currently enjoys an industry-leading market share and delivers a high single-digit contribution to our topline. The thriving Specialty Pharmacy Business will grow together with the Physician Research Assistance business. In addition, the synergies among our business lines will generate substantial growth opportunities for the fledging Health Insurance Services business, which we believe will be a core growth engine for us in the future.

### ***Experienced Management Team with Unparalleled Industry Insight and Business Acumen***

Our management and core teams are industry veterans with extensive experience in the healthcare industry. They have a profound understanding of doctors, hospitals, pharmaceutical companies, and insurance carriers in China. They also deeply understand the challenges that China's healthcare industry faces. Leveraging their experience and knowledge, the management and core teams can navigate us through the ebb and flow in the industry. In particular, our chairman of the board of

directors and chief executive officer, Mr. Ma, has been in the healthcare industry for over 25 years, in charge of specialty medicine sales at leading global pharmaceutical companies, such as Bayer and Schering-Plough, before founding our Company. Our co-chief executive officer Mr. Li Ji has also been in China's healthcare industry for over 20 years, holding management positions at Bayer, Schering-Plough and Nova Medical in China.

## **OUR STRATEGIES**

We strive to transform China's healthcare industry by empowering doctors, pharmaceutical companies and insurance carriers through technology and data, ultimately delivering quality and accessible healthcare to all people in China. To achieve our goal, we intend to pursue the following strategies:

### ***Continue to Grow Our Symbiotic Ecosystem***

Our current three business lines are symbiotic and self-reinforcing, creating significant synergies. We plan to continue growing our symbiotic ecosystem and enhancing its synergies by deepening our connections with more healthcare industry participants and integrating them into our ecosystem.

- *Specialty Pharmacy Business.* We will direct more member traffic from Health Insurance Services to Specialty Pharmacy Business by offering our members premium medicine and pharmacist experience with more comprehensive medication options and better medication management.
- *Physician Research Assistance.* We will further enhance our Physician Research Assistance by expanding our doctor network leveraging Specialty Pharmacy Business and Health Insurance Services, which provide assistance to many specialists in patient management and referral network.
- *Health Insurance Services.* We will continue to enhance our Health Insurance Services offerings by leveraging Specialty Pharmacy Business and Physician Research Assistance services and offer access to more innovative medications.

We plan to offer a broader range of health products and services, integrate more participants across the healthcare value chain into our symbiotic ecosystem and create more substantial synergies. For example, in addition to specialty medicines, we plan to broaden our offerings to include medications for chronic diseases.

In addition, we will pursue strategic alliances, investment and/or acquisitions that are complementary to our business and in line with our strategies. Our potential targets primarily include (i) health-tech companies providing health management services including online medication consultation, drug delivery, health monitoring and guidance, and/or health-tech companies that collaborate with commercial insurance company to construct online service platforms and provide algorithm support; (ii) insurtech companies providing intelligent underwriting systems and automated claim processing solution and payer services; and (iii) other companies with complementary business lines synergetic to our business lines.

### ***Further Strengthen Our Capability to Serve Doctors***

Doctors are the core to our symbolic ecosystem. We will continue to strive to provide significant value to doctors by further strengthening our service capabilities in research solutions and health management. We will continue to leverage our data insights to further facilitate physicians in their scientific research, clinical trials, and medical practices. In addition, we intend to make it more efficient for doctors to manage patients by providing more comprehensive health management service

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through our Specialty Pharmacy Business and Health Insurance Services. Finally, we aspire to enable doctors in our network to enhance their experience and expertise.

### ***Strengthen Our Technology Infrastructure and Data Insights***

We will continue to strengthen our technology infrastructure and develop data insights to adapt our service offerings with the latest developments in the healthcare industry, and continuously empower healthcare stakeholders. We will grow and train our infrastructure development team by recruiting professional software engineers and project managers and operation and maintenance personnels. We will continue to invest substantial resources in R&D to improve our technology infrastructure, develop new solutions that are complementary to existing ones and find ways to better serve pharmaceutical companies, patients, our plan members and enterprise clients. We will continue to utilize our proprietary pharmacy management system and nationwide patient management system to enhance the efficiency and effectiveness of our operations. We will also dig into health and medical statistics generated from our daily operations to continuously optimize the health management outcome for the patients and members we serve.

### ***Grow Specialty Pharmacy Business Service with Investment in Geographic Expansion, and Talent Recruitment and Retention***

As of June 30, 2022, we operated 103 specialty pharmacies in 68 cities across 29 provincial administrative regions in China. We plan to further expand the geographic coverage of our Specialty Pharmacy Business service across China, through establishing new pharmacies and acquiring existing pharmacies. In addition, as we strive to expand geographic coverage, we plan to open up a total of 25 specialty pharmacy stores from the fourth quarter of 2022 to 2024. We will also continue to invest in attracting more talents and retaining existing talents that would be sufficient for the growth of our Specialty Pharmacy Business service.

We believe there exists sufficient and strong demand for our specialty pharmacy business in those new cities that we plan to enter into. There are currently 4 tier-1 cities, 15 new tier-1 cities, 30 tier-2 cities and around 71 tier-3 cities in China, which are the main target cities to expand our geographic coverage. The population and cancer prevalence of these cities are shown in the table below:

<u>Cities</u>	<u>Population</u>	<u>Cancer prevalence</u>
Tier-1 cities . . . . .	83.0 million	~270 thousand
New tier-1 cities . . . . .	183.2 million	~590 thousand
Tier-2 cities . . . . .	215.0 million	~690 thousand
Tier-3 cities . . . . .	342.9 million	~1,100 thousand

According to the Health Statistical Year Book of China, the cancer prevalence rate in urban area is approximately 3.2%. Based on the larger population base and a large number of patients with cancers, there still exists huge demand for specialty drugs in the lower-tier cities and thus significant market opportunities for us to explore.

The main competitors that the Group is facing are still the leading private-owned competitors that operate nationwide, such as Company 1D and Company 1E disclosed in the “Industry Overview” section, as well as the state-owned specialty pharmacies that are owned by a few leading state-owned distribution companies. Also, for each specific region or city, there also exist small local brands with insignificant market share in the market.

Specifically on our expansion plan, we look to open about 30-40 specialty pharmacies and acquire about five stores from external operators each year from 2022 to 2026. Geographically we will be

actively seeking opportunities in cities such as Yangzhou, Shaoxing, and Quanzhou in the Eastern China; Luoyang, Xiangtan and Jiujiang in the Middle China; Mianyang, Panzihua and Zunyi in the Western China, and Qiqihar, Tieling and Jiamusi in the Northeast China.

In addition to geographic expansion, we will also continue to add medication product offered at our specialty pharmacies, into new disease areas such as chronic diseases, central nervous system, and nutrition and supportive care. This strategy goes hand in hand with our expansion of our Physician Research Assistance business beyond the current focus on clinical trials for innovative oncology drugs. We believe continuing leveraging the trust and recommendation we receive from doctors, we will likely efficiently win patients in new disease areas. For drugs indicated critical diseases such as central nervous system diseases, the main competitors are still specialty pharmacies operated by either leading privately owned companies or state-owned distributors. In addition to the leading specialty pharmacies that operate nationwide, there also exist regional specialty pharmacies participating in the competition in the local market of each specific province. For common prescription drugs, OTC drugs and nutrition products, potential competitors in the market also include the leading retail pharmacies operating nationwide or in specific regions, but most of these retail pharmacies do not offer high-value specialty drugs.

#### ***Expand Geographically and Increase Service Offerings in Physician Research Assistance Business***

We plan to expand our site coverage in Physician Research Assistance business to about 120 cities till 2026, such as Wuxi, Chengde, Ganzhou, Changzhi and other cities of different sizes, so to reinforce our leading position in the SMO services. We consider that the geographic expansion plan is reasonable and feasible, because pharmaceutical companies show increasing trend to have more clinical trials in different cities. For example, the total number of clinical trials conducted by pharmaceutical companies in China increased from 1,453 in 2017 to 3,817 in 2021. We, as a site management service provider, should closely follow the steps of our customers (pharmaceutical companies) to increase presence in new cities.

In addition to geographic expansion, we also plan to extend our site management services to other disease areas, such as autoimmune diseases. We believe the expansion plan is feasible because clinical trials in those new disease areas usually happen in cities' key hospital(s), and we have already successfully covered those hospitals through oncology-related clinical trials. Having built a wide coverage on physicians and class III hospitals, it now only requires our well-established local execution teams to penetrate to a different department of the same hospital, which is not expected to be difficult as we have demonstrated our capability in the most complex disease area, cancers.

The competition landscape in these 120 cities is highly similar to the overall competitive landscape nationwide, as most clinical sites nationwide are concentrated in these cities. Leading SMO companies that operate nationwide are still the main competitors that we face, and the total market share of the top five SMO companies is estimated to account for 25-30% of the market in terms of revenue. In low-tier cities, there also exist a large number of small-sized regional SMO companies (with less than 100 CRCs) that only work at local clinical research sites, and the market share of each of these small-size companies is relatively insignificant in comparison with the leading competitors.

#### ***Expand Health Insurance Services by Growing Health Service Provider Network and Offering Innovative Insurance Products Adaptive to Market Changes***

We will continue to expand our health service provider network by enhancing our connections with doctors and medical institutions. We intend to strengthen and expand our cooperation with hospitals,

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clinics, and other medical institutions across China to elevate our health management service. In addition, we plan to connect and integrate more GPs and specialists into our health service provider network to enable our members to receive more efficient and effective treatment that they are unable to obtain through their local resources.

Furthermore, we will continue to develop our health insurance services to provide our members with more comprehensive and customized insurance products based on our data insights, medical know-how and health management capabilities. We plan to further enhance our cooperation with insurance carriers to co-develop and optimize innovative health insurance products to meet the diversified and growing healthcare coverage needs of our members.

Additionally, we will expand geographically and offer our insurance product to more cities. We will actively explore opportunities in mid-to-large cities nationwide that have population over 4 million, including principal capitals such as Shijiazhuang, tier-1 or new tier-1 cities such as Beijing and Hangzhou, as well as tier-3 cities such as Honghe. Our approach will remain to first closely study local demographics and patient demand, design products that can be supplementary to local medical insurance coverage, and actively seek collaboration with local governments or even win their endorsement for our products to facilitate marketing and promotion. These target cities are normally covered by national insurance carriers and in some cases also by online insurance service platforms, while many lacks competitors in this area or competing products that serve to supplement local medical insurance.

We expect to face competition from a mix of inhouse sales network of national insurance carriers, leading insurance brokers with national operation, such as Mingya, Datong and Fanhua, as well as middle-size regional brokers that operate within a specific province or city when promoting our health insurance products. Specifically in the cities named above, Beijing is dominated by two national leading insurance brokers Mingya and Datong, which takes a majority market share. It's a similar case with Hangzhou, but with several regional brokers such as Xinshan and Juantian also accounting for important shares of the market. In Shijiazhuang, a local broker, Mingyang, is the market leader with several national players closely following. Overall, the health insurance market in Shijiazhuang is less concentrated than tier-1 cities. We currently don't see fierce competition in Honghe, and consider commercial health insurance significantly underpenetrated there.

### ***Enhance Our Monetization Capability***

By leveraging our symbiotic ecosystem, our three business lines reinforce each other, which leads to diversified monetization opportunities. We will continue to enhance our monetization capabilities by unleashing the commercial potentials of our Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services. We aim to unleash the commercial potential of our Specialty Pharmacy Business service by achieving substantial cost savings through the use of proprietary systems. For Physician Research Assistance service, we will reinforce our leading position in the SMO service market. We believe our Health Insurance Services will become a core growth engine for us in the future, and we will continue to unleash its commercial potential by expanding our Health Insurance Services network to achieve sizable growth.

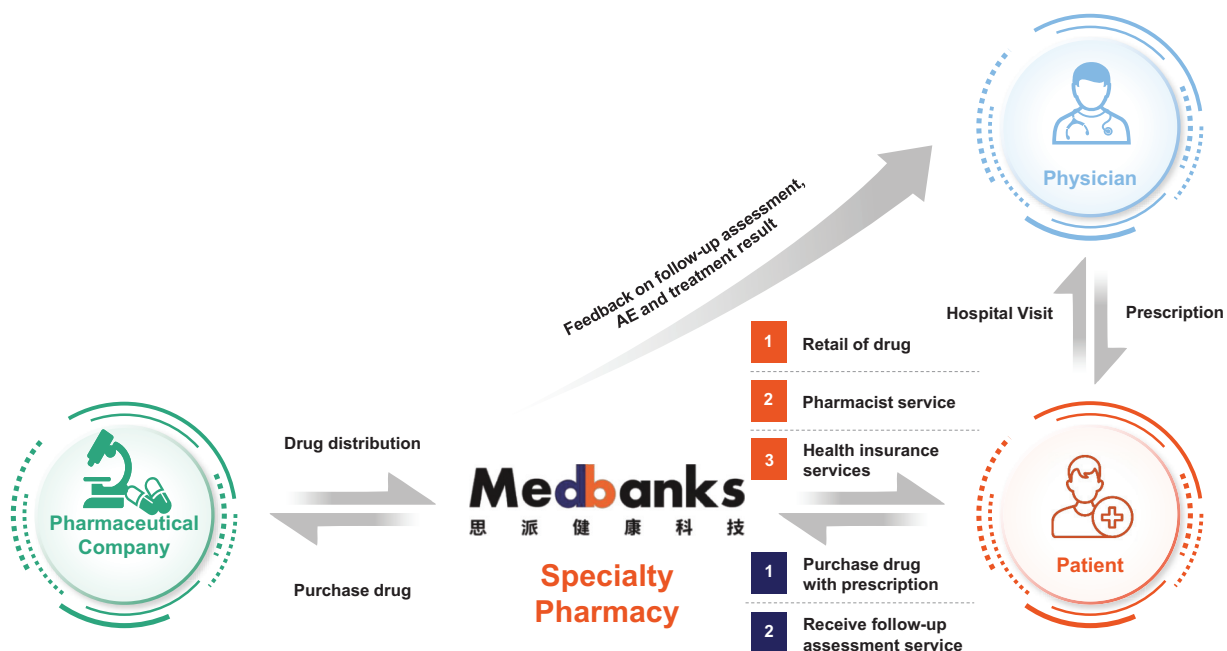
## **OUR SERVICES**

### **Specialty Pharmacy Business**

We provide specialty pharmacy and value-add professional pharmacist service in our Specialty Pharmacy Business line, focusing on specialty prescription drugs for the treatment of oncology and

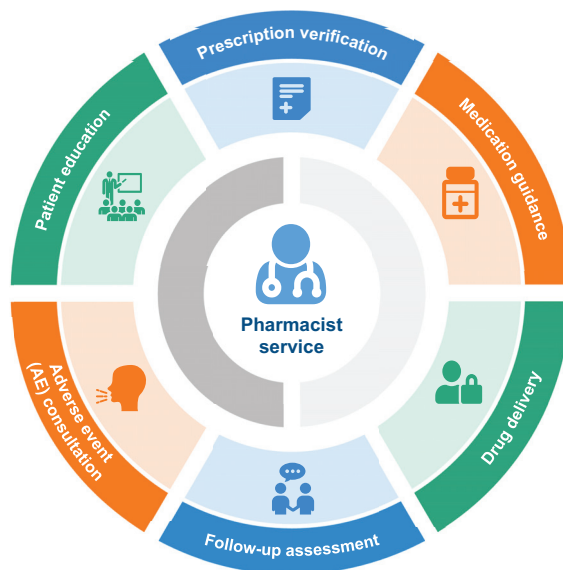
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other critical diseases. We operate offline specialty pharmacies across China, and provide pharmacist service not only in our pharmacy stores, but also through telephone calls. Particularly, we conduct follow-up assessment through telephone calls, whereby we do not need to visit patients on-site. Patients can access innovative medications from us, as our specialty pharmacies have a wide product offering, including 320 innovative drugs for the treatment of cancers and 231 innovative drugs for the treatment of other critical disease, as of the Latest Practicable Date. Particularly, our product offering covers substantially all of the innovative oncology drugs launched in China since 2010. Moreover, patients can also receive pharmacist services, such as medication guidance, AE consultation, and medication delivery from our specialty pharmacies. The diagram below illustrates the correlation and interaction among pharmaceutical companies, doctors and patients through our Specialty Pharmacy Business:



***Pharmacist Service***

Equipped with a well-established pharmacy network and licensed and in-house trained pharmacists, we offer professional and accessible pharmacist service to patients, including medication guidance, follow-up assessment, AE consultation, drug delivery, as well as patient education. The following diagram illustrates our pharmacist service cycle:



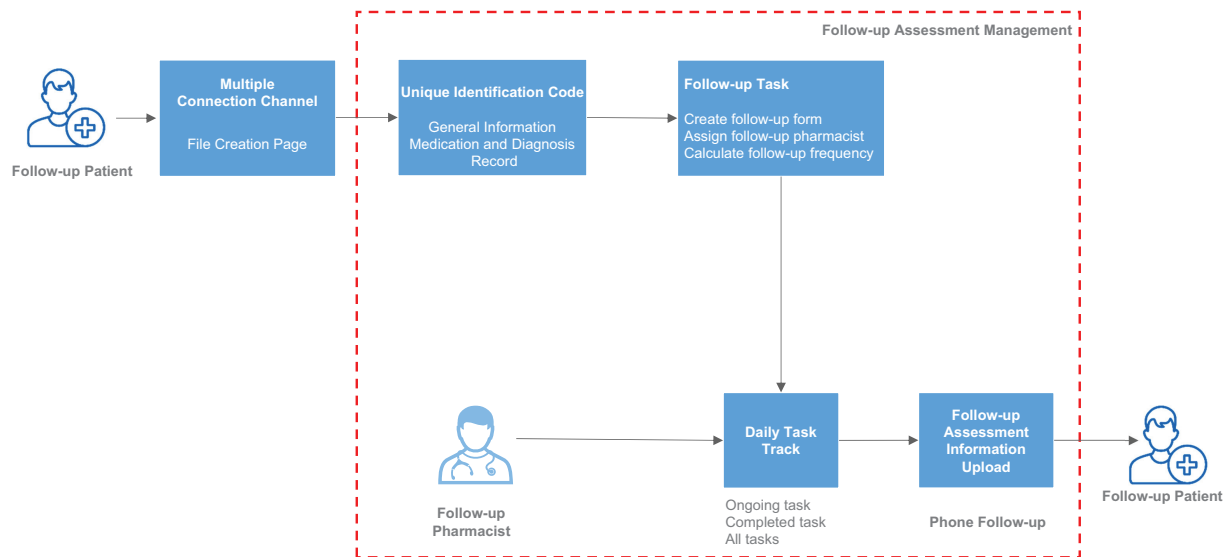
We accept prescriptions from doctors. When a patient submits his prescription, our pharmacists will verify such prescription's validity, accuracy and completeness. They also perform review in which they cross-check every prescription against the patient's submitted information for drug, disease and allergy reactions. We provide specialty medicines to patients strictly in accordance with their prescriptions, namely the particular medicine and its dosage as specified in the prescription. Our pharmacists do not recommend any medicines or medications to patients when providing pharmacist services.

We offer medication guidance and follow-up assessment for patients to help them better understand their symptoms and comply with medication guidance, thus achieving better treatment efficacy and cost efficiency. Pharmacist service is supplemental to doctors' medical practice. Pharmacists provide medication guidance after doctors prescribe the medication, such as proper and standardized use of medication, medication related precautions, and combination drug interactions. Doctors follow up and evaluate patients' treatment plans and post-treatment results and efficacy. Pharmacists identify special conditions (AE/SAE) early through follow-up, and give feedback to treating doctors, so as to promote standardized medication for patients.



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A significant portion of our customers in Specialty Pharmacy Business are cancer patients. Due to the complexity and limited drug use experience of innovative oncology drugs, they are likely to experience AEs. Follow-up assessment is important to cancer patients using innovative medication, since it can identify the seriousness of AEs and the relevance between AEs and the medication in use, extend duration of treatment and improve efficacy of treatment plans. In addition, during the follow-up assessment, patients will be advised appropriate measures to deal with AEs, such as suspension of medication. We have an in-house pharmacist team to communicate the AEs with pharmaceutical companies, and our 24/7 consultation service line provides guidance to patient in AEs in a timely manner. The following diagram shows how our professional follow-up assessment system processes:



Note: the procedures within red dot line refer to those conducted by our system

The patient's basic information is entered into the system's file creation page after purchase of medication to create a medication record for, and assign a unique identification code to the patient. Based on the patient's location, medication and diagnosis record, the system automatically creates follow-up forms, assigns follow-up pharmacists and calculates the frequency of follow-up assessment, and generates a customized follow-up task for such patient.

The follow-up pharmacist views the daily tasks in the system, including ongoing tasks, completed tasks and all tasks, and can manually adjust the time of a follow-up task according to the actual situation. The pharmacist conducts follow-up assessment by telephone, answers questions in the process of medication, gives guidance on diet, nutrition, exercise and other lifestyle-related matters, and fills in information gathered during the follow-up assessment into the system to complete the current task. The system then generates the next follow-up task according to the follow-up plan or actual follow-up situation. Such cycle will continue until the follow-up assessment task is terminated due to death or disconnection of, or rejection by the patient.

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We see professional follow-up assessment as a key component of our pharmacist service. The following table sets forth the average number of daily follow-up assessments we conducted during the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
<b>Average number of daily follow-up assessments</b>				
Eastern China . . . . .	26	69	235	221
Southern China . . . . .	35	69	156	155
Western China . . . . .	53	85	149	197
Northern China . . . . .	42	115	251	203
<b>Total</b>	<b>156</b>	<b>338</b>	<b>791</b>	<b>776</b>

While prescription verification is required to be provided together with the sales of specialty medicines, other pharmacist services such as follow-up assessment, patient education and drug delivery are not. We are dedicated to introducing a wide variety of services to meet patients' increasing demand for more comprehensive pharmacist service. For example, we provide medication planning service to patients, and maintain sufficient inventory of medicines. We also periodically operate patient education programs through offline channels such as our specialty pharmacy stores, hosting specialists to present at our seminars.

We offer one-time or periodic drug delivery service by our in-house delivery team to guarantee the quality of drugs especially those require cold-chain transportation. Each of our pharmacies has assigned at least one of its employees to take charge in the drug delivery. After patients purchase medicines, upon their request, we will record the drug delivery information, including the recipient's name, address, phone number, medicines to be delivered and delivery time in our system, and conduct the drug delivery accordingly. Particularly, patients can designate the address of medical institutions as to where they prefer to receive the drugs. For example, if patients want to take infusion drugs at hospitals, outpatient departments or clinics, upon their requests, we can deliver the infusion drugs to them at the address of the medical institutions appointed by the patients, thus to bring them more convenience. We do not engage third-party delivery service providers for our drug delivery. Closely aligned with patient expectations, our pharmacist service helps us win the patients' trust and loyalty.

As advised by our PRC Legal Adviser, there is no PRC laws, regulations, or administrative rules nationwide that specifically set forth any requirements with respect to the delivery of infusion drugs excluding vaccines by pharmacies to patients, as of the Latest Practicable Date.

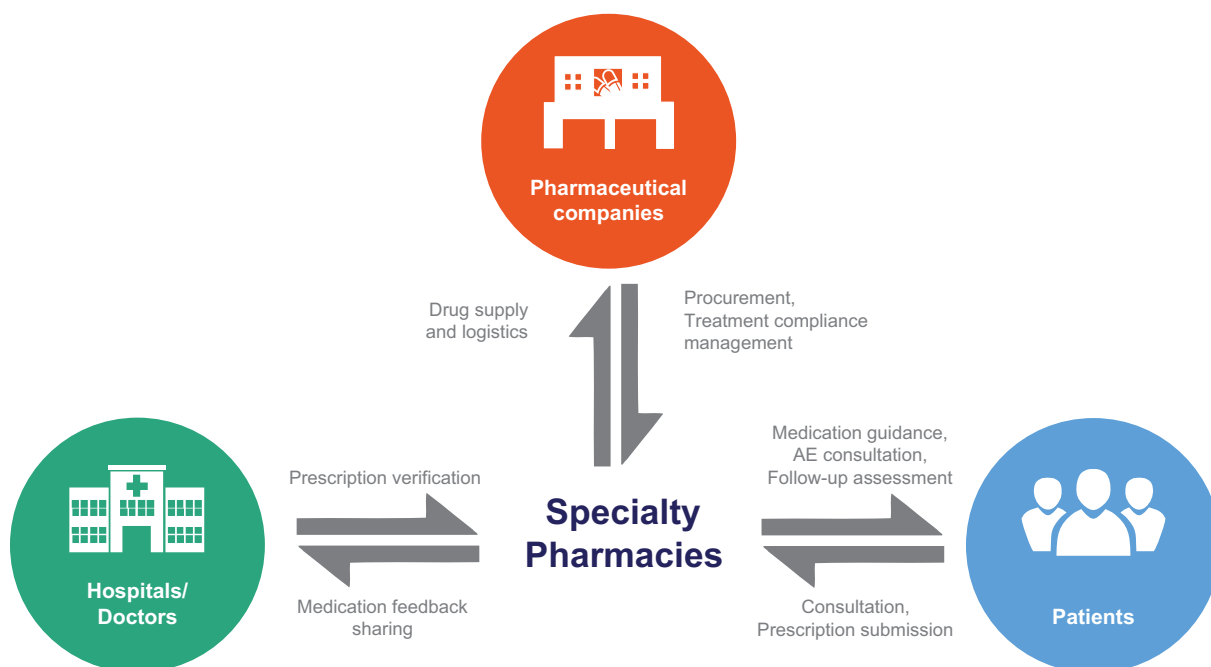
Our revenue from infusion drugs retail sales was RMB387.0 million in 2019, RMB955.1 million in 2020, RMB1,532.0 million in 2021, and RMB859.8 million in the six months ended June 30, 2022, representing 46.4%, 41.5%, 53.0% and 55.3% of our total revenue from medication retail business during the relevant period, respectively. Our revenue from non-infusion drugs (substantially oral form drugs) retail sales was RMB446.7 million in 2019, RMB1,345.8 million in 2020, RMB1,361.2 million in 2021, and RMB694.2 million in the six months ended June 30, 2022 representing 53.6%, 58.5%, 47.0% and 44.7% of our total revenue from medication retail business during the relevant period, respectively.

Our pharmacist service also helps us build a close partnership with pharmaceutical companies, differentiating us from traditional retail pharmacies. Through our professional pharmacist service, we conduct regular follow-up assessment, provide medication guidance, and serve as our patients' first

line of defense in an adverse event. In this regard, we are inherently capable of building up a robust database relating to the efficacy, drug reaction, side effects and AEs of each particular medicine. Our data insights developed from such “real-world evidence” allows pharmaceutical companies to improve their R&D capabilities further, especially for innovative drugs. In addition, attributable to our professional follow-up assessment service, patients served by our Specialty Pharmacy Business comply with medication guidance more strictly, which significantly enhances the efficacy of their treatment paradigms.

### ***Specialty Pharmacy***

Driven by pharmacy distribution policies such as “separation of dispensing from prescription” policy (醫藥分離政策) and the “zero markup” policy, we have expanded our specialty pharmacy business significantly since 2017. The following flowchart illustrate the operating model of our specialty pharmacies:



Compared with traditional distribution model in the pharmaceutical value chain, specialty pharmacies provide a more direct way to connect patients with specialty medicines they need. After obtaining prescriptions from doctors, patients are able to purchase specialty medicines from our specialty pharmacies. Our professional pharmacists at the meantime provide professional service during the treatment. We are equipped with a licensed pharmacist team and a sophisticated customer service team, which enable us to provide better patient experience, and offer professional consultation and drug delivery service for patients.

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### *Geographic Coverage*

We operate a nationwide network of specialty pharmacies in China, covering 68 major cities in 29 provincial administrative regions across China. We mainly offer high-value and innovative prescription medicines to patients and are featured with pharmacist service. As of June 30, 2022, we had a specialty pharmacy network of 103 pharmacy stores in Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Shenyang and other major cities.



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The number of our specialty pharmacy stores grew from 70 as of December 31, 2019, to 76 as of December 31, 2020, to 91 as of December 31, 2021, and further to 103 as of June 30, 2022. The following table sets forth the movement of the number of our specialty pharmacies for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
<b>Number of specialty pharmacies</b>				
As of the beginning of the periods indicated . . . . .	31	70	76	91
Built by ourselves . . . . .	30	7	10	9
Acquired from third parties . . . . .	9	2	8	3
Closed . . . . .	—	3	3	—
<b>As of the end of the periods indicated . . . . .</b>	<b><u>70</u></b>	<b><u>76</u></b>	<b><u>91</u></b>	<b><u>103</u></b>

The increase in the number of our specialty pharmacies during the Track Record Period was mainly attributable to the organic growth of our pharmacy network, through which we rapidly developed a deep understanding of the specialty pharmacy business. Notably, we built a significant proportion of our pharmacy stores by ourselves. Therefore, we are able to implement our pharmacist service under a unified standard across these pharmacy stores in a quick and efficient manner. On the other hand, we strategically acquired pharmacy stores from third parties after considering their location, customer base and “dual-channel” qualification, which allowed us to expand our pharmacy network faster. Pharmacies applying for the “dual-channel” qualification shall meet a series of standards and requirements which are stricter than those for pharmacies designated by social medical insurance (“醫保定點藥房”). Such standards and requirements include, among others, (i) maintaining the qualification as pharmacy designated by social medical insurance for certain years without non-compliance, (ii) staffing a certain number of pharmacology professionals including at least two full-time licensed pharmacists, as well as in-house delivery personnel, (iii) offering a certain SKU percentage of specialty medicines, (iv) equipping with store space of a certain GFA, facilities and equipment for specialty medicines storage and delivery, and (v) building up a procurement, inventory and sales management system and an information system connecting to the local medical administration’s information system. Currently, the local government has the authority to define such detailed standards and requirements, examine the applications and award the “dual-channel” qualifications. According to CIC, as of May 31, 2022, among 13,697 pharmacies designated by social medical insurance in Zhejiang province, only 392 of them had obtained the “dual-channel” qualification, accounting for approximately 2.9% of all the pharmacies designated by social medical insurance; while in Chengdu, only 35 pharmacies had obtained the “dual-channel” qualification, accounting for approximately 0.3% of a total 11,489 pharmacies designated by social medical insurance.

We also adjusted our store layouts from time to time and closed some of our pharmacy stores for commercial reasons. First, when there is a more suitable pharmacy location in a city where a store has already been opened (considering factors such as distance from hospitals, coverage of multiple hospitals in the same city, delivery cost, and transportation routes), the store will be relocated, and the new store will take over the business of the original store. Second, after acquiring a local pharmacy with more sales revenue and product offering, we comprehensively considered the store layouts and compared the market potential of the acquired store and the store built by ourselves, and may close the latter one. Third, we assess the overall market potential of specialty medicines in lower-tier cities, which may be greatly affected by policy changes, and in this regard we may close our pharmacy stores in such cities. For the six pharmacy stores we closed in 2020 and 2021, we operated them for 6 to 34 months before business closure.

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Our network expansion demonstrated our efforts to improve our capabilities to serve a larger population of patients and to tap new pharmaceutical business growth opportunities. The following table sets forth the number of our specialty pharmacies in different regions in China for the periods indicated.

	For the year ended December 31,			For the six months ended June 30, 2022
	2019	2020	2021	
<b>Number of specialty pharmacies as of the year end</b>				
Eastern China	16	22	28	28
Southern China	16	18	21	25
Western China	15	14	16	18
Northern China	23	22	26	32
<b>Total</b>	<b>70</b>	<b>76</b>	<b>91</b>	<b>103</b>

### *Sales and Operation Efficiency*

We see our specialty pharmacy business a professional service offering instead of simply a retail of pharmaceutical products. Because of the nature of our business, sales in our pharmacy storefronts are driven by our reputation among doctors and pharmaceutical companies as well as loyalty of customers who choose to stick with us for our professional services, we are not limited to opening our pharmacy stores with large floor areas or in locations with strong footage.

For the similar reason, we do not track operating metrics such as sales per square meters used by traditional retailers to monitor operation efficiency. Instead, we consider average sales per pharmacy store a meaningful number to measure efficiency and expanding coverage within a city. The following table sets forth our sales per store data for the periods indicated.

	For the year ended December 31,			For the six months ended June 30, 2022
	2019	2020	2021	
<b>Average monthly sales per pharmacy store<sup>(1)</sup> (RMB)</b>				
Eastern China	1,144,020	2,715,354	2,640,431	2,466,353
Southern China	1,188,930	2,212,408	2,897,286	2,395,170
Western China	1,331,773	2,267,231	2,784,355	2,804,184
Northern China	1,518,041	3,216,843	3,253,301	2,787,629
<b>Average</b>	<b>1,282,353</b>	<b>2,660,758</b>	<b>2,900,420</b>	<b>2,606,396</b>

*Note:*

(1) Calculated by dividing the total revenue generated by our pharmacy stores for the period by the total number of months during which our pharmacy stores recorded revenue for the period.

We monitor our operating and financial metrics to measure our growth in specialty pharmacy business:

- Our average monthly sales per pharmacy store increased from RMB1.3 million in 2019, to RMB2.7 million in 2020, and further to RMB2.9 million in 2021, but decreased to RMB2.6 million in the six months ended June 30, 2022.
- The average number of daily orders per store increased from twelve in December 2019, to 17 in December 2020, and maintained the same level in December 2021 and June 2022.
- The average revenue per order increased from RMB5,718 in December 2019, to RMB6,259 in December 2020, but decreased to RMB5,930 in December 2021, and to RMB5,329 in June 2022.

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The significant increase of average monthly sales per store and same store sales growth in 2020 was primarily because many of our specialty pharmacies were newly opened in 2019, which became ramping-up stores and matured stores in 2020. Such significant increase can also be attributed to the improvement of our pharmacist service and the optimization of our follow-up assessment service system. However, due to the implementation of centralized procurement by the PRC government in early 2021, which resulted in the significant decrease of the prices of certain specialty medicines in our product offering, our average monthly sales per store and same store sales did not experience a significant increase in 2021, as compared with our sales growth in 2020. Our average monthly sales per store in the six months ended June 30, 2022 was lower than that in 2020 and 2021, because specialty medicine retail business is generally at its lowest point in January to February when there is the Chinese Spring Festival.

Our average monthly sales growth was either in line with or higher than the industry peers during the Track Record Period. The average monthly sales per store of Company 1D, an industry peer as set forth in “Industry Overview—Overview of Specialty Pharmacy Business in China—Competitive Landscape of Specialty Pharmacy in China” in this prospectus, was approximately RMB0.7 million in 2019, RMB1.0 million in 2020 and RMB1.1 million in 2021, while the average monthly sales per store of Company 1E, another industry peer, was approximately RMB0.7 million in 2019, RMB1.4 million in 2020 and RMB1.5 million in 2021. Company 1D mainly offers medication, healthcare products and medical supplies, with a focus on specialty medicines, including drugs for chronic diseases, respiratory system diseases, digestive system diseases, immune system diseases and cancers. Company 1D’s pharmacy stores in tier-1 cities and near Grade III hospitals generally have an SKU of 40,000 to 50,000, and the stores in tier-2 or tier-3 cities generally have an SKU of around 10,000. Company 1D also has smaller stores with an SKU of 3,000 to 5,000. As of December 31, 2021, Company 1D had 264 pharmacy stores nationwide. Company 1E mainly offers drugs for chronic diseases, cancers and rare diseases. Its large-size stores generally have an SKU of over 40,000, and its small-to-middle size stores generally have an SKU of around 10,000. As of December 31, 2021, Company 1E had 51 pharmacy stores nationwide.

According to CIC, there are two other pharmaceutical distributors which we see as our industry peers, although their product offering significantly differ from ours as they also sell a large amount of non-specialty prescription medicines and OTC medicines. Company 1F is a Beijing-based company owned by a leading state-owned drug distribution company listed on the Shanghai Stock Exchange. Company F has a wide drug offering including both high-value specialty medicines for critical diseases, and prescription and OTC medicines for common and non-critical diseases, and operates a DTP pharmacy network of more than 300 pharmacy stores. According to CIC, the average monthly sales per store of Company F was approximately RMB1.1 million in 2019, RMB1.1 million in 2020 and RMB1.6 million in 2021. Company 1G is a Beijing-based company owned by a leading state-owned drug distribution company listed on the Hong Kong Stock Exchange. Company G has a wide drug offering including prescription drugs targeting cancers, rare diseases and chronic diseases, and operates a DTP pharmacy network of over 200 pharmacy stores. According to CIC, the average monthly sales per store of Company G was approximately RMB1.7 million in 2019, RMB1.7 million in 2020 and RMB1.7 million in 2021. Based on the foregoing, we see our average monthly sales per store was in line with our industry peers in 2019, and significantly higher than our peers in 2020 and 2021.

Our average revenue per order decreased in 2021, primarily because, apart from the impact of centralized procurement, a higher proportion of our specialty pharmacies were newly opened in 2021, as compared with 2020.

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### *Development Stages of Our Specialty Pharmacies*

We opened our first specialty pharmacy store in August 2017, and expanded our nationwide footprint steadily through organic growth and strategic acquisition. For all of our pharmacy stores that were in operation as of June 30, 2022, each of them was profit making in terms of its respective gross profit during the Track Record Period. The following table sets forth the financial performance of our specialty pharmacies, grouped by years of opening, that are either built by ourselves or acquired from third parties that constituted asset acquisition, during the year ended December 31, 2021, which are important metrics that our management tracks in evaluating our performance in initiating and running specialty pharmacy business by ourselves. We exclude in the following table the specialty pharmacies we acquired from third parties that constituted business combination, since the financial metrics of such specialty pharmacies would lead to inaccuracy when we evaluate our performance in growing a pharmacy's business from zero. For acquired stores that constituted asset acquisition or business combination, see "Financial Information—Significant Accounting Policies, Judgments and Estimates—Acquisition of Subsidiaries That are not a Business" and "Financial Information—Significant Accounting Policies, Judgments and Estimates—Business Combination" for more details. As shown in the table below, for illustrative purpose, stores opened in 2018 have an operating period of three full fiscal years as of December 31, 2021, and their average revenue and average gross profit in 2021 was RMB51.9 million and RMB2.8 million, respectively; stores opened in 2020 have an operating period of one full fiscal year as of December 31, 2021, and their average revenue and average gross profit in 2021 was RMB28.1 million and RMB1.5 million, respectively. Our pharmacy stores had been ramping up during the Track Record Period.

<u>Year of Opening</u>	<u>Number of Stores</u>	<u>Average Revenue in 2021 (RMB'000)</u>	<u>Average Gross Profit in 2021 (RMB'000)</u>	<u>Average Gross Profit Margin in 2021 (%)</u>	<u>CAGR of Revenue<sup>(1)</sup></u>
<b>2017</b> .....	1	40,629	2,182	5.4%	32.0% <sup>(2)</sup>
<b>2018</b> .....	28	51,881	2,797	5.4%	61.2% <sup>(3)</sup>
<b>2019</b> .....	26	24,095	1,292	5.4%	27.2% <sup>(4)</sup>
<b>2020</b> .....	9	28,085	1,478	5.3%	N/A
<b>2021</b> .....	18	3,723	193	5.2%	N/A

*Notes:*

- (1) Calculated for the period from the year immediately following the year of opening to 2021, such that the annualized revenue growth is calculated based on full years of business operation.
- (2) Calculated based on the average revenue in 2018 in the amount of RMB17,667,512.
- (3) Calculated based on the average revenue in 2019 in the amount of RMB19,959,485.
- (4) Calculated based on the average revenue in 2020 in the amount of RMB18,947,802.

We also closely monitor the financial performance of specialty pharmacies acquired from third parties that constituted business combination. The following are the financial metrics of all our specialty pharmacies (including those built by ourselves and acquired from third parties) grouped by year of business inception:

- For the group of pharmacy stores opened in 2018, the average daily sales per store increased from RMB104,317 in December 2019, to RMB155,946 in December 2020, to RMB156,065 in December 2021, but decreased to RMB146,212 in June 2022.
- For the group of pharmacy stores opened in 2019, the average daily sales per store increased from RMB51,257 in December 2019, to RMB87,425 in December 2020, and further to RMB97,651 in December 2021, but decreased to RMB86,553 in June 2022.
- For the group of pharmacy stores opened in 2020, the average daily sales per store decreased from RMB89,466 in December 2020 to RMB85,989 in December 2021, and further to RMB85,173 in June 2022.



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- The same store sales grew by 64% in December 2020 as compared to December 2019, grew by 2% in December 2021 as compared to December 2020, and grew by 7% in June 2022 as compared to June 2021.

Our pharmacy stores' average daily sales decreased in June 2022 as compared with December 2021 due to the impact of the outbreak of COVID-19 pandemic and the centralized procurement program updated in early 2022. Moreover, as we assess the market potential of specialty pharmacies, we had been adjusting the geographic layout of our pharmacy stores and accordingly, slowing down the daily sales of certain stores that we decided to close.

For the group of pharmacy stores opened in 2020, the average daily sales per store decreased primarily due to the centralized procurement. Since these stores are relatively new and have not achieved steady growth, they are more likely to be impacted by governmental policies, as compared with matured stores opened in and before 2019.

### *Initial Breakeven Period and Investment Payback Period*

We measure the initial breakeven period for our pharmacy stores that (i) had achieved initial breakeven as of June 30, 2022, (ii) were built by ourselves or acquired from third parties that constituted asset acquisition, and (iii) were in operation as of June 30, 2022. The initial breakeven period represents the period from the inception of business operation of such pharmacy stores, to the time when they recorded monthly net profit for the first time. The average initial breakeven period for such pharmacy stores was approximately 22.8 months.

We measure the investment payback period for our pharmacy stores that (i) had achieved investment payback as of June 30, 2022, (ii) were built by ourselves or acquired from third parties that constituted asset acquisition, and (iii) were in operation as of June 30, 2022. The investment payback period represents the time it takes for the accumulated profits attributable to us from such pharmacy stores to recover our initial investments. The average investment payback period for such pharmacy stores was approximately 27.1 months.

### *Impact of Centralized Procurement*

On July 30, 2020, the National Healthcare Security Administration promulgated the Interim Measures for the Administration of Drugs Covered by Basic Medical Insurance (《基本醫療保險用藥管理暫行辦法》, the “**Interim Measures**”), which became effective on September 1, 2020. Pursuant to the Interim Measures, expenses for the drugs listed on the Basic Medical Insurance Medication Catalogue (《基本醫療保險藥品目錄》, the “**Medication Catalogue**”) are eligible for reimbursement by the national social medical insurance. Drugs listed on the Medication Catalogue are further categorized under Class A and Class B categories. Drugs listed in Class A category, generally older and generic drugs, are 100% reimbursable by the national social medical insurance, while drugs listed in Class B category, generally innovative and premium drugs, are partially reimbursable by the national social medical insurance.

Specialty medicines are generally listed in Class B category after they enter into the Medication Catalogue, and their retail prices are then reduced by 17% to 70% generally. On the other hand, the sales volume will generally increase due to the price reduction. Our sales volume of specialty medicines that entered into the Medication Catalogue in 2020 typically increased by 80% to 1,500% in 2021 as compared with 2020.

Specifically, a purchase is eligible for reimbursement if the specialty medicine being purchased is for treating a particular indication covered by the national social medical insurance. For example,

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Camrelizumab for injection may be used to treat eight indications, including Hodgkin lymphoma, hepatocellular carcinoma, non-squamous non-small cell lung cancer, squamous non-small cell lung cancer, two kinds of esophageal squamous cell carcinoma, and two kinds of nasopharyngeal carcinoma. However, the Medication Catalogue only covered Hodgkin lymphoma, hepatocellular carcinoma, non-squamous non-small cell lung cancer and one kind of esophageal squamous cell carcinoma, on which the expenses for using Camrelizumab are eligible for reimbursement by the national social medical insurance.

Currently, local health security administrations have the authority to select from Class B category the drugs that may be reimbursed by the national social medical insurance, and they generally select only a limited number of Class B category drugs that patients are able to purchase from pharmacies with the “dual-channel” qualification, where the expenses are directly settled with the national social medical insurance fund through the patient’s social insurance account. In addition, the local health security administrations have the authority to determine the reimbursement ratio of their selected Class B category drugs, which typically ranges from 50% to 90%, and varies significantly from the geographical perspective.

Our specialty pharmacies offer 258 specialty medicines listed under Class B category as of June 30, 2022, accounting for approximately 62% of our total SKU as of the same date. However, due to the foregoing reasons, our revenue of Class B category specialty medicines reimbursed by the national social medical insurance in 2021 and the six months ended June 30, 2022, being a sum of RMB313.5 million, accounted for only 7.1% of our total medication retail revenue during the same period. Among these revenue, RMB256.5 million was contributed by oncology drugs, representing 5.8% of our total medication retail revenue, and RMB57.0 million was contributed by non-oncology drugs targeting other critical diseases such as autoimmune disease, cardiovascular disease and nervous system disease, representing 1.3% of our total medication retail revenue.

Although our average monthly sales per store was impacted by the centralized procurement, our gross profit margin did not experience a significant decrease during the Track Record Period. For the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, our gross profit margin of medication retail business was 5.4%, 5.6%, 5.4% and 4.9%, respectively. In addition to the reason that only a very small portion of our revenue sourced from sales of specialty medicines was reimbursed by the national social medical insurance, our procurement costs for these medicines also decreased significantly, since the sales prices offered by our suppliers decreased following admission to the centralized procurement program.

We will utilize our strategy to further expand and diversify our offering of specialty medicines to maintain and increase our medication revenue. In addition, as we closely monitor the development of centralized procurement policies, as industry norm, we negotiate with our suppliers for price adjustment compensation when the relevant specialty medicines are admitted in the centralized procurement program. For example, we had an inventory of a PD-1 drug which was newly admitted in the centralized procurement program in December 2020. Following the relevant price reduction in March 2021, we negotiated with the pharmaceutical company for price adjustment to our inventory so that our total costs on such inventory were reduced to the adjusted price per unit multiplied by the total units in our inventory. The pharmaceutical company then remitted the compensation amount to us.

### *Product Offering, Supply and Inventory*

We offer a wide variety of prescription medicines to patients, with a focus on high-value and innovative oncology drugs. We have maintained long-term cooperation with leading pharmaceutical

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manufacturers and distributors, providing us with steady resources in medicine supply. For the year ended December 31, 2021 and the six months ended June 30, 2022, we cooperated with more than 550 pharmaceutical manufacturers and distributors. Benefiting from our close relationship with well-known brands in the industry, we are able to offer a wide variety of specialty medicines particularly oncology drugs to meet the patients' growing and diversified demand. We are generally not affected by the seasonality of an individual medicine due to the wide coverage and diversity of our medicine offerings. The following table sets forth a revenue and SKU breakdown by specialty medicine offerings for the periods indicated.

	For the year ended December 31,												For the six months ended June 30,			
	2019				2020				2021				2022			
	Revenue (RMB'000)	%	SKU	%	Revenue (RMB'000)	%	SKU	%	Revenue (RMB'000)	%	SKU	%	Revenue (RMB'000)	%	SKU	%
Oncology drugs . . . . .	773,544	92.8	112	66.7	2,106,590	91.6	161	61.7	2,631,407	91.0	216	64.0	1,348,130	86.8	256	61.2
Non-oncology drugs . . . . .	60,072	7.2	56	33.3	194,251	8.4	100	38.3	261,795	9.0	121	36.0	205,784	13.2	162	38.8
<b>Total . . . . .</b>	<b>833,616</b>	<b>100.0</b>	<b>168</b>	<b>100.0</b>	<b>2,300,841</b>	<b>100.0</b>	<b>261</b>	<b>100.0</b>	<b>2,893,202</b>	<b>100.0</b>	<b>337</b>	<b>100.0</b>	<b>1,553,914</b>	<b>100.0</b>	<b>418</b>	<b>100.0</b>

Other than the various third party pharmaceutical suppliers, our pharmacy stores also procure medicines through our wholly-owned subsidiary Guangdong Dahui Medical Co., Ltd. (廣東達慧醫藥有限公司) (“**Guangdong Dahui**”), under which centralized procuring model we are able to improve our overall gross margin and optimize our product offering. Guangdong Dahui typically obtains first-level distribution qualification from pharmaceutical manufacturers, through which we are able to procure medicines at a lower price as comparing to purchasing from other pharmaceutical distributors, and all of our pharmacy stores will be authorized to sell the relevant medicines. Moreover, in circumstances of supply shortage of a particular medicine in the market, Guangdong Dahui's first-level distribution qualification enables us to secure supply directly from pharmaceutical manufacturers. Although we are inclined to procure medicines under our centralized procuring model, during the Track Record Period, procurement through Guangdong Dahui still represented only a small proportion in our total purchase, therefore, the resultant impact on costs and margins between external and internal supply sources was not material during the Track Record Period.

We have established a standardized supply and inventory management system to enhance our operation efficiency. For example, our information synchronization system for product purchase, sales and inventory facilitates a better overall inventory control, avoids product out-of-stocks or inventory backlogs, and enables us to meet sales demand while also making more reasonable use of funds.

Our suppliers are in charge of the logistics of medicines to our pharmacy stores and our warehouse operated by Guangdong Dahui, and we strictly follow the applicable rules and protocols to inspect and store the medicines in our inventory. In addition, we have an in-house delivery team in each of our pharmacy stores, providing direct delivery service to patients.

We have developed our proprietary inventory management platform connecting all of our pharmacy stores and managing their inventories under a centralized system. Since specialty medicines typically have high value and small volume, and do not require frequent replenishment, we scatteredly stored them at pharmacy storefronts for efficiency. Products that have passed our inspection will be placed in a proper storage environment area according to the storage condition requirements of such products. The temperature and humidity of each storage area are monitored and adjusted regularly on a daily basis to make them meet the storage condition requirements.

Regular maintenance and inspection of medicines stored in various regions will be carried out on a monthly basis, and abnormal conditions detected will be adjusted in a timely manner. On the last

business day of each month, a comprehensive inventory check will be carried out following the close of business. We also conduct random inventory check and real-time inventory check from time to time. Our store managers review the results of inventory check, figure out the reasons for any discrepancies, and make inventory corrections to ensure that the inventory in the system is consistent with the actual inventory.

#### *Payment Solution*

As of June 30, 2022, among our 103 specialty pharmacies, 76 of them are designated pharmacies for social medical insurance, where patients may purchase and reimburse through their social security accounts the expenses for prescription medicines and OTC medicines covered by the national social medical insurance. However, if patients purchase specialty medicines that are covered by the national social medical insurance at pharmacies that are designated pharmacies for social medical insurance but have not obtained the “dual-channel” qualification, expenses for such specialty medicines may not be reimbursed by the national social medical insurance, therefore patients would switch to public hospitals for prescription and purchase of such specialty medicines since the relevant expenses may be reimbursed when purchasing from public hospitals. In this regard, we see the “dual-channel” qualification an important one for our specialty pharmacy business for attracting patient traffic. As of June 30, 2022, 47 of our specialty pharmacies had obtained the “dual-channel” qualification from local health security administrations. When purchasing specialty medicines covered by the national social medical insurance as designated by the local health security administrations, eligible patients are able to pay through their social security accounts directly and reimburse typically 50% to 90% of their expenses for such medicines that are previously only reimbursable when purchased from public hospitals. In addition, our specialty pharmacies also provide direct billing with major insurance carriers, providing additional payment options to patients.

#### *Specialty Pharmacy Business Pricing and Revenue Recognition*

We price medicines taking into consideration of various factors including product category, market demand and competition, procurement price, marketing strategy, as well as the pricing terms of supply agreements with pharmaceutical manufacturers and distributors. For those specialty medicines that are included in the National Reimbursement Drug List, we price them according to the relevant prices set by the regulators. A patient’s cost for specialty medicines for each month of treatment is typically above RMB1,000, and may be as high as RMB100,000. We do not charge extra fee for our pharmacist service.

During the Track Record Period, a majority of the our revenue was generated from Specialty Pharmacy Business segment, and it has experienced rapid expansion, with revenue growing from RMB863.6 million in 2019, to RMB2,482.0 million in 2020 and further to RMB3,136.5 million in 2021. For the six months ended June 30, 2022, we recorded revenue of RMB1,646.4 million. We generally recognize revenue upon delivery of the medicines and pharmaceutical products. Although this business line earns a gross margin relatively lower than our other two business lines, it grew rapidly as we strategically expanded our pharmacy network by opening up more pharmacy stores across China, improved our product offering and strengthened our pharmacist service, all of which contributed to our Specialty Pharmacy Business revenue growth. We also see this expansion and a large store network strategically beneficial to our long-term goal not only to build up our patient management system and deepen our connection with oncology specialists for a nationwide coverage, but also to create a healthcare ecosystem in which our Specialty Pharmacy Business interacts with Physician Research Assistance and Health Insurance Services business lines, and to build a platform that brings quality and accessible care to a larger population.

***Source of Specialty Pharmacy Business Customers***

Our Specialty Pharmacy Business customers are generally patients receiving treatments in Class III hospitals, particularly oncology hospitals. As the “zero markup” policy drove public hospitals to lower its inventory of high-value innovative drugs with high management requirements and maintenance costs, prescriptions of such medicines have increasingly flowed out of public hospitals and into specialty pharmacies, therefore more and more patients with critical diseases such as cancer, choose to purchase specialty medicines from specialty pharmacies, particularly from those have obtained the “dual-channel” qualification. For our 103 specialty pharmacy stores that were in operation as of June 30, 2022, their average distance to hospitals is 248 meters. Particularly, 101 of these stores are located within 1,000 meters to hospitals, among which 82 stores are located within 300 meters to hospitals. Since most of our specialty pharmacies are located near Class III hospitals, and many of them have obtained the “dual-channel” qualification, patients prefer purchasing specialty medicines from our stores for convenience and professional pharmacist service. Our professional pharmacist service, which is valued-added to patients, is also an appealing factor. Moreover, our Health Insurance Services business also helps source customers for our Specialty Pharmacy Business as members enrolled in Hui Min Insurance may purchase specialty medicines from our specialty pharmacies and claim for reimbursement from insurance carriers in an efficient manner. We do not enter into any cooperative arrangement with doctors.

Our Specialty Pharmacy Business customers also consisted of pharmaceutical distributors and pharmaceutical companies, to a much lesser extent in terms of revenue contribution to our Specialty Pharmacy Business segment, during the Track Record Period. Guangdong Dahui has obtained the first level distribution qualification for certain medication from pharmaceutical manufacturers. Distribution qualification in the PRC is generally classified by geographic coverage and supply chain: that the first level distribution qualification typically refers to the distribution right within the geographic area of one or more provinces, and the second level distribution qualification typically refers to the distribution right within the geographic area of certain cities in the provinces covered by the upstream first level distributor, while the third level distribution qualification typically refers to that within the geographic area of certain counties in the cities covered by the upstream second level distributor. However, unlike the foregoing discussed classification of distribution rights, Guangdong Dahui’s first level distribution qualification refers to such right directly awarded by pharmaceutical manufactures, rather than other pharmaceutical distributors, in which case such distribution qualification shall be defined as the second, third or even lower tier distribution qualification.

Drugs sold in our medication distribution business mainly include active pharmaceutical ingredients (APIs), drugs in disease areas such as high blood lipid, immune system diseases and cancers. Non-oncology drugs sold in our medication retail business mainly include medications in disease areas such as cardiovascular, rheumatology, and ophthalmology, as well as antiviral drugs. Differing from the second or third level distribution qualification awarded by upstream suppliers which are pharmaceutical distributors, rather than pharmaceutical manufactures, our first level distribution qualification allowed us to lower our procurement costs and as a result, our sales price are competitive and other pharmaceutical distributors would purchase such medication from Guangdong Dahui and therefore became our customers. We also sold medication to pharmaceutical companies for their research and development activities or pharmaceutical manufacturing, which we view as a synergy between our Physician Research Assistance and Specialty Pharmacy Business. For the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, (i) the revenue generated by our medication distribution business were RMB28.0 million, RMB179.0 million, RMB240.4 million and RMB92.5 million, respectively, accounting for 3.2%, 7.2%, 7.7% and 5.6% of the total revenue of our Specialty Pharmacy Business, for the same periods, respectively; and (ii) our gross profit generated by medication distribution

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business were RMB1.4 million, RMB6.0 million, RMB27.5 million and RMB13.0 million, respectively, representing a gross profit margin of 5.2%, 3.4%, 11.4% and 14.0% for the same periods, respectively. The fluctuation of our gross profit margin for medication distribution business during the Track Record Period was attributed to the fluctuation of market supply of and demand for medication used in research and development activities, which resulted in the fluctuation of our costs and sale prices from time to time. During the Track Record Period, sales to pharmaceutical distributors accounted for a majority of our total revenue of medication distribution business, which were 85.3%, 59.2%, 57.1% and 67.6% for the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, respectively. Accordingly, sales to pharmaceutical companies accounted for 14.7%, 40.8%, 42.9% and 32.4% of our total revenue of medication distribution business, for the same periods, respectively.

Our medication distribution business only transact with pharmaceutical distributors for their further distribution and pharmaceutical companies for their research and development activities and pharmaceutical manufacturing. We had not participated in any medication procurement activities of public medical institutions. We have adopted a series of measures to ensure our compliance with the applicable regulations and policies with respect to the “two-invoice” system, including, among others, (i) requesting for and verifying the authenticity of the invoices issued by the pharmaceutical manufacturers/suppliers for the medication procured, (ii) checking the consistency between such invoices and the purchase orders, and the consistency of such invoices and purchase orders against the variety, specification and quantity of the medication, before we conduct inventory inspection and acceptance of such medication; (iii) retaining all the invoices, purchase orders and other relevant documents with respect to the procurement and resale of medication; and (iv) issuing invoices and purchase orders for medication sold to pharmaceutical distributors or pharmaceutical companies. Our Directors further confirm that as of the Latest Practicable Date, we had not (i) been deemed to have violated or circumvented any national or local regulations, rules or policies with respect to the “two-invoice” system by any competent authorities, or (ii) been imposed any administrative fines or penalties by, or received any warning or notice from any competent authorities for any non-compliance under the “two-invoice” system.

Based on the foregoing, as confirmed by our PRC Legal Adviser, our operation of medication distribution business has complied with applicable regulations and policies with respect to the “two-invoice” system, including the *Notice on the Implementation of “Two-Invoice” System regarding the Procurement of Medicine in Public Hospital (on Trial)* (印發關於在公立醫療機構藥品採購中推行“兩票制”的實施意見（試行）的通知), in all material respects, during the Track Record Period and up to the Latest Practicable Date.

In addition, as confirmed by our PRC Legal Adviser, the progress of implementation of the “two-invoice” system for medication varies in different provinces in China, and as of the Latest Practicable Date, there was no promulgated PRC laws clearly and specifically setting forth the administrative penalties on us if any of our downstream pharmaceutical distributors or pharmaceutical companies resell the relevant medication to public medical institutions in violation of the regulations in relation to the “two-invoice” system.

### ***Growth Drivers***

First, the incidence of critical diseases, particularly cancers, has increased during the past years in China, from approximately 3.9 million in 2015 to approximately 4.8 million in 2021, stimulating a growing demand for specialty medicine. The product offering in our specialty pharmacies has been focusing on high-value and innovative oncology drugs during the Track Record Period.

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Second, the Chinese government has initiated the reform to in-hospital medicines, and required public hospitals to eliminate the markup of medicines and reduce the proportion of medicine costs in the overall medical expenditure. The “zero markup” policy led specialty medicines to a loss-making business for public hospitals given the logistics and storage cost. Therefore, prescription outflowed to out-of-hospital pharmacies, and the proportion of market size of out-of-hospital specialty medicine increased from 14.0% in 2015 to 23.7% in 2021, which accelerated the development of specialty pharmacies.

Third, with a successful capture of the industry tailwind, we rapidly expanded our pharmacy store network during the Track Record Period, from 70 stores by the end of 2019 to 103 stores by June 30, 2022, which significantly contributed to our revenue growth in our Specialty Pharmacy Business.

### Physician Research Assistance

In our Physician Research Assistance business line, we engage in SMO business to support pharmaceutical companies in their drug R&D process from phase I to phase IV clinical trials. We also offer RWS service with respect to innovative drugs after their market launch, to a much lesser extent in terms of revenue contribution and number of projects. The diagram below illustrates how pharmaceutical companies correlate and interact with investigators through our Physician Research Assistance service:



The following table sets forth the revenue breakdown for our SMO and RWS businesses and their respective percentages of the total revenue of the Physician Research Assistance business segment for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,	
	2019		2020		2021		2022	
	<i>Revenue</i> <i>(RMB'000)</i>	%	<i>Revenue</i> <i>(RMB'000)</i>	%	<i>Revenue</i> <i>(RMB'000)</i>	%	<i>Revenue</i> <i>(RMB'000)</i>	%
SMO .....	153,219	88.5	179,008	96.4	234,568	95.8	146,351	98.1
RWS .....	19,976	11.5	6,644	3.6	10,289	4.2	2,803	1.9
<b>Total</b> .....	<b>173,195</b>	<b>100.0</b>	<b>185,652</b>	<b>100.0</b>	<b>244,857</b>	<b>100.0</b>	<b>149,154</b>	<b>100.0</b>

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The following table sets forth the operational and financial metrics of our SMO and RWS businesses as of the end of the periods indicated below:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
<b>SMO</b>				
Number of completed projects .....	63	64	67	99
Number of ongoing projects .....	459	669	926	936
Average contract value of projects newly awarded in the relevant period (RMB'000) .....	1,507	1,548	1,737	1,219 <sup>(3)</sup>
Backlogged contract value <sup>(1)</sup> (RMB'000) .....	430,811	657,369	991,711	980,414
<b>RWS</b>				
Number of completed projects .....	12	21	31	32
Number of ongoing projects .....	9	10	4	5
Average contract value of projects newly awarded in the relevant period (RMB'000) <sup>(2)</sup> .....	1,921	483	1,942	1,871
Backlogged contract value <sup>(1)</sup> (RMB'000) .....	5,742	6,234	3,507	6,123

*Notes:*

- (1) Backlogged contract value refers to the contract value representing the outstanding obligations to be performed in the ongoing projects.
- (2) The average contract value of RWS projects varied significantly in each year during the Track Record Period because we had a very small number of RWS projects, and these projects differed from each other significantly in terms of time duration, scope of study data and number of participants, etc. The average contract value of projects newly awarded in 2020 was significantly lower than that in 2019 and 2021 because such projects were mainly retrospective studies on a particular treatment plan targeting a particular indication, therefore our service fees were correspondingly much lower due to our significantly lower workload.
- (3) The average contract value of SMO projects newly awarded in the six months ended June 30, 2022 was significantly lower than that in 2021 due to normal business fluctuation, such as that more SMO projects involved a lower number of clinical trial sites.

### **SMO Service**

We provide SMO service to assist with project feasibility study, project approval application, trial site launch, participant enrollment and management, on-site management of data, files, drugs and materials, and site closure. Our clients in SMO business are mainly pharmaceutical companies, particularly those focus on oncology drug R&D. As of June 30, 2022, we had served 289 clients across trial sites in 87 cities.

We cooperate with 460 hospitals, covering five national cancer treatment centers and 27 provincial oncology hospitals. As of December 31, 2019, 2020 and 2021, and June 30, 2022, we had completed 63, 64, 67 and 99 SMO projects, and 459, 669, 926 and 936 SMO projects were ongoing, respectively, of which approximately 95% are studies on oncology drugs. A significant number of projects we conducted were multi-sited. For example, Project No. 1 may be conducted in Beijing, Shanghai, Guangzhou, Chengdu, Shenyang and other cities at the same time. The table below shows the number of projects we conducted in major cities including Beijing, Shanghai and Guangzhou as of the date indicated:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
Beijing .....	421	583	700	932
Shanghai .....	264	364	434	570
Guangzhou .....	198	290	360	736



The following table sets forth the details of our top five projects in terms of revenue contribution during the Track Record Period:

Top Five Projects in 2019	Service Type	Project Duration	Contract Value (RMB '000)	% of Completion <sup>(1)</sup>			Revenue			Contract Assets			Trade Receivables			Backlogged Contract Value <sup>(2)</sup>						
				As of June 30,			As of June 30,			As of December 31,			As of June 30,			As of December 31,			As of June 30,			
				2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	
Project F	SMO	2018-2022	8,729	91%	114%	122%	6,126	1,966	598	157	4,807	2,405	2,688	1,731	416	2,642	—	591	829	(1,255)	(1,889)	(2,056)
Project G	SMO	2018-2023	9,662	85%	110%	115%	6,220	2,589	454	116	2,926	3,294	381	49	952	299	478	478	1,360	(954)	(1,435)	(1,558)
Project B	SMO	2018-2023	15,082	39%	77%	90%	3,886	5,248	3,264	1,129	2,022	4,366	679	445	200	1,444	—	1,431	6,844	2,903	1,449	531
Project C	SMO	2018-2023	18,691	45%	69%	81%	5,812	4,174	2,161	543	—	—	—	—	81	323	—	—	10,285	5,860	3,570	2,995
Project H	SMO	2017-2024	11,448	62%	73%	76%	3,846	1,244	615	229	647	—	—	—	1,196	1,301	94	1,176	4,067	3,040	2,717	2,475
<b>Total</b>			<b>63,611</b>				<b>25,890</b>	<b>15,221</b>	<b>7,092</b>	<b>2,174</b>	<b>10,402</b>	<b>10,065</b>	<b>3,748</b>	<b>2,225</b>	<b>2,845</b>	<b>6,009</b>	<b>572</b>	<b>3,676</b>	<b>23,385</b>	<b>9,594</b>	<b>4,412</b>	<b>2,387</b>
Top Five Projects in 2020	Service Type	Project Duration	Contract Value (RMB '000)	% of Completion <sup>(1)</sup>			Revenue			Contract Assets			Trade Receivables			Backlogged Contract Value <sup>(2)</sup>						
				As of June 30,			As of June 30,			As of December 31,			As of June 30,			As of December 31,			As of June 30,			
				2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	
Project B	SMO	2018-2023	15,082	39%	77%	90%	3,886	5,248	3,264	1,129	2,022	4,366	679	445	200	1,444	—	1,431	6,844	2,903	1,449	531
Project E	SMO	2019-2022	17,043	14%	47%	73%	1,358	6,010	4,255	615	—	2,239	373	—	833	—	75	1,483	8,960	8,707	4,548	4,071
Project L	SMO	2019-2022	13,632	14%	50%	78%	1,773	4,616	3,696	612	350	1,943	2,271	133	—	—	60	—	11,752	6,860	2,942	2,293
Project D	SMO	2018-2022	14,878	22%	62%	84%	3,022	5,629	3,112	1,252	—	—	—	247	1,485	—	—	—	11,650	5,683	2,410	1,083
Project A	SMO	2018-2022	22,200	20%	56%	71%	3,479	6,509	4,794	1,168	—	2,183	1,795	2,524	5,106	—	—	—	15,120	8,220	6,531	5,294
<b>Total</b>			<b>82,835</b>				<b>13,518</b>	<b>28,012</b>	<b>19,121</b>	<b>4,776</b>	<b>2,372</b>	<b>10,731</b>	<b>5,118</b>	<b>3,349</b>	<b>7,624</b>	<b>1,444</b>	<b>75</b>	<b>2,974</b>	<b>54,326</b>	<b>32,373</b>	<b>17,880</b>	<b>13,271</b>
Top Five Projects in 2021	Service Type	Project Duration	Contract Value (RMB '000)	% of Completion <sup>(1)</sup>			Revenue			Contract Assets			Trade Receivables			Backlogged Contract Value <sup>(2)</sup>						
				As of December 31,			As of June 30,			As of December 31,			As of June 30,			As of December 31,			As of June 30,			
				2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021	
Project I	SMO	2019-2023	9,222	12%	55%	103%	110%	539	4,006	4,454	532	218	1,958	2,611	2,236	—	—	389	4,069	3,955	(293)	(880)
Project E	SMO	2019-2022	17,043	14%	47%	73%	76%	1,358	6,010	4,255	615	—	2,239	373	—	833	75	1,483	8,960	8,707	4,548	4,071
Project J	SMO	2019-2027	16,921	0%	19%	44%	53%	—	2,370	4,693	1,353	—	248	1,532	1,496	—	—	1,388	481	11,009	9,433	7,999
Project K	SMO	2019-2024	19,638	9%	29%	61%	75%	1,607	3,776	5,872	2,634	—	1,960	2,788	—	—	—	—	17,935	13,933	7,708	4,916
Project A	SMO	2018-2022	22,200	20%	56%	71%	76%	3,479	6,509	4,794	1,168	—	2,183	1,795	2,524	5,106	—	—	15,120	8,220	6,531	5,293
<b>Total</b>			<b>85,023</b>				<b>6,983</b>	<b>22,671</b>	<b>24,068</b>	<b>6,302</b>	<b>218</b>	<b>6,628</b>	<b>8,271</b>	<b>9,044</b>	<b>5,939</b>	<b>75</b>	<b>3,260</b>	<b>46,565</b>	<b>45,824</b>	<b>27,927</b>	<b>21,399</b>	

Top Five Projects for the first six months of 2022	Service Type	Project Duration	Contract Value (RMB '000)	% of Completion <sup>(1)</sup>			Revenue			Contract Assets			Trade Receivables			Backlogged Contract Value <sup>(2)</sup>			
				As of December 31,		As of June 30,	As of December 31,		As of June 30,	As of December 31,		As of June 30,	As of December 31,		As of June 30,	As of December 31,		As of June 30,	
				2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Project M	SMO	2020-2024	21,544	—	0%	12%	31%	—	2,498	3,712	—	—	—	—	—	21,531	18,883	14,962	
Project N	SMO	2019-2024	11,597	—	—	8%	41%	—	885	3,557	—	—	2,899	2,319	—	—	10,659	6,888	
Project K	SMO	2019-2024	19,638	9%	29%	61%	75%	1,607	3,776	5,872	2,634	1,960	2,788	—	17,935	13,933	7,708	4,916	
Project O	SMO	2020-2031	7,549	—	0%	22%	54%	—	1,562	2,269	—	969	2,428	63	—	1,852	5,893	3,488	
Project P	SMO	2021-2024	10,998	—	8%	34%	55%	—	810	2,679	2,266	—	—	1,554	—	10,139	7,299	4,897	
<b>Total</b>			<b>71,326</b>					<b>1,607</b>	<b>4,586</b>	<b>13,496</b>	<b>14,438</b>	<b>2,929</b>	<b>7,486</b>	<b>2,899</b>	<b>3,936</b>	<b>17,935</b>	<b>47,455</b>	<b>50,442</b>	<b>35,151</b>

Notes:

- (1) Measured by recognition of revenue based on number of completed monitoring visits to participants. During the Track Record Period, the completion percentage of certain projects exceeded 100% because the actual work volume exceeded the target volume and therefore resulted in recognition of additional revenue and over-backlogged contract value. Pursuant to the service agreements that we entered into with our SMO customers, the service fees provided in such agreements are estimated amount for reference and the final fees shall be settled based on the actual expenses arising from rendering of services, which, according to CIC, is also in line with the industry norm.
- (2) Backlogged Contract Value = Contract Value - Revenue\* 106%. 6% represents the value-added tax applicable to SMO service payable by the Company.

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In recent years, new entrants in innovative drug R&D are facing fierce competition in engaging clinical trial sites. Leveraging our extensive physician network and deep understanding of physicians' particular needs in scientific research and real-world clinical R&D environment, we connect pharmaceutical companies with physicians, who can then develop an understanding of the R&D efforts of these pharmaceutical companies and act as the PIs in their clinical trials. As of the Latest Practicable Date, our SMO business has established a clinical study team who have education background and/or work experience in the fields of medicine, nursery and/or biology. Our SMO clients, as the sponsors of clinical trials, engage investigators to conduct trials for their drugs, and our CRCs do not interact with our clients directly, but assist and cooperate with investigators closely in their day-to-day practice. Due to our outstanding quality of service and in-depth expertise for clinical development of innovative drugs, we have built up stable and long-term partnerships with a substantial number of multinational and domestically leading pharmaceutical companies. We maintained the largest market share of SMO service for oncology drugs in China in 2021.

Our SMO business focuses on clinical development of innovative drugs. The clinical development of an innovative drug involves various parties including sponsors, investigators, CROs, SMOs and regulatory authorities. The major differences in the service offering of CROs and SMOs are that CROs typically focus on preclinical drug discovery and research services, as well as clinical trial stage technical research and statistical analysis which are not within the service scope of an SMO. Currently, large-size CROs also offer SMO services to their clients. In a clinical trial, a CRA's role is mainly inspecting the clinical trials conducted by investigators to ensure that the clinical trials are carried out in accordance with the trial protocol and GCP; while a CRC's role is mainly assisting investigators in non-clinical works, therefore the roles of CRAs and CRCs have no overlap with one another.

Sponsors, typically being pharmaceutical and bio-tech companies, are our clients of SMO business. Sponsors' responsibilities in a clinical trial mainly include the following:

- Initiating clinical trials
- Managing, financing and monitoring clinical trials
- Applying for approval from regulatory authorities and ethics committee
- Selecting trial sites and investigators
- Preparing detailed SOP, and investigator's brochure setting forth the chemical, pharmacological, toxicological, and clinical information and data on the experimental drugs
- Designing trial protocols with investigators
- Providing experimental drugs manufactured, packaged and labeled according to GMP standards
- Reporting all adverse drug reactions (ADRs) that are both serious and unexpected to regulatory authorities and ethics committee
- Establishing an independent quality assurance system and assigning qualified personnel to monitor and audit clinical trials
- Preparing clinical trial reports that comply with GCP and relevant regulations

Investigators are responsible for the conduct of a clinical trial at the trial site. If a trial is conducted by a team of individuals, the investigator is the responsible team leader and may be called the PI. PIs are usually qualified physicians, and their responsibilities mainly include the following:

- Studying the nature of the experimental drug as described in the investigator's manual
- Complying with trial protocols, GCP principles and relevant regulations

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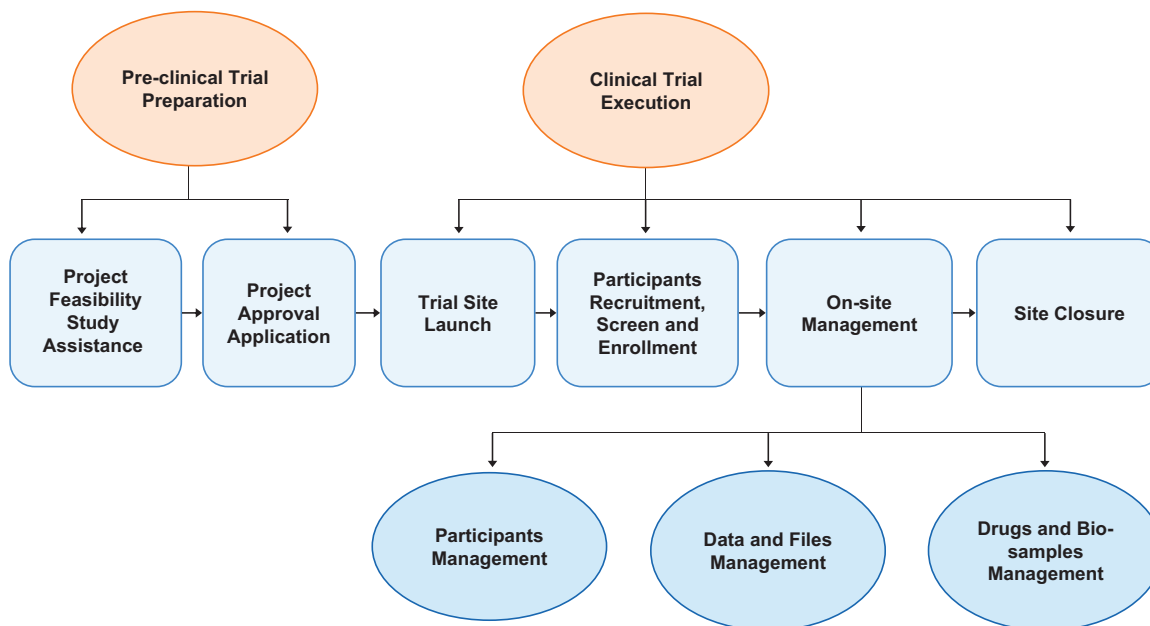
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- Submitting trial related documents to ethics committee for approval
- Providing adequate information to participants and obtaining their informed consents
- Enrolling eligible participants and maintaining the records of all screened participants
- Collecting, recording and reporting trial data accurately
- Using, storing and administering experimental drugs appropriately
- Reporting any serious AEs or reactions to regulatory authority and ethics committee
- Accepting the sponsor's and regulatory authority's supervision or inspection
- Participate in drafting trial summary report after completion of clinical trials

As PIs are usually doctors working full time in high-tier public hospitals, they lack sufficient time and energy to handle various non-clinical matters throughout the whole process of a clinical trial. Therefore, pharmaceutical and biotech companies prefer to engage SMOs to assist PIs on non-clinical matters in order to enhance the overall efficiency and compliance of the clinical trials.

Our SMO services encompass Phase I to Phase IV clinical trials. As of June 30, 2022, we had assisted more than 28 innovative drugs to be launched in domestic and international markets. We have established a standardized quality management system for clinical trial execution and management, and accumulated extensive experience and professional expertise from our years of practice. Leveraging our talent advantages, we are familiar with domestic and international regulatory requirements, and strictly follow standard trial protocol. As we pay close attention to our clients' needs, we have strong capabilities to provide tailored clinical trial execution and management service to various types of pharmaceutical companies.

We offer a one-stop SMO solution for our clients throughout the entire clinical trial process to achieve seamless integration and frictionless implementation, and ensure the overall efficiency and compliance of clinical trials. The diagram below illustrates our SMO service process:



- *Project Feasibility Study Assistance.* Based on the documents and materials provided by the sponsor, we assist on the feasibility study on the PIs' availability and qualification, and the

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availability and requirements of the trial site, usually the hospitals. As the PIs and trial site may be conducting clinical trials for competing products, we assist the sponsor to study the impact of such competing trials on the proposed clinical trial. As an important part of the feasibility study, we also assist the sponsor to work out the duration, procedure and requirements for the application with the ethics review committee, who will independently review, approve, conduct follow-up review of the trial protocol and related documents, and the methods and materials used to obtain and record the informed consents of the participants, to ensure that the participants' rights and safety are protected appropriately. An ethics review committee is generally established by a medical institution or an academic institution, and composed of at least seven members including experts in the fields of biomedicine and ethics, law and sociology. Moreover, when needed, we assist the sponsor in signing the non-disclosure agreement with the PIs to protect the sponsor's confidential information.

- *Project Approval Application.* We assist the sponsor to submit the application materials for approval from the trial site and its ethics review committee. In addition, we follow up with the application process from time to time and provide updates to the sponsor.
- *Trial Site Launch.* We assist sponsors in preparing for the trial site launch, including organizing and managing the documents, drugs, bio-samples, and equipment for the clinical trial, assisting with the project kick-off meeting, and providing a summary report as follow up with issues raised in the kick-off meeting.
- *Participant Enrollment.* We communicate with the sponsor proactively regarding the participant enrollment plan and assist the PIs in recruiting participants through various channels. Following the recruitment, we assist PIs in screening the participant candidates and enrolling those who are qualified according to the participant enrollment plan. We also coordinate to execute the informed consent forms by the participants to secure compliance with applicable rules and protocols.
- *On-site Management.* We dispatch our professionally trained CRC teams to the trial site to handle various matters that do not require medical judgment, including participant management, data and file management, drugs and bio-samples management, as well as multi-party coordination.
  - Our participant management includes providing medication guidance to each participant, recording each participant's characteristics and symptoms including AEs in the electronic data capture, arranging regular visits to and communication with participants, and assisting PIs to collect pathological sections. We also assist PIs to work out with the sponsor the impact of any noncompliance with the trial protocol.
  - In terms of data and file management, we update the investigator site file on a regular basis, collect, verify and upload participants' data and image files, and maintain the data privacy and confidentiality. Furthermore, we assist PIs to collect study materials and submit the various documents such as safety report or annual report to the ethics review committee.
  - To manage the trial drugs and bio-samples properly, we keep an adequate supply of drugs during the trial process, store, distribute and retrieve drugs and bio-samples according to the trial protocol, and organize the documents relating to the logistics of trial drugs and bio-samples.
  - We also coordinate site visits, investigation, and audit by various parties involved in the clinical trial.
- *Site Closure.* At the end of a clinical trial, we assist the sponsor in organizing and archiving the trial documents and materials, submitting annual or summary reports, and/or preparing for site visits by the NMPA and other relevant regulatory authorities. In addition, we assist sponsors with the site closing visit and process the payment of various fees incurred in the clinical trials.

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Our SMO services assist pharmaceutical companies to launch their innovative drugs in the domestic and international markets. For example, Pamiparib, a PARP inhibitor, was officially approved for marketing by the NMPA in May 2021, for the treatment of patients with advanced ovarian, fallopian tube or primary peritoneal cancer. We provided SMO services for Pamiparib's phase II clinical trial, which was started in 2017. Before the kick-off of the trial, we assisted the sponsor to prepare and submit the application materials for approval from the ethics review committee. We then coordinated for the site initiation in early November 2017, and assisted the investigators to recruit and screen eligible participants afterwards. In mid-December 2017, we assisted with the signing of informed consent forms by the first participant, the collection of such participant's medical history related information, and the screen and enrollment of such participant. Following the participant enrollment, we assisted investigators with the participant's blood sampling and drug dispensing. Afterwards, we collected the participant's laboratory test results and inspection reports, prepared CD-ROMs storing the participant's medical images, and uploaded the clinical information and data into the sponsor's evaluation system. Our CRCs also managed the documents of investigators and participants, and followed up with the investigators with respect to their progress on preparing the medical records and tumor assessments. Pamiparib's phase II clinical trial involved a total of 26 trial sites, enrolled 113 participants and lasted for 20 months. Before the site closure in June 2022, we assisted the sponsor to organize and archive all the trial materials, information and documents, and submit the summary report to the NMPA.

### *SMO Pricing and Revenue Recognition*

Our service contracts generally have a term of three to five years, and we price and charge service fees based on our workload, which primarily depends on the phase of clinical trials, the duration and complexity of trials, and the number of trial sites and participants. Typically we charge a total service fee ranging from RMB1 million to RMB15 million for each project. Our service proposals to customers are normally based on our estimation of total hours incurred for the whole project and hourly rate of our CRCs.

We provide a significant integrated service, resulting in a combined output in the SMO business, which is clinical trial data that meets the relevant regulatory standards and can be used by the customer to progress to the next phase of a clinical trial or solicit approval of a treatment by the applicable regulatory body. The performance obligation is satisfied over time as the output is captured in data and documentation that is available for the customer to consume over the course of the arrangement and further progress of the clinical trial because the over-time criterion in IFRS 15.35 (As we perform, the customer simultaneously receives and consumes the benefits provided by the our performance.) was met.

The Group recognizes revenue for SMO business over time using an output-based method. Revenue was recognized based on progress on the performance obligation, which is typically measured by the proportion of numbers of actual monitoring and follow-up visits to participants completed as of measurement date to the expected total numbers of monitoring and follow-up visits to participants stipulated in the service contracts.

### *Billing and Contract Assets*

Differences in the timing of revenue recognition and associated billings and cash collections result in recording of trade receivable, contract assets, and contract liabilities on the consolidated statements of financial position. Amounts are billed as work progresses upon achievement of contractual milestones in accordance with agreed-upon contractual terms.

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In general, billings and payments are established by contractual provisions including predetermined payment schedules, which may or may not correspond to the timing of the performance of services under a contract. Billings may occur subsequent to revenue recognition, resulting in recording of contract assets in instances where the right to bill is associated with a contingency (e.g., achievement of a milestone).

Contract assets arise when services have been rendered for which revenue has been recognized but the customers have not been billed. Contract assets include unbilled amounts typically resulting from revenue recognized in excess of the amounts billed to the customer. When a milestone is achieved by us, the corresponding contract assets will be billed and the outstanding amount will be transferred to trade receivables.

Generally, certain milestones are stipulated in the SMO service agreements specially for major projects, public and multi-national pharmaceutical companies may set forth time-consuming conditions, such as enrollment of dozens or hundreds of eligible participants, completion of one phase of clinical trials, completion of follow-up visits, etc. For example, one of our ongoing projects took approximately 11 months to complete the milestone of completing participant enrollment in 2019. In another project which targets to enroll over 500 participants, we spent approximately 10 months to complete 30% of enrollment, approximately 11 months to complete another 30% of enrollment and we are still currently enrolling the remaining 40%. Furthermore, for projects involving multi-center trials, we carry out various trials at multiple centers for different milestones at the same time, which may lead to significant contract assets during the Track Record Period.

The aging of our certain contract assets may exceed one year as the time interval between two milestones varies with the term of each individual agreement. The billing cycle tends to be prolonged when the trial design for a target drug is complicated or if the participant volume is large as stipulated in a milestone. The Company is of the view that the settlement risk with the contract assets aged over one year is low given (i) most of the related customers are listed pharmaceutical companies with high credit profile and sound financial condition; (ii) the related projects remain active without known impediments that might delay the progress of the projects; and (iii) the increase in contract assets balance is largely in line with the rapid development of Physician Research Assistance business.

Contract liabilities consist of advanced payments and billings on a contract in excess of revenue recognized. These amounts represent consideration received or unconditionally due from a customer prior to transferring services to the customer under the terms of the service contract. The contract liabilities are reported net of contract assets on a contract-by-contract basis at the end of each reporting period.

### ***Real-world Study Service***

Aiming to offer better services to pharmaceutical companies and further support our SMO business, our RWS provides analytics-driven research and digital commercialization solutions to pharmaceutical and biotech companies focusing on oncology therapies, which are the major customers of our RWS business. Our RWS services are provided separately from SMO services, and we enter into separate RWS service contracts with our clients.

A typical RWS involves data collection and analysis of an oncology therapy's real-world treatment and medical outcomes in a targeted patient group. Sponsors or investigators of the RWS delegate our CRAs to collect the target patients' information from the hospital's database storing medical records, including those information relating to medical history, symptoms, diagnosis, treatment plan, treatment

outcome, health condition following the treatment, and adverse reactions or events. Information relating to the target patients' identity is filtered. Our CRAs then enter such information into the database designated by sponsors or investigators. Our customers use those data to measure and monitor the actual treatment results, model of treatment and utilization of medical resources in the real world. Our RWS not only focuses on studies on the real-world treatment and medical outcomes of a particular oncology therapy, but also involves studies on the treatment pattern and medical outcomes of a particular disease, mainly cancers. For example, in 2017, we provided RWS service to our client on its retrospective observational study on the treatment pattern, clinical outcome and healthcare resource utilization with respect to Chinese patients with advanced/metastatic lung cancer, enrolling 8,800 participants in over 35 study centers. In this project, we routinely communicated and coordinated with investigators in all study centers, inspect and supervise their research work to ensure the study was carried out in strict compliance with the study protocol and GCP, and periodically update, document and upload the participants' information, study materials and documents according to the study progress. We also utilize our software and technology platforms to enhance the RWS process. For example, we have built up an intelligent follow-up system, through which our CRAs may conduct follow-up visits on participants and record the information and data obtained from the follow-up visits in a more efficient manner.

In October 2018, we assisted Bevacizumab (“安維汀®”) to obtain the approval for new indications. We also cooperated with pharmaceutical companies on RWS projects studying pharmacoeconomics and real-world treatment patterns and outcomes, and collaborated with physicians to conduct studies on multi-patient RWS and publish articles in leading international and domestic academic journals and magazines.

Our RWS also functions as a strong supplement to our Specialty Pharmacy Business. We cooperated with physicians to study on the effects of patient management service based on the statistics generated between January 1, 2019 to June 30, 2021 from our follow-up assessment service provided by our specialty pharmacies. The first academic research article studying the duration of treatment through a real-world study by specialty pharmacy was published in China in June 2021.

#### *RWS Pricing and Revenue Recognition*

We charge our clients RWS service fee based on the scope of data to follow and collect as well as the complexity of services including whether our supplemental software and technology platform are required and used. We price our service fee based on our CRAs' hourly rate and the estimation of total hours we will spend in the whole project. We generally provide our clients a detailed fee estimation table setting out the CRAs' hourly rate, estimated working hours in each stage of the project, as well as the number of trial sites, if applicable. Typically we charge a total service fee ranging from RMB0.5 million to RMB3 million for each project. The terms of our RWS service agreements are typically one to three years, which may be adjusted according to the progress of the clinical trial or study project.

We provide a significant integration service resulting in a combined output in the RWS business, which is a series of data report that can provide insights to our clients on oncology therapies. The performance obligation is satisfied over time as the output is captured in data and documentation that is available for the client to consume over the course of the arrangement and furthers progress of the RWS project because the over-time criterion in IFRS 15.35 (As we perform, our client simultaneously receives and consumes the benefits provided by our performance.) was met.

The RWS contracts provide the right to payment for the work performed to date, which is invoiced to the client as work progresses, either based on data report delivered or the achievement of billing milestones. We typically recognize revenue under these contracts over time, using a 'units delivered'



output method as the data or reports are delivered to our clients to measure progress and transfer of control of the performance obligation to the clients.

### ***Source of Physician Research Assistance Clients***

We source Physician Research Assistance clients through our business and marketing efforts. Our sales and marketing team prepares marketing and pitch materials and presents our service, experience and strengths to potential clients. More importantly, our extensive experience and quality of service not only secure long-term clients, but also create a word-of-mouth effect for developing new clients.

### ***Growth Drivers***

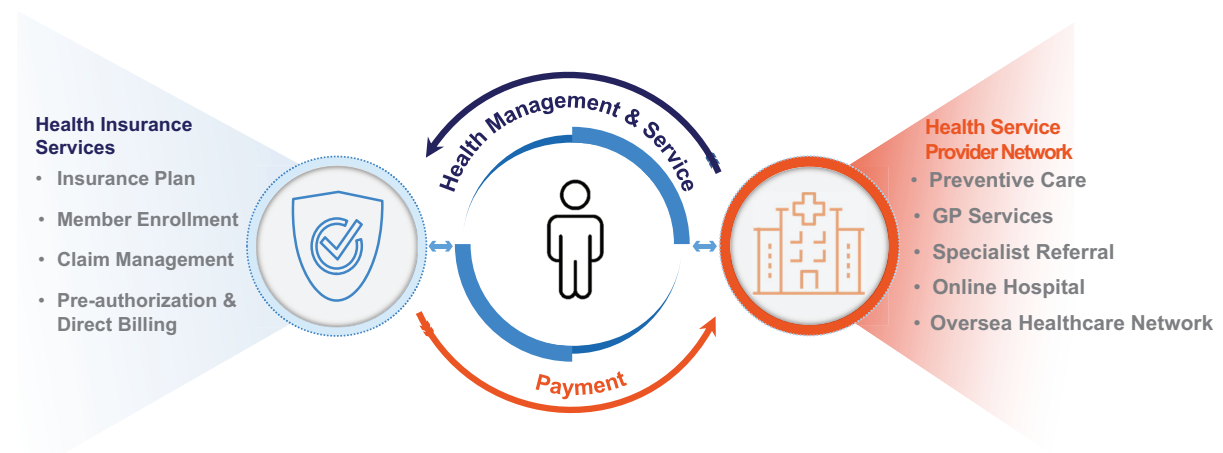
First, the R&D investment in innovative drugs by pharmaceutical companies has increased significantly during the past six years, from RMB68.2 billion in 2015 to RMB218.6 billion in 2021, at a CAGR of 21.4%. The number of newly registered clinical trials for innovative drugs, excluding bioequivalence studies, increased from 749 in 2015 to 1,939 in 2021. Particularly, the number of those trials for oncology drugs increased from 148 in 2015 to 802 in 2021. Since our SMO had been focusing on oncology drugs during the Track Record Period, we benefited from the rapid growth of investment in R&D of innovative oncology drugs.

Second, the Chinese government promulgated a series of rules and regulations that require clinical trials to be more strictly compliant with applicable standards and protocols. As our SMO service has adopted a mature set of practice process, and our CRCs are well trained and experienced in assisting investigators to handle various non-medical works in different types of clinical trials, we are capable to help enhance the overall compliance of clinical trials, thereby bringing more values to pharmaceutical companies.

Third, our proactive marketing strategies and business development efforts effectively promoted our brand name to potential clients, as well as strengthened our collaborative relationships with existing clients, thereby bringing more workflow for our Physician Research Assistance business line.

### **Health Insurance Services**

We provide member-oriented health insurance services, with an offering of full-spectrum health management services, and differentiated and specialized health insurance plans.



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Our Health Insurance Services connects our members with GPs, specialists, medical institutions, physical examination institutions, rehabilitation centers, pharmacies and insurance carriers, to provide a solution encompassing products, services and payment solutions. We sell health insurance plans to our individual and enterprise, and collect insurance premium on behalf of insurance carriers. After the insurance policies become effective and the insurance carriers underwrite such insurance policies, the insurance carriers pay us the brokerage commission, which is typically determined based on a percentage of the total premium collected. Individuals who successfully enroll in our health insurance plans become our members during the insured period, during which time we provide them health management services which we view as our differentiated services for customer attraction and retention. We procure health management services from our selected third-party health service providers and settle payments with them directly from our own accounts. We incur costs as we provide health management services to our members.

Leveraging our deep data insights and strong data analytic capabilities, we co-design and co-develop various specialized health insurance products with insurance carriers. We design health insurance products' coverage of the varieties of diseases and medicines based on our data insights to local demographics, and propose the insured amount for each covered disease and relevant medicines, as well as the premium price as we utilize our actuarial capabilities. Insurance carriers review our design before we finalize with insurance carriers the detailed terms of the health insurance products. We also provide claim processing services to insurance carriers. Upon receipt of a reimbursement claim submitted by members, we review and examine such reimbursement claim, and then submit a preliminary reimbursement approval or rejection to insurance carriers. After insurance carriers revert the reimbursement approval, we process the reimbursement funds to our members. Leveraging our capabilities to co-design and co-develop specialized health insurance plans as well as provide professional claim processing services to insurance carriers, our Health Insurance Services business grew steadily and rapidly, with the number of customers using such services grew from eleven in 2020, to 23 in 2021, and further to 29 in the six months ended June 30, 2022. Although our first health insurance plan was launched in 2019, the insurance carrier underwriting such plan was recognized as our customer in 2020 rather than 2019 because the relevant commission was settled with us in early 2020.

Moreover, we take responsibilities to promote and sell health insurance products, leveraging our strong marketing capabilities and experience as we are the first mover to launch Hui Min Insurance in the market. As we are licensed to engage in insurance brokerage business, we charge insurance carriers brokerage commission, which is determined based on a fixed percentage of premium, as agreed in the insurance brokerage contract between insurance carriers and us. Commissions paid by insurance carriers fairly reflect our overall contribution in the co-designing, co-development, promotion and sales of our specialized health insurance products, and also represent the service fee for our provision of health management services and claim processing services to insurance carriers, as a series of professional third-party services which is a mature practice in the health insurance market.

As we offer our members health management services, we select and cooperate with reputable third party healthcare vendors. While we do not employ any GP or specialist, we have established strategic and collaborative agreements with our third party healthcare providers including medical institutions, physical examination institutions. After receiving requests from our members, we contact the appropriate healthcare providers for health management or medical treatment services to our members. Expenditure on healthcare services may be reimbursed or directly paid by insurance carriers if covered by the insurance products. The diagram below illustrates the correlation and interaction among

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insurance carriers, healthcare providers and members and patients through our Health Insurance Services platform:



*Notes:*

- (1) Includes preventive care, GP services, specialist referral, online hospital and oversea healthcare network.
- (2) Includes healthcare plan, member enrollment, claim management, pre-authorization and direct billing.
- (3) We collect insurance premium from members since the commencement of enrollment period, which is typically one to two months for Hui Min Insurance. We temporarily deposit such cash in our separated bank accounts until we settle with insurance carriers.
- (4) During the enrollment period, we settle the premium with insurance carriers from time to time on a periodic basis after we accumulate a certain amount of premium in our separated bank accounts. Balance of the premium in our bank accounts is typically settled within 60 days following the expiration of enrollment period of the insurance product.
- (5) For insurance products that we do not provide claim processing service, reimbursement is paid directly by the insurance carrier to the member/patient.

Our health management services offers a series of proactive, continuous and tiered health management services, ranging from health risk prevention, disease management to rehabilitation, with an offering of physical examination, online and offline health consultation, medical care navigation, hospital and specialist referral, prescription renewal and pharmacist service. In order to better serve our members in addition to providing high quality health management services from selected health vendors, we co-designed and co-developed specialized health insurance plans with industry leading insurance carriers. The costs for medical and health management services as well as prescription medicines incurred by our members can be directly paid or reimbursed through their health insurance plans. Our health management services and health insurance plans complement each other to create a synergistic integrated business model.

### ***Our Health Management Network***

Our health management network serve individuals and connect them with GPs, specialists, medical institutions, physical examination institutions, rehabilitation centers and pharmacies, aiming to establish a comprehensive health management solution platform to meet our members' growing and diversified needs underserved by traditional medical institutions. As of June 30, 2022, our health management network encompassed over 1,200 Class III Grade A hospitals in over 150 major cities across China. It facilitates our members with a convenient access to over 55,000 doctors, so that they

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are able to receive efficient and effective treatment and advanced medication that are otherwise unavailable through their local resources.

We value preventive care as important as disease treatment. We offer a variety of valuable services addressing health management goals to identify and prevent health risks, fundamentally moving people toward healthier lifestyles and better health conditions. Our health management service includes physical examination design, examination report analysis, health consultation, health profile management, health risk assessment, early tumor screening and follow-up assessment, providing an opportunity for our members to discover their own health status and issues. We selectively cooperate with reputable physical examination institutions to provide tailored physical examination services to our members. We typically enter into one-year term cooperation agreements with these vendors, and settle payments periodically based on the number of members undertaking physical examinations and the prices of their physical examination packages. In addition, for our members who are pregnant, children, seniors or patients with chronic disease, we provide tailored health management service based on their particular needs, such as in-home medical service and post-hospital rehabilitation assistance.

GPs in our network make personalized advice on preventive care, treat all common medical conditions and refer patients to hospitals for urgent and specialist treatment. GPs are generally the first point of contact for our members that are anxious about a health issue that they see necessary for a consultation. GPs assess the patient, and then make swift and effective decisions based on the presenting symptoms, as well as the patient's current and previous medical history. GPs also assess the likelihood of a specific illness over others. Moreover, we dispatch GP teams to our enterprise clients to conduct on-site consultation, effectively saving their employees' time and efforts to seek a consultation in medical institutions.

We function as the point of contact for our members from the beginning of a medical journey to the end, including preliminary diagnosis, follow-up visit, specialist referral, medicine prescription, rehabilitation assistance and chronic disease management. We strategically cooperate with reputable medical institutions based on one-year term agreements, which are typically renewed automatically unless terminated by either party upon 30-day notice in advance. We offer outpatient and inpatient appointment reservation, as well as direct billing services to our members. Medical expenses are generally settled with medical institutions on a monthly basis according to the fees actually incurred by our members. In a typical service process, a GP conducts a preliminary check on our members and follows up with a treatment paradigm or prescription. When needed, the GP would recommend our members to seek further diagnosis or treatment in hospitals of higher tiers that have better resources of specialists, and connect them with an appropriate specialist. Leveraging our health service provider network and specialist referral capabilities, our members are able to significantly save time and energy to find the right hospital and specialist to achieve a more precise treatment. For example, oncology patients need an average of three hospital visits to locate the right oncology specialist. In contrast, our GP service allows our members to locate the right specialist through a one-time consultation. In addition, we facilitate expedited inpatient and outpatient appointments for members with critical diseases. After they are discharged from hospitals, we assist them to seek rehabilitation treatment from appropriate medical institutions. Moreover, we offer upgraded service to meet our members' premium medical needs. We have personnel with medical background to accompany our members throughout the whole process of a medical journey.

We provide our members remote access to medical service through telephone hotline, through which they can consult with GPs from 9 am to 6 pm. We also connect our members to online hospital service which primarily includes health consultation, health management, health education, follow-up diagnosis and prescription renewal services.

### ***Our Health Insurance Plans***

Chinese people are increasingly aware of the need for more robust insurance coverage and health management services. However, many remain underserved by traditional insurance carriers and medical service providers. We partner with insurance carriers to develop specialized health insurance plans to address this need. As of June 30, 2022, we had launched 24 types of health insurance plans, enrolling approximately 23.9 million individual members and 876 enterprise clients.

We provide claim management service to our members and support claim information compilation and preliminary claim review. Relevant documents can be submitted digitally for our initial review. We then pass our initial review results to relevant insurance carriers for their final review and settlement approval, greatly improving claim efficiency and member satisfaction. In addition, through our pre-authorization service, qualified members can enjoy direct billing and payment. Empowered by those featured services, we are able to provide smooth customer experience that reduces frictions and unnecessary delays, and aligns interests and incentives of our members.

We tailor our health insurance plans to meet our members' diversified needs, considering the insurance coverage, premium pricing, insured amount, as well as demand for medical and health services. Leveraging our data insights and in-house data analytics and actuarial capabilities, we have co-developed differentiated health insurance plans with major insurance carriers. While we provide various services to our plan members, insurance carriers are our customers from accounting perspective as we receive commissions from them.

As of the Latest Practicable Date, our health insurance product portfolio included two major group insurance plans, namely Hui Min Insurance (“惠民保”) and Enterprise Health Plans (“健康保”). Both Hui Min Insurance and Enterprise Health Plans have a term of one year, and members pay the premium on their first purchase and on an annual basis upon renewal. As of the Latest Practicable Date, we have offered health management services only to the members enrolled in Enterprise Health Plans.

While it is common in China for consumers to purchase health insurance plans from various insurance intermediary and brokerage platforms instead of directly from insurance carriers for the convenience and abundance of choices, we believe our health insurance plans are especially appealing to our target customers, since they are tailored to meet different groups of people's particular needs with respect to insurance protection and healthcare services and offered at a reasonable price. For example, middle-class people are willing to pay a higher premium for enhanced insurance protection and premium healthcare service, which brings them better consumer experience and saves more time and energy, while people with lower income are more price sensitive when they consider paying for premium healthcare service.

We launched our first health insurance plan in late 2019. Our operating metrics as follows show our rapid growth in Health Insurance Services business:

- Our average monthly sales revenue of health insurance plans increased from RMB185,000 in 2019, to RMB2.7 million in 2020, to RMB7.7 million in 2021, and RMB15.4 million in the six months ended June 30, 2022.
- The number of insurance plans we had launched increased from one as of December 31, 2019, to 12 as of December 31, 2020, to 17 as of December 31, 2021, and further to 24 as of June 30, 2022. Specifically, although Hui Min Insurance is launched in various cities, we deem it as one and the same type of insurance plan, and accordingly, we had launched eleven Enterprise Health

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Plans as of December 2020, 16 Enterprise Health Plans as of December 31, 2021, and 23 Enterprise Health Plans as of June 30, 2022.

- The number of monthly active members increased from 0.7 million in December 2019, to 5.3 million in December 2020, to 8.3 million in December 2021, and further to 10.1 million in June 2022.

### *Hui Min Insurance*

We co-design and co-develop Hui Min Insurance leveraging our data insights, our in-house data analytic and actuarial capabilities generated from our proprietary database. Supported by local governments, we are capable to design Hui Min Insurance for each city to better adapt to its local demographics. For example, esophageal cancer is specifically covered in Chengdu, where such cancer has a relatively high incidence. We have launched Hui Min Insurance in one province and 16 major cities including Xuzhou, Chengdu, Kunming and Suzhou. The number of individual members of Hui Min Insurance increased from 0.7 million in December 2019, to 5.9 million in December 2020, to 14.2 million in December 2021, and further to 23.7 million in June 2022.

Hui Min Insurance is endorsed by the local governments and underwritten by leading insurance carriers in China. Designed as an insurance product with minimum enrollment requirements targeting the broadest population, people participating in the national basic medical insurance are eligible to purchase Hui Min Insurance, regardless of their age or past medical history. As a strong complement to the national basic medical insurance, Hui Min Insurance provides additional coverage of large self-pay bills for critical diseases. It also covers over eight types of rare diseases, which at all times incur incredibly high medical expenses that are not affordable by most people. Hui Min Insurance also covers a variety of high-value innovative drugs treating cancers and other critical diseases. Addressing the huge demand for insurance coverage over critical diseases at an affordable premium rate, Hui Min Insurance quickly received popularity following market launch.

We offer Hui Min Insurance on our Weixin official accounts exclusively. The following screenshots show our Weixin official accounts that are mobile-accessible, user-friendly and informative.



The following screenshots show the online interfaces how members purchase and enroll in Hui Min Insurance through our Weixin official accounts, taking Hui Rong Bao (惠蓉保), Hui Min Insurance for residents in Chengdu, Sichuan province, for illustrating purpose.



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Our Weixin official accounts are designed to streamline the various transaction processes, ensure smooth user experience, and reduce the time between first query and the completion of a transaction. Our members only need to fill in the enrollment form online and disclose their pre-existing medical conditions before purchasing, with physical examination result not being a prerequisite. Our Weixin official accounts also allow our members to renew the product within minutes. Moreover, we support claim information compilation and preliminary claim review. Relevant documents can be submitted digitally for our initial review. We then pass our initial review results to relevant insurance carriers for their final review and settlement approval, greatly improving claim efficiency and consumer satisfaction. Empowered by our efficient claim review system, we are able to provide smooth consumer experience that reduces frictions and unnecessary delays, and aligns interests and incentives of our members.

### *Enterprise Health Plans*

Enterprise Health Plans offer a comprehensive array of member-oriented health benefits and services, allowing our enterprise clients to select from a pool of different disease coverage, insured amount, geographical coverage, as well as specialized medical services for their employees. As of June 30, 2022, Enterprise Health Plans served 876 enterprise clients in 83 cities across China. Enterprise Health Plans is a group health insurance. The number of our individual members participating in Enterprise Health Plans increased from approximately 9,800 in December 2020 to approximately 138,900 in December 2021, and further to approximately 259,400 in June 2022. In addition to the insurance coverage for medical expenses, critical disease compensation and disability and death compensation, Enterprise Health Plans provide targeted health management solutions according to the employees' health status, occupational characteristics and industry risk factors, thus to meet the health needs of the employees and their families. Our health management services underlying Enterprise Health Plans include, among others, on-site GP service, customized physical examination design, health seminar and first aid training. Please see “Business—Our Services—Health Insurance Services—Our Health Management Network” in this prospectus for more information about our health management service available for members enrolled in Enterprise Health Plans.

Targeting the executives, core technical staff and other key talents of our enterprise clients, we design and offer Premium Health Plans with a more comprehensive, flexible, global coverage to build a high quality service system of “high-end insurance + premium medical care”, helping our enterprise clients attract and retain key talents and enhance company brand. The key features of Premium Health Plans include, (i) global coverage; (ii) flexible choice of medical institutions, including specialized hospitals, international departments of public hospitals, high-end private hospitals and dental clinics; (iii) flexible choice of a variety of optional benefits and a wide coverage over maternity, dental, ophthalmology, vaccine and physical examination; and (iv) direct billing and payment channel through our Health Insurance Services network.

### *Health Insurance Services Pricing and Revenue Recognition*

Insurance brokerage commission is currently the primary source of revenue in our Health Insurance Services business line. We price our health insurance products considering the market condition, the target consumers' income level and our costs, among various other factors. The annual premium of Hui Min Insurance ranges from RMB49 to RMB150, and the annual premium of Enterprise Health Plans for each individual typically ranges from RMB71 to RMB19,242. The total amount of premium we received for insurance products were RMB211.7 million, RMB825.7 million for the years ended December 31, 2020 and 2021, and RMB781.3 million, for the six months ended June 30, 2022, respectively. We typically charge insurance carriers commission from 10% to 30% of the premium, taking into consideration the total number of members enrolled in and total amount of premiums



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received for each insurance product. Our commission rate was in line with market practice, as such rate charged for health insurance products by leading insurance brokerage companies in China ranged from 10% to 40% during 2019 to 2021. We recognize the entire amount of commission as our revenue after an insurance policy signed by our members becomes effective, and the insurance carrier underwrites such insurance policy and settles commission with us.

To a much lesser extent in terms of revenue contribution, our Health Insurance Services business derived revenue from health management services provided to insurance carriers and other enterprise clients. Before we expanded our Health Insurance Services business to health insurance plans in late 2019, our Health Insurance Services business line, initially launched in 2018, was primarily providing health management services to insurance carriers and enterprise clients, which is a typical third-party administrator (TPA) service that insurance carriers would seek professional third-party contractors to assist with. As commercial health insurance plans generally offer health management services, such as physical examination, hospital and specialist referral and medical care navigation, insurance carriers outsourced these services to us, as we have strong service capabilities leveraging our health service provider network. For example, we strategically cooperate with many reputable third-party physical examination institutions. When a member of health insurance plans contacts us for physical examination, we recommend the appropriate physical examination institution and physical examination package based on the insurance plan policies, as well as other considerations including such member's gender, age and health condition. We then schedule the physical examination for the member.

Our revenue from insurance brokerage commission was RMB27.4 million in 2020, RMB87.1 million in 2021, and RMB90.5 million in the six months ended June 30, 2022, representing 85.5%, 94.1% and 98.2% of our total revenue from Health Insurance Services business in the relevant periods, respectively. Our revenue from health management services was RMB2.2 million in 2019, RMB4.6 million in 2020, RMB5.5 million in 2021, and RMB1.6 million in the six months ended June 30, 2022, representing 100.0%, 14.5%, 5.9% and 1.8% of our total Health Insurance Services revenue in the relevant periods, respectively.

### ***Source of Health Insurance Services Customers***

We source our Health Insurance Services customers through our business development and marketing efforts, such as promotional activities and advertisements. Particularly for Hui Min Insurance, as we have endeavored to build and maintain a collaborative relationship with local governments, Hui Min Insurance, endorsed by local governments, presented reliability and trustworthiness to our target customers.

### ***Growth Drivers***

First, the market size of commercial health insurance in China experienced a steady growth during the past years, from RMB241.0 billion in 2015 to RMB880.4 billion in 2021, at a CAGR of 24.1%.

Secondly, the Chinese government has issued a series of policies to encourage insurance companies to develop diversified and specialized health insurance products to supplement the national basic medical insurance. For example, the cap on the proportion of health management service costs in total net premium was raised from 12% to 20%, and commercial insurance companies were encouraged to dock its information system with that of privately owned medical institutions, thus to facilitate a one-stop payment settlement system.

Moreover, leveraging our data insights accumulated over the past years, we steadily improved our capabilities to co-design and co-develop differentiated and specialized health insurance products adapt

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to market needs, which contributed to our revenue growth in our Health Insurance Services business during the Track Record Period.

### TECHNOLOGY AND DATA

Technology and data are core to our business. We have developed our technology and data infrastructure to enhance our operations and services. Utilizing our expertise and statistics accumulated from our day-to-day operations, our technology and data infrastructure well support our Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services operations.

For our Specialty Pharmacy Business, we, on an as-needed basis, collect and use personal information of patients, including their name, gender, age, mobile number, symptoms, diagnosis and treatment status, purchased drugs, adverse reactions, survival status, medication consultation, and other personal information. These data are mainly collected for the purpose of providing specialty medicines and pharmacist services, or conducting medical statistics and research, and we obtain the patients' written consents before we collect and utilize such information. In addition, to facilitate their payments through insurance, patients may voluntarily provide additional personal information such as insurance application records and the insurance claim settlement records generated in the course of providing services.

For our Physician Research Assistance business, we do not collect or control the personal information of subjects during business operation. When providing SMO services, we are designated by our clients in entering and sorting out the personal information of subjects, such as clinical symptoms, adverse reactions and image reports, provided that such information is directly transmitted and stored in the Electronic Data Capture system, which is a software owned and operated by sponsors to collect and transmit clinical trial data generated from the clinical trials. Accordingly, for our Physician Research Assistance business, we do not control over the personal information of the examinee as we perform data entry according to the instructions of our clients. The data stored in the system is controlled and operated by our clients.

For our Health Insurance Services business, we, on an as-needed basis, collect and use the personal information of our members, including their name, gender, age, mobile number, ID, health conditions, purchased insurance products and other personal information. These data are mainly for the purpose of providing the users with health insurance plan services and health management services. In addition to the information of identity as mentioned above, we also collect information in relation to medical records of our members for the purpose of providing services including advance payment of expenses and settlement of claims.

We invest substantial resources to improve our technology and data infrastructure, strengthen our data processing and analytic capabilities, develop new solutions that are complementary to existing ones and find ways to better serve our members, patients, doctors, pharmaceutical companies, and insurance carriers. Our R&D personnel primarily consist of data engineers, data scientists, software engineers, technology infrastructure architects, health management specialists and actuaries. In addition, our technology team leader has over ten years of experience in the big data field and handled several health management projects sponsored by the national level governmental authorities before joining us.

Our data infrastructure encompasses (i) our data processing capabilities, through which the data are de-identified, cleansed, structuralized and standardized, and (ii) our data analytic capabilities, through which our one business line can leverage the statistics and insights generated from another business line. We are committed to cybersecurity, data security and reliability through our technology and data infrastructure.

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The backbone of our technology is our health and medical data processing and analytics capabilities. Health and medical data are generated, collected and stored in various information systems that support our business. We need to aggregate, cleanse, structuralize and standardize these data for analytic through data engineering and other technologies. By aggregating the data in various information systems as the foundation for data processing, we can form a computable database in high quality. Our data processing capabilities deliver high-quality structured and standardized data with speed, accuracy and efficiency. We then generate actionable insights and knowledge through our analytic capabilities to power our healthcare ecosystem.

We utilize statistical approaches to intelligently and automatically find correlations and patterns by analyzing data. Our team of medical experts and data scientists works continually to optimize our proprietary analytical models and improve our analytic capabilities. As we process and analyze more data, we uncover more features from data that are used to further improve our data analytics capabilities with higher accuracy.

### DATA PRIVACY AND SECURITY

We are committed to complying with data privacy laws and protecting the security of the information and privacy of patients and plan members on our platform. We implement a rigorous data privacy and security program to ensure the security, confidentiality and integrity of data that we gain access to and the stability and reliability of the services that we provide. We mainly collect and store the patients' and plan members' medical data generated during our daily operation. Such information is collected and used for our Specialty Pharmacy Business and Health Insurance Services businesses with prior consent through consent forms, application forms or agreements from patients and plan members in accordance with applicable laws and regulations. Our data usage and privacy policy is provided to every user of our website and Weixin official accounts. Specifically, we undertake to manage and use the data collected from patients and plan members in accordance with applicable laws, and make reasonable efforts to prevent the unauthorized use, loss, or leak of personal data and will not disclose personal data to any third party without the patients' or plan members' approval except under legal requirement. For example, we are able to collect massive personal data from our Specialty Pharmacy Business and Health Insurance Services after obtaining consents from patients and plan members, and we have strict internal control system to prevent transfer of such information to any third party.

We use a variety of technologies to protect the data with which we are entrusted. For example, we segregate our internal databases and operating systems from our external-facing services and intercept unauthorized access. We de-sensitize user data by removing personally identifiable information, when such information is not relevant to our business. We encrypt our data transmission, especially user data transmission, using sophisticated security protocols to ensure confidentiality. In addition, we use third-party cybersecurity company to conduct regular penetration test to identify weaknesses in our system and evaluate its security. Whenever an issue is discovered, we take prompt actions to upgrade our system and mitigate any potential problems that may undermine the security of our system.

We take comprehensive security precautions to ensure the stability and security of our data infrastructure. We back up all our operating data on a regular basis offline and in separate and various secured data back-up systems to minimize the risk of data loss or leakage. We have a detailed protocol for operation and maintenance management, monitor and alert mechanisms, network security management and disaster recovery. Our database can only be accessed by certain designated and authorized personnel after assessment and approval procedures, whose actions are recorded and monitored. We provide data privacy training to authorized personnel and require them to report any information security breach. In addition, our maintenance team closely and constantly monitors for

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common technical issues and the usage of resources such as central processing units and memory, and alerts our technical team of unusual technical difficulties. We deploy firewalls to effectively safeguard against hackers and other security attacks.

We believe our policies and practice with respect to data privacy and security are in compliance with applicable laws and with prevalent industry practice. During the Track Record Period and up to the Latest Practicable Date, we have not received any claim from any third party against us on the ground of infringement of such party's right to data protection as provided by the PRC Civil Code Law or any applicable laws and regulations in the PRC. During the same period, we were not subject to any administrative penalties due to violation of applicable data protection and privacy laws and regulations in China.

### CYBERSECURITY

The CAC promulgated the Regulation on the Administration of Cyber Data Security (Draft for Comments), or the Draft Cyber Data Security Regulation on November 14, 2021, according to which data processors shall apply for cyber security review when carrying out activities including (i) seeking to be listed in Hong Kong that affect or may affect national security, and (ii) other data processing activities that affect or may affect national security. However, the Draft Cyber Data Security Regulation provided no further explanation or interpretation for "affect or may affect national security". As of the Latest Practicable Date, the Draft Cyber Data Security Regulation had not been formally adopted yet. As of the Latest Practicable Date, (i) we had implemented effective cybersecurity and data protection policies, procedures, and measures to ensure secured storage and transmission of data and prevent unauthorized access or use of data; (ii) we had not been subject to any fines or administrative penalties, mandatory rectifications, or other sanctions by any competent authorities in relation to the infringement of cybersecurity and data protection laws and regulations; and there is no material leakage of data or personal information or violation of cybersecurity and data protection and privacy laws and regulations by us which will have a material adverse impact on our business operations; (iii) we had not been involved in any investigations on cybersecurity review initiated by the CAC, nor had we received any inquiry, notice, warning, or sanctions in such respect; (iv) we will continuously pay close attention to the legislative and regulatory development in cybersecurity and data protection, maintain ongoing communication with relevant government authorities and implement all necessary measures in a timely manner to ensure continuous compliance with relevant laws and regulations; and (v) we did not foresee any material impediment for us to comply with all the applicable obligations pursuant to the current Draft Cyber Data Security Regulation. Taking into account the above, we believe that we had not engaged in any data processing activities that affect or may affect national security, and if the Draft Cyber Data Security Regulation were implemented in its current form in the future, the Draft Cyber Data Security Regulation is not expected to have any material adverse impact on our Listing or business operations.

Pursuant to the Measures for Cyber Security Reviews (2021) (《網絡安全審查辦法》(2021)) or the MCSR, which became effective on February 15, 2022, an enterprise is required to submit an application for cybersecurity review under two major circumstances: (i) critical information infrastructure operators that intend to purchase internet products and services and online platform operators engaging in data processing activities, that affect or may affect national security; and (ii) online platform operator which possesses personal information of over one million users and intends to "list abroad" (國外上市). Article 10 of the MCSR further elaborates on the factors to be considered when assessing national security risks of the relevant objects or situations, see "Regulatory Overview-Regulations relating to Internet Security" for more details. As of the Latest Practicable Date, (i) we do not conduct business activities that may involve with critical information infrastructure

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services, and had not been recognized by any governmental authorities as a “critical information infrastructure operator” or an “online platform operator”; (ii) we do not carry out business outside the PRC, nor do we provide or transmit any personal information or data outside the PRC; (iii) we have adopted strict protection measures to safeguard our data and systems from third party attacks and hacking, and had not experienced any material data security incident; (iv) we had not been involved in any investigations on cybersecurity review by the CAC, or received any inquiry, notice, warning, or sanctions in such respect; and (v) we undertake that if any of our activities is subject to the cybersecurity review in the future, we will actively cooperate with the CAC to conduct such cybersecurity review. Considering the factors as set forth in Article 10 of the MCSR and taking into account the above and the verbal consultation with the CCRTCC as described below, we believe that we had not engaged in any data processing activities that affect or may affect national security, and the MCSR will not have any material adverse impact on our Listing or business operations.

As of the Latest Practicable Date, we possessed personal information of over one million users. However, according to the verbal consultation with the China Cybersecurity Review Technology and Certification Center (the “CCRTCC”, being the department responsible for accepting applications for cybersecurity review under the guidance of the Office of Cyber Security Review which was established under the CAC in accordance with the MCSR) conducted by our PRC Legal Adviser and the PRC legal advisers to the Joint Sponsors on February 22, 2022 (after the MCSR became effective on February 15, 2022), the CCRTCC advised that the requirement under Article 7 of MCSR that “online platform operator which possesses personal information of over one million users and intends to “list abroad” (國外上市) is subject to cybersecurity review” does not apply to a listing in Hong Kong, and we are not requested to proactively submit an application for cybersecurity review for our listing in Hong Kong. The CCRTCC further advised that it could not give a clear official interpretation to the provisions of the Draft Cyber Data Security Regulation, and advised that the Company does not need to apply for cyber security review pursuant to the Draft Cyber Data Security Regulation since such regulation has not become effective yet.

### **BUSINESS DEVELOPMENT AND MARKETING**

We design our business development and marketing strategy to expand our brand recognition, build strong customer loyalty and develop incremental revenue opportunities. Led by our management, we are dedicated to the maintenance and management of cooperation with medical institutions, doctors and pharmaceutical companies.

In the same time, we regularly conduct marketing, promotional and educational activities addressing all participants in the healthcare and insurance industry—including medical institutions, pharmaceutical companies, insurance carriers, enterprise clients, doctors and plan members—to increase our exposure and demonstrate the quality and differentiating value propositions of our services. Leveraging our cooperation with various local governments and leading health insurance carriers, we advertise our health insurance plans and health management services underlying these plans offered by our Health Insurance Services through online and offline channels and have attracted significant customer attention, especially when we launch our insurance plans into new cities.

Moreover, as our three business lines, Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services reinforce each other and form a virtuous cycle and symbiotic ecosystem, business opportunities and customer traffic can be directed from one business line to another. As we empower doctors in their patient management and scientific research through our Specialty Pharmacy Business and Physician Research Assistance, it is expected that referrals from doctors will contribute to the expansion of our Specialty Pharmacy Business and Health Insurance Services customer base. In

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turn, references from doctors in our Health Insurance Services network is expected to be an important customer source of Specialty Pharmacy Business.

### COMPETITION

We believe our business model is unique and our services empower the entire health management value chain. We face competition in certain aspects of our business. Our ability to compete effectively depends on our unique and holistic health management system to serve and connect all key participants in the industry, empowering them from an integrated perspective. Many factors contribute to our competitiveness, including the understanding of increasing healthcare needs, quality, breadth and depth of our service and product offerings, our integrated marketing efforts, our pricing competitiveness, customer experience on our platform, our ability to form and retain a closed-loop business model, our technological capabilities and data insights, our partnership with industry participants, and the strength and reputation of our brand.

Furthermore, as our business continues to grow rapidly, we face significant competition for highly skilled personnel, including management, engineers, professionals and marketing force. The success of our growth strategy depends in part on our ability to retain existing personnel and attract additional highly skilled employees.

### HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We do not operate any production facilities, and our business does not involve significant occupational, health, safety and environmental matters. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material occupational, health, safety or environmental incidents. We have formulated and implemented various workplace safety policies and procedures to ensure that our employees have a safe working environment. During the Track Record Period and up to the Latest Practicable Date, none of our employees were involved in any major accidents in their workplaces. For our specialty pharmacy business, we have in-house delivery personnel in each pharmacy store to deliver specialty medicines to patients, so to closely monitor and mitigate the health and safety risks inherent in the delivery process. 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 laws or regulations.

### CORPORATE SOCIAL RESPONSIBILITY

Since inception, we have been highly committed to sustainable corporate social responsibilities. We participated in the execution of medicine donation charity programs since 2018, through which we have assisted patients to successfully apply for high-value innovative drugs treating cancers and other critical diseases. This reflects our long-held belief that the best approach to corporate social responsibility is through embedding elements of social responsibility in our business operation.

We have adopted stringent internal policies and measures to prevent over-prescription and mis-prescription. We adopt a dual-pharmacist verification system to ensure that prescriptions submitted to our pharmacies comply with the relevant rules and regulations. Our pharmacists verify the prescriptions according to the applicable regulations, rules and protocols. Particularly, they will check the consistency between diagnosis and prescription, correctness of dosage, administration method, course of treatment, and any drug interaction and potential compatibility contraindications, among others. If our pharmacists find any prescription is irregular or unsuitable, they will return the prescription to the patients.

**CUSTOMERS**

We have a broad base of customers. Our top customers are primarily pharmaceutical companies for our Specialty Pharmacy Business and Physician Research Assistance business, and insurance carriers for our Health Insurance Services business. For each of the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, our top five customers accounted for 8.4%, 6.3%, 5.4% and 7.3% of our total revenue, respectively. Revenue from our largest customer accounted for 3.9%, 1.6%, 1.5% and 2.4% of our total revenue during each of these periods.

**Pricing**

We design our pricing strategies based on the particular features of each of our Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services business lines. For Specialty Pharmacy Business, we price medicines taking into consideration various factors including product category, market demand and competition, procurement price, marketing strategy, as well as the pricing terms of supply agreements with pharmaceutical manufacturers and distributors. For those medicines that are included in the National Reimbursement Drug List, we price them according to the relevant prices set by the regulators. We did not see any substantial impact of regulatory pricing restrictions on our sales volume or gross margin during the Track Record Period. For SMO, we charge service fees based on our workload, which primarily depends on the phase of clinical trials, and the number of trial sites and participants. For RWS, we charge service fee based on the scope of data to follow and collect, as well as the complexity of services including whether our supplemental software and technology platform are required and used. For Health Insurance Services, we price our health insurance plans leveraging our data insights and in-house data analytics and actuarial capabilities. Particularly for Hui Min Insurance, we also take into consideration the local population's health and medical data in each city where we launched this product.

**Key Contractual Terms of Medicine Sales Agreements**

Set forth below is a summary of typical sales agreement that we enter into with our Specialty Pharmacy Business customers of our medication distribution business, namely pharmaceutical distributors and pharmaceutical companies.

- *Term.* Typically two years, during which our customers can place orders when needed. Renewal of sales agreement generally requires negotiation and mutual agreement.
- *Termination.* Termination of sales agreements generally requires mutual consents.
- *Pricing.* A fixed sales price is stipulated in the agreement. No minimum purchase commitment is required.
- *Credit Term.* We generally grant our customers credit terms of around one month.
- *Payment.* We typically settle payments with our customers once a month.

**Key Contractual Terms of SMO Service Agreements**

Set forth below is a summary of typical service agreement that we enter into with our SMO clients.

- *Service Scope.* The service scope of an SMO service agreement typically includes pre-clinical trial preparation and clinical trial execution. Specifically, pre-clinical trial preparation includes project feasibility study assistance and project approval application. Clinical trial execution includes trial site launch, participants recruitment, screen and enrollment, on-site management of participants, data and files, drugs and bio-samples, and site closure.

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- *Term.* Typically three to five years, which may be adjusted according to the progress of the clinical trials.
- *Termination.* Termination of SMO service agreements generally requires one month notice upon mutual consents.
- *Payment.* Our clients typically pay us up to 30% of the total service fee upon signing the service contract, accumulatively 15% to 45% upon trial site launch, accumulatively 60% to 80% upon participants enrollment, accumulatively 85% to 95% upon completion of participants follow-up, and accumulatively 100% upon site closure. We typically settle payments with our clients upon achievement of trial phase milestone.

### **Key Contractual Terms of RWS Service Agreements**

Set forth below is a summary of typical service agreement that we enter into with our RWS clients.

- *Service Scope.* The service scope typically includes launch of trial sites or study centers, project approval application assistance, participants recruitment, screen and enrollment, participants and trial site/study centers follow-up, management of participants, trial or study data and files, drugs and bio-samples, and closure of trial sites or study centers.
- *Term.* Typically one to three years, which may be adjusted according to the progress of the clinical trial or study project.
- *Termination.* Termination of RWS service agreements generally requires one or two month prior notice.
- *Payment.* Our clients typically pay us approximately 20% - 30% of the total service fee upon signing the service agreement, accumulatively approximately 80% - 95% upon achievement of different project milestones such as trial site launch, participants enrollment, completion of participants follow-up and site closure, and accumulatively 100% upon delivery of study materials to clients. We typically settle payments with our clients upon achievement of trial phase or study project milestone.

### **Key Contractual Terms of Insurance Brokerage Agreements**

Set forth below is a summary of typical insurance brokerage agreement that we enter into with our Health Insurance Services customers.

- *Term.* Typically one to three years, and renewal of brokerage agreements generally requires one month notice.
- *Termination.* Termination of brokerage agreements is generally conditioned upon mutual consents.
- *Pricing.* A fix commission rate is stipulated in the agreement.
- *Payment.* Insurance brokerage commission is typically settled after confirmation of total number of members enrolled in and total amount of premiums received for each insurance product.

### **Key Contractual Terms of Health Management Service Agreements**

Set forth below is a summary of typical health management service agreement that we entered into with our Health Insurance Services customers.

- *Term.* Typically one year, and automatically renewable for one to three years on a yearly basis, unless terminated by either party.



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- *Termination.* Termination is generally conditioned upon mutual consents.
- *Pricing.* A fixed fee for each specific service, such as specialist referral and medical care navigation, is stipulated in the agreement.
- *Payment.* Customers typically deposit a prepayment service fee following receipt of our invoice, and we deduct our service fee from the prepayment upon each provision of health management service. If the prepayment is fully deducted and customers fail to make further prepayment, we can suspend our service. Following the termination of service agreement, we will remit the prepayment balance to our customers.

### Major Customers

#### *Specialty Pharmacy Business*

Our Specialty Pharmacy Business customers consist of individual patients that purchase medicines at our specialty pharmacies, and pharmaceutical distributors and pharmaceutical companies that procure medication from Guangdong Dahui. During the Track Record Period, a substantial portion of our Specialty Pharmacy Business revenue was generated by medication retail sales to individual patients. For the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, the number of purchase orders placed by individual patients was approximately 0.17 million, 0.37 million, 0.49 million and 0.31 million, respectively. As Guangdong Dahui has obtained the first level distribution right for certain medication from pharmaceutical manufacturers, other pharmaceutical distributors and pharmaceutical companies procure such medication from us and became our institutional customers. For the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, the number of institutional customers of our medication distribution business was 21, 79, 87 and 73, respectively. Our top five Specialty Pharmacy Business customers during the Track Record Period were our institutional customers, namely pharmaceutical distributors and pharmaceutical companies, because revenue from sales to these companies were much higher than that to an individual patient, whose annual expense on specialty medicines typically ranged from RMB50,000 to RMB300,000. For each of the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, our top five customers in Specialty Pharmacy Business accounted for 2.5%, 4.1%, 4.1% and 3.7% of our total revenue, respectively. Revenue from our largest Specialty Pharmacy Business customer accounted for 1.1%, 1.5%, 1.5% and 2.4% of our total revenue during each of these periods.

## BUSINESS

The table below sets forth the basic information of our top five Specialty Pharmacy Business customers during the Track Record Period. As consents of our top five customers and suppliers are not obtained, their identities are not disclosed in this prospectus.

<u>Customer</u>	<u>Product or Service Provided For 2019</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company A, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since May 2019	11,604	1.1%
Company F, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since November 2019	9,683	0.9%
Company R, a Chinese-foreign joint venture pharmaceutical company . . . . .	Medication	Since October 2019	3,454	0.3%
Company S, a Chinese chain pharmacy store company . . . . .	Medication	Since August 2019	1,016	0.1%
Company T, a Chinese pharmaceutical distribution company . . . . .	Medication	Since July 2019	555	0.1%
<b>Total</b> . . . . .			<b><u>26,312</u></b>	<b><u>2.5%</u></b>

<u>Customer</u>	<u>Product or Service Provided For 2020</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company A, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since May 2019	41,050	1.5%
Company U, a Chinese public pharmaceutical company . . . . .	Medication	Since September 2020	26,761	1.0%
Company N, a Chinese public pharmaceutical company . . . . .	Medication	Since January 2020	18,584	0.7%
Company V, a Chinese pharmaceutical distribution company . . . . .	Medication	Since March 2020	12,274	0.5%
Company W, a Chinese pharmaceutical distribution company . . . . .	Medication	Since February 2020	11,894	0.4%
<b>Total</b> . . . . .			<b><u>110,563</u></b>	<b><u>4.1%</u></b>

## BUSINESS

<u>Customer</u>	<u>Product or Service Provided For 2021</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company A, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since May 2019	51,899	1.5%
Company Y, a Chinese pharmaceutical distribution company . . . . .	Medication	Since September 2021	26,787	0.8%
Company X, a Chinese public pharmaceutical company . . . . .	Medication	Since May 2021	25,095	0.7%
Company Z, a Chinese pharmaceutical and medical device distribution company . . . . .	Medication	Since November 2021	20,606	0.6%
Company U, a Chinese public pharmaceutical company . . . . .	Medication	Since September 2020	15,652	0.5%
<b>Total</b> . . . . .			<b><u>140,039</u></b>	<b><u>4.1%</u></b>

<u>Customer</u>	<u>Product or Service Provided For Six Months Ended June 30, 2022</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company Z, a Chinese pharmaceutical and medical device distribution company . . . . .	Medication	Since November 2021	45,667	2.4%
Company AA, a Chinese public pharmaceutical company . . . . .	Medication	Since February 2021	7,037	0.4%
Company U, a Chinese public pharmaceutical company . . . . .	Medication	Since September 2020	6,296	0.3%
Company A, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since May 2019	5,994	0.3%
Company N, a Chinese public pharmaceutical company . . . . .	Medication	Since January 2020	5,504	0.3%
<b>Total</b> . . . . .			<b><u>70,498</u></b>	<b><u>3.7%</u></b>

### *Physician Research Assistance*

For each of the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, the number of our customers in Physician Research Assistance business was 172, 216, 272 and 289, respectively, and our top five customers in Physician Research Assistance business accounted for 7.5%, 3.6%, 3.3% and 3.5% of our total revenue, respectively. Revenue from our largest Physician Research Assistance customer accounted for 3.9%, 1.6%, 1.2% and 1.2% of our total revenue during each of these periods.

## BUSINESS

The table below sets forth the basic information of our top five Physician Research Assistance customers during the Track Record Period.

<u>Customer</u>	<u>Product or Service Provided For 2019</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company J, a Chinese public pharmaceutical company . .	SMO	Since August 2017	40,750	3.9%
Company G, a Chinese public pharmaceutical company . .	SMO	Since June 2017	20,209	1.9%
Company N, a Chinese public pharmaceutical company . .	SMO	Since September 2017	6,687	0.6%
Company K, a Chinese public pharmaceutical company . .	SMO	Since January 2017	6,076	0.6%
Company O, a Chinese public pharmaceutical company . .	SMO	Since March 2018	<u>5,376</u>	<u>0.5%</u>
<b>Total</b> . . . . .			<u><u>79,098</u></u>	<u><u>7.5%</u></u>

<u>Customer</u>	<u>Product or Service Provided For 2020</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company J, a Chinese public pharmaceutical company . .	SMO	Since August 2017	42,011	1.6%
Company G, a Chinese public pharmaceutical company . .	SMO	Since June 2017	26,432	1.0%
Company N, a Chinese public pharmaceutical company . .	SMO	Since September 2017	9,581	0.4%
Company P, a Chinese public pharmaceutical company . .	SMO	Since May 2018	7,559	0.3%
Company K, a Chinese public pharmaceutical company . .	SMO	Since January 2017	<u>7,314</u>	<u>0.3%</u>
<b>Total</b> . . . . .			<u><u>92,897</u></u>	<u><u>3.6%</u></u>

<u>Customer</u>	<u>Product or Service Provided For 2021</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company G, a Chinese public pharmaceutical company . .	SMO	Since June 2017	42,072	1.2%
Company J, a Chinese public pharmaceutical company . .	SMO	Since August 2017	38,229	1.1%
Company Q, a Chinese foreign-invested pharmaceutical company . .	SMO	Since April 2017	13,085	0.4%
Company N, a Chinese public pharmaceutical company . .	SMO	Since September 2017	10,866	0.3%
Company K, a Chinese public pharmaceutical company . .	SMO	Since January 2017	<u>10,749</u>	<u>0.3%</u>
<b>Total</b> . . . . .			<u><u>115,001</u></u>	<u><u>3.3%</u></u>

## BUSINESS

<u>Customer</u>	<u>Product or Service Provided For Six Months Ended June 30, 2022</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company G, a Chinese public pharmaceutical company . .	SMO	Since June 2017	22,495	1.2%
Company J, a Chinese public pharmaceutical company . .	SMO	Since August 2017	20,642	1.1%
Company K, a Chinese public pharmaceutical company . .	SMO	Since January 2017	8,145	0.4%
Company Q, a Chinese foreign-invested pharmaceutical company . .	SMO	Since April 2017	7,601	0.4%
Company M, a Chinese private pharmaceutical company . . . . .	SMO	Since September 2021	<u>7,368</u>	<u>0.4%</u>
<b>Total</b> . . . . .			<u><b>66,251</b></u>	<u><b>3.5%</b></u>

### *Health Insurance Services*

For each of the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, the number of our customers in Health Insurance Services business was 11, 33, 61 and 59, respectively, and our top five customers in Health Insurance Services business accounted for 0.2%, 1.0%, 1.9% and 3.9% of our total revenue, respectively. Revenue from our largest Health Insurance Services customer accounted for 0.1%, 0.3%, 0.6% and 1.6% of our total revenue during each of these periods.

The table below sets forth the basic information of our top five Health Insurance Services customers during the Track Record Period. We started our Health Insurance Services business in 2018, primarily providing third-party health management services to insurance carriers and other enterprise clients. In late 2019, we launched our first health insurance plan, and insurance brokerage commission became our primary source of revenue of Health Insurance Services business line since 2020.

<u>Customer</u>	<u>Product or Service Provided For 2019</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company 1, a Chinese life and health insurance company . . . . .	Health Management	Since February 2019	869	0.08%
Company 2, a Chinese state-owned life insurance company . . . . .	Health Management	Since July 2019	700	0.07%
Company 3, a Chinese insurance company . . . . .	Health Management	Since April 2019	489	0.05%
Company 4, a Chinese life insurance company . . . . .	Health Management	Since May 2019	107	0.01%
Company 5, a Chinese state-owned insurance company . . . . .	Health Management	Since May 2019	<u>28</u>	<u>0.003%</u>
<b>Total</b> . . . . .			<u><b>2,193</b></u>	<u><b>0.2%</b></u>

## BUSINESS

<u>Customer</u>	<u>Product or Service Provided For 2020</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company 6, a Chinese state-owned life insurance company . . . . .	Insurance Brokerage	Since November 2020	7,831	0.3%
Company 3, a Chinese insurance company . . . . .	Insurance Brokerage	Since April 2019	7,546	0.3%
Company 7, a Chinese state-owned insurance company . . . . .	Insurance Brokerage	Since September 2020	5,684	0.2%
Company 5, a Chinese state-owned insurance company . . . . .	Insurance Brokerage	Since May 2019	2,271	0.1%
Company 2, a Chinese state-owned life insurance company . . . . .	Insurance Brokerage	Since July 2019	<u>1,927</u>	<u>0.1%</u>
<b>Total</b> . . . . .			<u><b>25,259</b></u>	<u><b>1.0%</b></u>

<u>Customer</u>	<u>Product or Service Provided For 2021</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company 5, a Chinese state-owned insurance company . . . . .	Insurance Brokerage	Since May 2019	22,569	0.6%
Company 6, a Chinese state-owned life insurance company . . . . .	Insurance Brokerage	Since November 2020	19,348	0.6%
Company 3, a Chinese insurance company . . . . .	Insurance Brokerage	Since April 2019	13,080	0.4%
Company 7, a Chinese state-owned insurance company . . . . .	Insurance Brokerage	Since September 2020	6,596	0.2%
Company 8, a Chinese life insurance company . . . . .	Insurance Brokerage	Since October 2020	<u>5,117</u>	<u>0.1%</u>
<b>Total</b> . . . . .			<u><b>66,710</b></u>	<u><b>1.9%</b></u>

<u>Customer</u>	<u>Product or Service Provided For Six Months Ended June 30, 2022</u>	<u>Length of Relationship</u>	<u>Revenue</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Revenue</u>
Company 5, a Chinese state-owned insurance company . . . . .	Insurance Brokerage	Since May 2019	30,507	1.6%
Company 6, a Chinese state-owned life insurance company . . . . .	Insurance Brokerage	Since November 2020	19,032	1.0%
Company 3, a Chinese insurance company . . . . .	Insurance Brokerage	Since April 2019	13,696	0.7%
Company 7, a Chinese state-owned insurance company . . . . .	Insurance Brokerage	Since September 2020	5,705	0.3%
Company 2, a Chinese state-owned life insurance company . . . . .	Insurance Brokerage	Since July 2019	<u>4,777</u>	<u>0.3%</u>
<b>Total</b> . . . . .			<u><b>73,717</b></u>	<u><b>3.9%</b></u>

None of our Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five customers in any of our three business lines during the Track Record Period.

**SUPPLIERS**

Our top suppliers are primarily pharmaceutical manufacturers and distributors for our Specialty Pharmacy Business. Suppliers of our Health Insurance Services business are mainly companies providing business promotion and fee processing services to us. Since we provide professional services by ourselves in our Physician Research Assistance business line, we do not need third party suppliers.

For the year ended December 31, 2021 and for the six months ended June 30, 2022, we partnered with over 550 reputable manufacturers or distributors, among which we typically had more than three years of collaboration with our medication suppliers.

**Procurement**

We generally select leading pharmaceutical manufacturers and distributors to ensure the product quality. Before engaging a new supplier, our procurement team pre-screens supplier candidates based on their certificates, qualifications and reputation. Subsequently, our responsible managers reviews these pre-screening results and conduct background checks. We only partner with selected suppliers that pass our screenings and inspections. See also “Business—Risk Management and Internal Control—Product Quality and Safety” in this prospectus.

Our procurement process is as below:



We had established an experienced procurement team taking charge of purchasing selection and supply chain management. We select our product portfolio considering the brand and reputation of pharmaceutical manufacturers, market acceptance and doctor recognition. We also monitor our sales and inventory, procure products based on our inventory level, and manage our supply chain through communication with our suppliers on a regular basis. Our suppliers are in charge of the logistics of medicines to our pharmacy stores and our warehouse.

**Key Contractual Terms of Medication Supply Agreements**

Set forth below is a summary of typical supply agreement that we enter into with our Specialty Pharmacy Business suppliers.

- *Term.* Typically one year, during which we can place orders when needed. Renewal of supply agreement generally requires negotiation and mutual agreement.
- *Termination.* Termination of supply agreements generally requires mutual consents.
- *Pricing.* A fixed purchase price is stipulated in the agreement. No minimum purchase commitment is required.
- *Credit Term.* Our suppliers generally grant us credit terms of one to three months.
- *Payment.* We typically settle payments with our suppliers once a month. We do not receive rebate from our suppliers.

## BUSINESS

### Major Suppliers

#### *Specialty Pharmacy Business*

For each of the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, our top five Specialty Pharmacy Business suppliers accounted for 70.5%, 70.5%, 71.9% and 73.5% of our total purchases, respectively. Purchases from our largest Specialty Pharmacy Business supplier accounted for 27.6%, 32.1%, 37.2% and 39.1% of our total purchases during each of these periods. As our Specialty Pharmacy Business focuses on specialty medicines which are typically distributed by large pharmaceutical companies, we rely on limited suppliers for the provision of specialty medicines.

The table below sets forth the basic information of our top five Specialty Pharmacy Business suppliers during the Track Record Period.

<u>Supplier</u>	<u>Product Supplied for 2019</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Purchases</u>
Company F, a Chinese state-owned pharmaceutical company . . . . .	Medication	Since April 2018	285,914	27.6%
Company A, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since October 2017	220,450	21.3%
Company G, a Chinese public pharmaceutical company . . . . .	Medication	Since March 2019	95,400	9.2%
Company H, a Chinese state-owned pharmaceutical company . . . . .	Medication	Since July 2018	77,561	7.5%
Company E, a Chinese public pharmaceutical company . . . . .	Medication	Since February 2018	50,653	4.9%
<b>Total</b> . . . . .			<b><u>729,978</u></b>	<b><u>70.5%</u></b>

<u>Supplier</u>	<u>Product Supplied for 2020</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Purchases</u>
Company F, a Chinese state-owned pharmaceutical company . . . . .	Medication	Since April 2018	866,300	32.1%
Company A, a Chinese state-owned pharmaceutical distribution company . . . . .	Medication	Since October 2017	446,689	16.5%
Company G, a Chinese public pharmaceutical company . . . . .	Medication	Since March 2019	320,588	11.9%
Company H, a Chinese state-owned pharmaceutical company . . . . .	Medication	Since July 2018	177,275	6.6%
Company B, a Chinese public pharmaceutical company . . . . .	Medication	Since April 2018	92,491	3.4%
<b>Total</b> . . . . .			<b><u>1,903,343</u></b>	<b><u>70.5%</u></b>



## BUSINESS

<u>Supplier</u>	<u>Product Supplied for 2021</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u>	<u>Percentage of Total Purchases</u>
			<i>(RMB in thousands)</i>	
Company F, a Chinese state-owned pharmaceutical company .....	Medication	Since April 2018	1,244,490	37.2%
Company A, a Chinese state-owned pharmaceutical distribution company .....	Medication	Since October 2017	769,485	23.0%
Company H, a Chinese state-owned pharmaceutical company .....	Medication	Since July 2018	223,345	6.7%
Company G, a Chinese public pharmaceutical company .....	Medication	Since March 2019	88,036	2.6%
Company I, a Chinese public pharmaceutical company .....	Medication	Since April 2018	78,751	2.4%
<b>Total</b> .....			<b><u>2,404,107</u></b>	<b><u>71.9%</u></b>

<u>Supplier</u>	<u>Product Supplied For Six Months Ended June 30, 2022</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u>	<u>Percentage of Total Purchases</u>
			<i>(RMB in thousands)</i>	
Company F, a Chinese state-owned pharmaceutical company .....	Medication	Since April 2018	679,209	39.1%
Company A, a Chinese state-owned pharmaceutical distribution company .....	Medication	Since October 2017	382,793	22.0%
Company H, a Chinese state-owned pharmaceutical company .....	Medication	Since July 2018	131,498	7.6%
Company AA, a Chinese private pharmaceutical and medical device distribution company .....	Medication	Since November 2021	43,230	2.5%
Company I, a Chinese public pharmaceutical company .....	Medication	Since April 2018	39,104	2.3%
<b>Total</b> .....			<b><u>1,275,834</u></b>	<b><u>73.5%</u></b>

We rely on a limited number of state-owned distributors as suppliers of medication, which is a common practice for the specialty pharmacy business in China. Since the drug distribution industry in China is highly concentrated, with the top three state-owned drug distributors taking an aggregate market share of over 40% in the entire drug distribution market. According to CIC, the specialty pharmacy industry peers also select only a few leading distributors as their upstream suppliers, particularly those state-owned distributors including Sinopharm, China Resources Pharmaceutical and Shanghai Pharmaceutical. However, as their distribution rights are generally not exclusive, we believe we have sufficient alternative suppliers for pharmaceutical products that can provide us with substitutes of comparable quality and prices. During the Track Record Period, we did not experience any disruption to our business as a result of any significant shortage or delay in supply of the products we sourced from our suppliers. Our pharmacy management system is able to adjust inventory level based on key factors including sales, product mix and patients medical situation.

## BUSINESS

### *Health Insurance Services*

We started to operate our Health Insurance Services business in 2018. The table below sets forth the basic information of the Company's top five Health Insurance Services suppliers during the Track Record Period.

<u>Supplier</u>	<u>Service Supplied For 2020</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Purchases</u>
Company I, a Chinese media company . . . . .	Business Promotion	Since December 2019	2,511	0.09%
Company II, a Chinese payment technology company . . . . .	Fee Processing	Since December 2019	1,759	0.07%
Company III, a Chinese advertising company . . . . .	Business Promotion	Since December 2019	1,580	0.06%
Company IV, a Chinese media company . . . . .	Business Promotion	Since September 2020	1,476	0.05%
Company V, a Chinese media company . . . . .	Business Promotion	Since December 2019	<u>1,014</u>	<u>0.04%</u>
<b>Total</b> . . . . .			<u><b>8,340</b></u>	<u><b>0.31%</b></u>

<u>Supplier</u>	<u>Service Supplied For 2021</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Purchases</u>
Company VII, a Chinese big data infrastructure company . . . . .	Business Promotion	Since July 2021	5,294	0.16%
Company II, a Chinese payment technology company . . . . .	Fee Processing	Since December 2019	3,682	0.11%
Company VI, a Chinese culture communication company . . . . .	Business Promotion	Since March 2021	2,534	0.08%
Company VIII, a Chinese culture and media company . . . . .	Business Promotion	Since October 2020	972	0.03%
Company IX, a Chinese advertising company . . . . .	Business Promotion	Since August 2020	<u>949</u>	<u>0.03%</u>
<b>Total</b> . . . . .			<u><b>13,431</b></u>	<u><b>0.41%</b></u>

<u>Supplier</u>	<u>Service Supplied For Six Months Ended June 30, 2022</u>	<u>Length of Relationship</u>	<u>Purchase Amount</u> <i>(RMB in thousands)</i>	<u>Percentage of Total Purchases</u>
Company II, a Chinese payment technology company . . . . .	Fee Processing	Since December 2019	3,780	0.22%
Company VI, a Chinese culture communication company . . . . .	Business Promotion	Since March 2021	2,846	0.16%
Company IV, a Chinese media company . . . . .	Business Promotion	Since September 2020	1,050	0.06%
Company XIV, a Chinese public relation consulting company . . . . .	Business Promotion	Since March 2022	968	0.06%
Company X, a Chinese broadcast media company . . . . .	Business Promotion	Since October 2020	<u>806</u>	<u>0.05%</u>
<b>Total</b> . . . . .			<u><b>9,450</b></u>	<u><b>0.55%</b></u>

As of the Latest Practicable Date, Tencent Mobility, a wholly-owned subsidiary of Tencent, and TPP Follow-on, controlled by Tencent, collectively owned approximately 27.77% of the Shares of our

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## BUSINESS

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Company. As of the Latest Practicable Date, Company II was controlled by Tencent. Also see “Connected Transactions—Summary of Our Continuing Connected Transactions—(1) Payment Services Framework Agreement” in this prospectus.

Except as disclosed above, none of our Directors, their respective associates or any shareholder who, to the knowledge of such Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our top five suppliers in either our Specialty Pharmacy Business or Health Insurance Services business line during the Track Record Period.

### **Overlapping of Suppliers and Customers**

We had suppliers that were also our customers during the Track Record Period.

Company A purchased from Guangdong Dahui medication with product categories different from those it supplied to us during the Track Record Period, and was among our top five largest customers for the years ended December 31, 2019, 2020 and 2021. Our total sales to Company A were RMB11.6 million, RMB41.1 million, RMB51.9 million and RMB6.0 million, and our total purchases from Company A were RMB220.5 million, RMB446.7 million, RMB769.5 million and RMB382.8 million for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively. For the same reason, Company F was among our top five customers for the year ended December 31, 2019. Our total sales to Company F were RMB9.7 million, RMB0.3 million, RMB45,270 and RMB0.6 million, and our total purchases from Company F were RMB285.9 million, RMB866.3 million, RMB1,244.5 million and RMB679.2 million for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022 respectively. The gross profit margin of Company A were 1.22%, 1.06% and 0.72% for the years ended December 31, 2019, 2020 and 2021, respectively, and -18.0% for the six months ended June 30, 2022, since we lowered our sale price of certain medication to below our procurement price as we adjusted our pricing strategy considering the market competition. For such medication, we typically negotiate with our suppliers for price adjustment compensation. Company F’s gross profit margin was 2.52% for the year ended December 31, 2019 and 5.18% for the six months ended June 30, 2022, while its gross profit margin for 2020 and 2021 are not available since all of our revenue from Company F was generated from SMO service fee, and we do not split and allocate our labor costs to a particular client or clinical trial.

In addition, as we partner with pharmaceutical companies in both our SMO and Specialty Pharmacy Business lines, we provide SMO service to some of our SMO clients while purchasing medication from them at the meantime. As an SMO client, Company G was among our top five largest customers for the years ended December 31, 2019, 2020, 2021, and for the six months ended June 30, 2022. Our total revenues from Company G were RMB20.2 million, RMB26.4 million, RMB42.1 million and RMB22.5 million, and our total purchases from Company G were RMB95.4 million, RMB320.6 million, RMB88.0 million and RMB23.6 million for the years ended December 31, 2019, 2020, 2021, and for the six months ended June 30, 2022, respectively.

All of our agreements with suppliers that were also our customers were entered into on an arm’s length basis. During the Track Record Period, for overlapping suppliers and customers, we and the suppliers that were also our customers generally made separate payments for purchases from each other.

### **SETTLEMENT AND CASH MANAGEMENT**

We accept multiple payment methods including cash payments and non-cash payments from our retail customers. Our offline pharmacy managers are responsible for ensuring the safety of cash received and

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## BUSINESS

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the timely delivery of them to designated banks. Cash received are reconciled on a daily basis and are preserved in safes for subsequent deposition to our designated bank accounts on the next day. Our back-end financial personnel conduct reconciliations among cash deposits as reported by pharmacies, bank statements and in-store sale records, and prepare cash long-and-short daily reports to follow up in case of any discrepancies during the reconciliation. We also require our in-store staff of each shift to reconcile among cash and changes in the cashier machine and in-store sales records with the witness of pharmacy managers before handover to the next shift. In addition, we have also installed surveillance cameras in our retail pharmacies to monitor and prevent misconducts. We also accept non-cash payment methods including Weixin Pay, Alipay, and credit cards. Amounts received through non-cash payment are automatically transferred to our corporate accounts opened at the relevant third-party processing platforms typically within two days.

As non-cash payments are becoming increasingly common, risks related to cash management have been and will continue to be maintained at limited level. During the Track Record Period, cash payment accounted for very limited proportion of our receipt and we did not encounter any incident of cash misappropriation or embezzlement that had a material adverse impact on our business, results of operations or financial condition.

### INTELLECTUAL PROPERTY

We regard our trademarks, copyrights, domain names, know-how, technologies and database, and similar intellectual property as critical to our success, and we rely on copyright and trademark law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of the Latest Practicable Date, we owned 44 computer and mobile software copyrights in China relating to operations, and had 89 trademark registrations in China. As of the Latest Practicable Date, we had registered approximately 80 domain names, including, without limitation, medbanks.cn, spyaofang.com and spcare.com.cn.

Intellectual property rights are important to the success of our business. We adopt comprehensive intellectual property protection policies and related internal control system to ensure our ability to obtain and maintain copyrights, trademarks and other intellectual property and proprietary protections for commercially important technologies and know-how related to our business, defend and enforce our copyrights, preserve the confidentiality of our trade secrets, and operate without infringing, misappropriating or otherwise violating the valid, enforceable intellectual property rights of third parties. Highlights of our intellectual property protection policies and related internal control system include the following:

- We require our employees to perform searches on related intellectual property rights to make sure our intellectual property rights will not be challenged.
- We file trademarks and copyrights with the relevant authorities to protect our brand image and technological innovations. We regularly monitor third-party actions to protect our intellectual property and take appropriate measures against any infringement.
- We seek to protect our technologies and know-how, in part, by entering into confidentiality agreements with our business partners. We have entered into confidentiality agreements with all of our employees and non-competition agreements with our senior management and other employees who have access to trade secrets or confidential information about our business. Our standard employment contract contains an assignment clause, under which we own all the rights to all inventions, technology, know-how and trade secrets derived during the course of such employee's work.

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- Parties who think their intellectual property rights are infringed by us can file claims with us, and we will process these claims.
- We also seek to preserve the integrity and confidentiality of our know-how, data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material intellectual property infringement claims.

### EMPLOYEES

The following table sets forth the numbers of full-time employees dedicated to our business and operations categorized by function during the Track Record Period:

	As of December 31,						As of June 30,	
	2019		2020		2021		2022	
	<i>Number of Employees</i>	<i>% of Total</i>	<i>Number of Employees</i>	<i>% of Total</i>	<i>Number of Employees</i>	<i>% of Total</i>	<i>Number of Employees</i>	<i>% of Total</i>
Clinical Trial Service Execution for Physician Research Assistance . .	1,036	47.3	1,131	40.4	1,384	35.9	1,776	54.4
Pharmacy staff for Specialty Pharmacy Business . . . . .	351	16.0	386	13.8	502	13.0	508	15.6
Business Development for Health Insurance Services . . . . .	16	0.7	159	5.7	188	4.9	135	4.1
Sales and Marketing for Group . . . .	34	1.6	29	1.0	296	7.7	168	5.1
General and Administrative . . . . .	648	29.6	950	33.9	1,324	34.3	550	16.8
Research and Development . . . . .	106	4.8	147	5.2	165	4.3	132	4.0
<b>Total . . . . .</b>	<b><u>2,191</u></b>	<b><u>100.0</u></b>	<b><u>2,802</u></b>	<b><u>100.0</u></b>	<b><u>3,859</u></b>	<b><u>100.0</u></b>	<b><u>3,269</u></b>	<b><u>100.0</u></b>

As of June 30, 2022, our employees working in the general and administrative function included (i) 56, 49 and 152 employees working in the general management, support and administrative functions in the business segment level of Specialty Pharmacy Business, Physician Research Assistance and Health Insurance Services, respectively, (ii) 161 employees working in the finance, human resources, legal and compliance, administrative and regional management functions across our three business segments, and (iii) 132 employees working in our medical support team who are based in various cities across China to provide onsite administrative support to doctors and hospitals to facilitate the collaboration across our three business segments and strengthen our connection with healthcare providers. The number of our employees worked in the general and administrative function was reduced as compared to the end of 2021 because we enhanced our service efficiency and optimized our management and administrative functions. Particularly, the size of our medical support team was significantly reduced as we no longer placed employees in certain cities with only a few trial sites, which were covered by our employees based in other nearby cities.

In order to further enhance our efficiency, we also appropriately reduced the size of our teams of business development for HIS, sales and marketing for the Group and research and development as compared to the year end of 2021.

As required by laws and regulations in China, we participate in various employee social insurance plans that are organized by municipal and provincial governments, including, among other things, pension, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing provident funds through a PRC government-mandated benefit contribution plan.

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We are required under PRC law to make contributions to employee social insurance plans at specified percentages of the salaries, bonuses and certain allowances of our staff, up to a maximum amount specified by the local government from time to time. During the Track Record Period, since we conducted SMO service across China and some of our CRCs were working in places where we did not have subsidiaries or branches, we engaged third-party human resources agencies to pay social insurance premium and housing provident funds for them. As advised by our PRC Legal Adviser, pursuant to the PRC laws and regulations, we may be ordered to pay social insurance premium and housing provident funds for our employees under our own accounts instead of making payments under third-party accounts, and if the third-party human resources agencies fail to pay the social insurance premium or housing provident funds for and on behalf of our employees as required under applicable PRC laws and regulations, we may be ordered to rectify such failure by paying full contributions to social insurance and housing provident funds for our employees. In addition, we did not pay social insurance and housing provident fund in full for some of our employees based on their actual salary level. The amount of shortfall of social insurance and housing provident funds was RMB2.4 million in 2019, RMB4.0 million in 2020, RMB3.4 million in 2021, and RMB1.6 million in the six months ended June 30, 2022. The total amount of historical shortfall of social insurance and housing provident fund contributions made by both ourselves and third-party human resources agencies engaged by us was RMB6.9 million as of June 30, 2022, and we have accrued this shortfall amount into our financial statements.

Our PRC Legal Adviser advised that according to relevant PRC laws and regulations, if any of the competent social insurance authorities is of the view that our contributions to social insurance do not satisfy the requirements under the applicable PRC laws and regulations, we may be ordered to pay the outstanding social insurance contributions within a prescribed period and be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay. If we fail to make such payments within such time limit, we may be liable to a penalty of one to three times the amount of the outstanding contributions. If any of the competent housing provident fund authorities is of the view that our contributions to the housing provident funds do not satisfy the requirements under the applicable PRC laws and regulations, it may order us to pay the outstanding amount within a prescribed period. If we fail to do so within such time limit, the competent housing provident fund authority may apply to a PRC court for an order of mandatory payment.

During the Track Record Period and up to the Latest Practicable Date, we have not received any notice from the relevant PRC authorities requiring us to rectify or pay the outstanding amounts or been imposed any penalties in respect of social insurance and housing provident funds. We undertake that we will rectify or make outstanding payments within a prescribed period once ordered by competent authorities.

We will take practical measures to rectify the non-compliance in making social insurance and housing funds through third-party human resources agencies. We will establish subsidiaries or branches as we expand our business in China, so that we will be able to contribute social insurance and housing funds from our own accounts for our employees. Moreover, we will closely monitor the payment of social insurance and housing funds by the third-party human resources agencies to ensure that the contribution of funds is properly made in a timely manner. We will also communicate with the relevant local human resources, social insurance and housing funds authorities on a regular basis to obtain the latest information on the laws and regulations related to social insurance and housing funds contribution.

We are committed to establishing a 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 at least once a year to provide feedback on their

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performance. Compensation for our employees typically consists of base salary and a performance-based bonus.

We enter into standard employment agreements and confidentiality agreements or clauses with all of our employees. We also enter into non-compete agreements with our senior management and core personnel. These agreements include a standard non-compete covenant that prohibits such employee from competing with us, directly or indirectly, during his or her employment and for a certain period after termination of his or her employment. We maintain a good working relationship with our employees, and we have not experienced any material labor disputes.

### PROPERTIES

Our corporate headquarters are located in Guangzhou, Shanghai, and Beijing, China. As of June 30, 2022, we did not own any properties, and leased properties primarily for specialty pharmacies, warehouses and offices.

As of June 30, 2022, none of the properties leased by us had a carrying amount of 15% or more of our combined total assets. According to Chapter 5 of the Hong Kong Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus 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.

As of the Latest Practicable Date, we leased 184 properties across China with an aggregate GFA of approximately 28,788.3 square meters. Among these 184 leased properties, 123 with an aggregate GFA of approximately 17,556.3 square meters were used for our specialty pharmacies, whereas the remaining 61 of these properties with an aggregate GFA of approximately 11,232.0 square meters were used for our offices, warehouses and other purposes in Beijing, Shanghai, Guangzhou, and other cities in China. The relevant lease agreements expire between 2022 and 2031. We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate future growth, especially the geographic expansion of our specialty pharmacies.

### Lease Agreement

As of the Latest Practicable Date, lessors of leased properties for our 20 specialty pharmacies have not provided us with their property ownership certificates, with an aggregate GFA of approximately 3,337.3 square meters, representing approximately 19.0% of the total GFA of the leased properties for our specialty pharmacies. Lessors of leased properties for our four specialty pharmacies have not provided us with their sublease authorization from landlords, with an aggregate GFA of approximately 471.8 square meters, representing approximately 2.7% of the total GFA of the leased properties for our specialty pharmacies. As advised by our PRC Legal Adviser, without valid property ownership certificates or proof of authorizations from the property owners, our use of these leased properties may not be valid or may be affected by third parties' claims or challenges against the lease. In addition, if the lessors do not have the requisite rights to lease these properties, the relevant lease agreements may be deemed invalid, and as a result we may be required to vacate these leased properties and relocate our specialty pharmacies. However, in the event that we are unable to continue using these leased properties, based on the advice of our PRC Legal Adviser, we, as the tenant, will not need to continue to pay the rents unless otherwise agreed between the tenant and the lessor. Additionally, our PRC

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Legal Adviser advised that it is the lessors' responsibility to obtain the property ownership certificates to enter into the leases, and, as a tenant, we will not be subject to any administrative punishment or penalties by the real estate authorities in this regard. These statutory protections significantly mitigate our risks arising from these leased properties due to claims for vacation from the legal owners of the properties. Lastly, based on the advice of our PRC Legal Adviser, given that the leased properties are located in different provinces or cities across the country, the risk of being forced to vacate from all the above mentioned properties in the same time by the real estate authorities is low, and we do not expect to incur the administration burden to relocate many stores in a short time period.

As of the Latest Practicable Date, lessors of leased properties for our 12 specialty pharmacies did not obtain valid property ownership certificates including pharmacies business as a permitted commercial usage, with an aggregate GFA of approximately 1,953.4 square meters, representing approximately 11.1% of the total GFA of the leased properties for our specialty pharmacies. The revenue contribution from the specialty pharmacies with property ownership certificates issues were RMB297.3 million, RMB961.5 million and RMB1,381.9 million for the years ended December 31, 2019, 2020 and 2021, and RMB690.0 million for the six months ended June 30, 2022, respectively. As advised by our PRC Legal Adviser, as the tenant of these properties, we will not be subject to any administrative punishment or penalties simply in this regard but we may not be able to lease, occupy and use such leased properties if the relevant lease agreements are deemed to be in breach of applicable laws and therefore be void. However, in the event that we are unable to continue using these leased properties, based on our past experience we do not expect substantial difficulties in finding properties for relocation, as each such leased property is not large, the location is not critical, and we do not need to spend much time and cost to select, design and decorate the new places. In addition, we will adopt stricter internal control measures and review the property ownership certificates and sublease authorizations before we enter into new lease agreements in the future. See also "Risk Factors—Risks relating to Our General Operation—Our rights to use our leased properties could be challenged by third parties or government authorities, and we may be forced to vacate from these leased properties and be forced to relocate, which may result in a disruption of our operations and subject us to penalties" in this prospectus.

Having considered the foregoing, our Directors believe that these ownership issues described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, our leases with respect to these leased properties had never been challenged by any third parties and (ii) if we have to terminate the leases or relocate from such leased properties with ownership issues, we are able to locate qualified alternative premises within a short period of time under comparable terms without incurring substantial additional costs.

### **Lease Registration**

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, all of our 184 leased properties are required by the applicable PRC laws and regulations to be registered and filed with the relevant real estate administration bureaus in the PRC, among which most had not been so registered or filed.

As advised by our PRC Legal Adviser, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, we might be ordered to rectify this non-compliance by competent authorities and if we do not rectify within a prescribed period, a fine ranging from RMB1,000 to



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RMB10,000 for each unregistered lease may be imposed on us. See also “Risk Factors—Risks relating to Our Business and Industry—The lease agreements of our leased properties have not been registered with the relevant PRC government authorities as required by PRC law” in this prospectus. During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authorities to register any of these lease agreements.

We will rectify the non-compliance in not completing the registration and filing of all our lease agreements in a prompt manner by taking practical actions to have our lease agreements properly registered and filed with the relevant real estate administration bureau to extent practicable. However, since certain application materials for the lease registration shall be provided by the landlord, such as the identity proof of the landlord and the property ownership certificate of the leased property, which may be unavailable to us from time to time, we cannot assure you that we are able to complete all the outstanding lease registrations promptly.

Having considered the foregoing, our Directors believe that the non-registrations of leases described above will not, individually or in the aggregate, materially affect our business and results of operation, on the grounds that: (i) no penalty had been imposed on us for our failure to register and file the relevant lease agreements during the Track Record Period and up to the Latest Practicable Date, and (ii) we were advised by our PRC legal adviser that, if the lease registration can be completed in accordance with relevant laws and regulations within a reasonable time from the date of application or the prescribed time limit ordered by the competent governmental authorities, the risk of governmental authorities imposing a material penalty on us with respect to these leased properties is remote.

## INSURANCE

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by PRC laws and regulations and in accordance with the commercial practices in the industries in which we operate. We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees. Additionally, we provide accident insurance and supplementary medical insurance for our employees.

In relation to our insurance brokerage services, we carry professional liability insurance covering a maximum of RMB100 million in the aggregate over the course of a year, under which no claim had been made as of the Latest Practicable Date. Since we do not manufacture pharmaceutical products, according to our PRC Legal Adviser, we are not required to maintain product liability insurance under the applicable PRC laws and regulations, which is also consistent with the industry practice. Separately, since sponsors of clinical trials are the responsible party to purchase liability insurance for trials, and doctors from our third party vendors are the responsible party for issuing prescriptions whose medical malpractice insurance are responsible by the third party vendors, according to our PRC Legal Adviser, we are not required to purchase medical malpractice insurance for our SMO or specialty pharmacy business under the applicable PRC laws and regulations. For the foregoing reasons, we believe we will not suffer severe losses which may materially and adversely affect our operations and financial results if there are claims arising from personal injury during clinical trials, or provision of wrong or overdose medicine or negligence during the process of our pharmacist service to patients.

We do not maintain business interruption insurance, nor do we maintain key-man life insurance. We maintain property insurance for our pharmacy stores.

**LEGAL PROCEEDINGS AND COMPLIANCE****Legal Proceedings**

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

**Compliance**

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not involved in any material noncompliance 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. In view of the foregoing and based on the compliance certificates issued by relevant government authorities of us and the confirmation with us, our PRC Legal Adviser is also of the view that except as disclosed in this Prospectus, we have complied with the PRC laws and regulations applicable to our businesses in all material respects during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material product recall and return.

**RISK MANAGEMENT AND INTERNAL CONTROL**

We have adopted and implemented various policies and procedures to ensure rigorous risk management and internal control, and we are dedicated to continually improving these policies and procedures.

Our risk management and internal control policies and procedures cover various aspects of our business operations, such as service quality and safety, product quality and safety, and operational and regulatory risk management.

**Service Quality and Safety**

We value the quality and safety of services we organize and provide. We have never received any written notice or penalty for material non-compliance or violation of the quality and safety laws or regulations relating to our services.

- *Specialty Pharmacy Business.* We have adopted stringent hiring procedures for pharmacists working in our specialty pharmacies, which involve in-person interviews and assessments of technical knowledge. Our in-house pharmacists receive regular training on relevant safety and compliance policies, standards, protocols and procedures and is required to strictly comply with them in all aspects of our operations of specialty pharmacies. We conduct evaluations of our in-house pharmacists to ensure their high quality service. With respect to our pharmacist service, we accept prescriptions from doctors. We have a stringent prescription verification system to manage the risks associated with the provision of prescription medicines, implemented and closely monitored by our in-house pharmacists. Our system enforces a dual-pharmacist review procedure to make sure that all prescriptions are compliant, regular and suitable. In addition, our after-sales specialists are in charge of after-sale quality complaints and take effective measures to resolve the complaints.

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- *Physician Research Assistance.* The experience, competence and attitude of our CRC team are essential for the quality of our SMO service. We continually monitor the risk in relation to SMO service provided by our CRC team to ensure that the quality control policies and procedures have been strictly followed, so as to achieve effective and efficient governance and risk control processes. We have established an in-house risk and quality management system and devote significant attention to the risk and quality control of our SMO business. We have adopted standards of practices covering all the important steps in our SMO service process, and have established a quality assurance system to supervise and implement our quality standards, to ensure that our services consistently meet high industry standards and requirements. We have established a comprehensive internal training system to ensure that our CRC team is familiar with international and domestic regulatory requirements and industry knowledge, and strictly follow standard trial protocol. We have also built up a mature project management system under which our project managers supervise our project execution and guarantee our high quality service.
- *Health Insurance Services.* For healthcare providers to which we refer our members, we consider a variety of factors, such as their reputation and qualification, expertise and experience, service quality and capabilities, availabilities, as well as their facilities. We typically require healthcare providers who cooperate with us to maintain requisite licenses, comply with relevant laws and regulations and follow our service guidelines. We also carefully monitor feedback from our members on the services provided by these healthcare providers, and take that into consideration when determining our continued cooperation with them. For GPs and doctors in our Health Insurance Services network, we generally require them to provide us with their qualifications and licenses and to strictly adhere to the work scope and quality requirements specified in their service agreements in compliance with applicable legal and regulatory requirements.

In addition, our after-sales specialists are in charge of after-sale quality complaints and take effective measures to resolve the complaints.

### **Product Quality and Safety**

We have put in place comprehensive product quality and safety policies and related internal control system to (i) maintain and monitor the product safety and quality for the products sold through our pharmacies, (ii) avoid inappropriate sale of prescription medicines, and (iii) protect us against claims for unauthorized or contaminated products. Highlights of our product quality and safety policies and related internal control system include the following:

- *Product Safety and Quality.* We select our suppliers based on qualification, brand, reliability and volume. We perform background checks on our suppliers, examine their business licenses and the relevant licenses and certificates for their products they provide before we enter into any agreement. We evaluate their brand recognition and make inquiries about the market acceptance of their products among players in the same industry. We generally select leading pharmaceutical manufacturers and distributors to ensure the product quality. We have established a team dedicated to the management of our suppliers with respect to product quality, logistics and returns. According to our agreements with suppliers, we have the right to return any sub-quality products. We also have the right to return any damaged or contaminated products if caused by our suppliers. On the other hand, we confirm with our customers the selection of medication and inform them that medication are not returnable upon pick-up or delivery, unless with mis-deliver or quality issues such as product damages or contamination. In cases of mis-deliver or quality issues, upon confirmation, we proceed return or exchange for our customers. We do not accept product return due to other reasons.

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- *Warehousing and Logistics.* We are committed to performing stringent quality control throughout every stage of our specialty pharmacy business operations including procurement, product inspection, warehousing, sales and delivery. We are actively involved in setting quality policies and standards, and improving quality control management through different means in our pharmacy operation. We have established a series of internal quality management protocols for our daily operation, providing guidance on and regulations of various aspects of our operations including, among others, the product quality, product shelf life management, product return, product recall and warehousing. Our pharmacy management teams are responsible for implementing procedures under our quality management system, compliance of our product supply chain with stipulated standards and inspection and warehousing of products. All of our relevant pharmacy staff have underwent a series of professional quality management training. Before engaging suppliers, we review the qualifications of the supplier candidates and select those who meet our criteria. Before warehousing, we inspect the appearance, packaging, labels and specifications of the products and examine the products according to the delivery orders and the inspection reports issued by the supplier. For products stored in our warehouse, we conduct regular quality maintenance, inspection and management, and monitor the storage conditions to ensure compliance. We have temperature-controlled warehouses to maintain suitable storage conditions for the quality and safety of our pharmaceutical products. In addition, certain specialty medicines are stored separately in safe and controlled settings and managed by professionally trained personnel. Before delivery from our warehouse or pharmacy stores, we inspect and ensure the quality of the products to be delivered.

### **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.

In particular, we pay close attention to risk management relating to our IT, as sufficient maintenance, storage and protection of the patients' and plan members' data and other related information is critical to our success. Personal information in our business operation is stored in the cloud server operated by Tencent, an industry leading service provider in China. Such information includes, but is not limited to, medical information, consultation record, order record and activity log. We have kept all personal information in our database, such as order record and consultation record since inception and maintain such information for an indefinite period of time, unless deletion of such data is required by relevant laws and regulations or pursuant to conditions as specified under our terms of service with the patients and plan members. We also have a data back-up system through which data is encrypted and stored on Tencent cloud server regularly to reduce the risk of data loss. In addition, we perform back-up recovery tests regularly to examine the status of the back-up system. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material leakage or loss of personal information.

In general, according to our terms of service and except as required by relevant laws and regulations, by entering into service contracts with us or signing up in our online platform such as our Weixin official account, patients and plan members acknowledge that they permit and authorize our use of the information we were provided with and the information generated in the course of our services. They also acknowledge under the terms of service that they authorize our business partners to use their information that is necessary for our business partners to provide services to them or to improve their service quality. We give the relevant business partners the necessary personal information only pursuant to the authorized scope. For example, in our Health Insurance Services business, we provide healthcare service providers with personal information necessary for their rendering services to our

members, including names and contacts. To ensure the security of personal information, we and our business partners owe a duty of confidentiality to the patients and plan members with respect to such information.

We have implemented stringent rules for data extraction and transmission to ensure the confidentiality of the personal information on our online platform. We have implemented relevant internal procedures and controls to ensure that personal data is protected and that leakage and loss of such data is avoided. We have formulated policies for data administration which set out the overall responsibilities and procedures for our staff to adhere to. We have promulgated internal instructions setting out specific procedures regarding the handling of information containing personal data, and intend to institute ethical standards in relation to personal data protection. Violation of the relevant requirements will result in disciplinary action. The degree of access to and control of the information is determined by reference to the relevance to our staff's role and seniority. For activities requiring higher levels of confidentiality, multiple staff are required to be present. We have also implemented mechanisms, such as responsibility rotation and segregation of duties, among our data administration staff in daily operations. In the event of an information security breach, we perform investigations and perform damage control. In general, personal information that our employees can access is anonymized. We also hold trainings on data protection for our employees on a regular basis.

### **Human Resources Risk Management**

We provide regular and specialized training tailored to (i) the needs of our employees in different departments, and (ii) our anti-bribery and anti-corruption policy. Our human resources department regularly organizes internal training sessions conducted by senior employees or outside consultants. We schedule regular online and classroom trainings, review the content of the trainings, follow up with employees to evaluate the impact of such training and reward lecturers for positive feedback. Through these training sessions, we ensure that our staff's skill sets and knowledge level of our anti-bribery and anti-corruption policy remain up-to-date, enabling them to better comply with applicable laws and regulations in the course of exploring business.

We have in place an employee handbook and a code of conduct which is distributed to all our employees. The handbook contains internal rules and guidelines regarding work ethics, fraud prevention mechanisms, negligence and corruption. We provide employees with regular training, as well as resources to explain the guidelines contained in the employee handbook.

### **Regulatory Compliance and Legal Risk Management—Anti-bribery and Anti-corruption**

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. Meanwhile, legal risk refers to the risk of legal liability arising from violations of laws and regulations, breaches of contracts, infringements on the legal rights of others or otherwise in connection with any contract or business activity in which we are involved.

In order to manage our compliance and legal risk exposures effectively, we have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. In particular, as we and our employees deal with a variety of third parties in our operations, we have implemented internal procedures with respect to anti-bribery, anti-corruption and conflict of interest matters. As a key part of our risk management and internal control measures, our legal department led by our senior management has established a series of internal regulations against

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corrupt and fraudulent activities, which include measures against receiving bribes and kickbacks, and misuse of company assets. This series of regulations sets out, among other things, the following:

- The legal department and the management team of each business line are responsible for the daily execution of anti-bribery measures. Their scope of duties include reviewing and assessing anti-bribery measures in each department, reviewing complaints and reports from internal and external sources, and conducting investigations and undertaking rectification actions accordingly. The results of such daily execution of anti-bribery measures, as well as any specific incidents, are regularly reported to our senior management.
- We require our employees to abide by our professional ethics guidelines and our internal compliance manual, which consist of strict anti-corruption and anti-bribery clauses. We have implemented clear and strict policies and guidelines that prohibit the acceptance of gifts, hospitality and other offers by interested third parties. We impose on directors, senior management and employees penalties, and require compensation, for any losses incurred as a result of any activities concerning bribery and corruption.
- We have implemented preventive anti-bribery measures in our daily operations. For example, price quotations for procurement obtained by an employee are independently verified by another employee to ensure that there are no discrepancies in the pricing. We also segregate different sales duties, where possible, such as conducting sales, receipt of payments and maintenance of sales records, and monitoring the sales process via a computerized system which keeps proper records of sales transactions, prices and discounts. We believe these measures make it more difficult for an employee to carry out fraudulent activities.
- We also communicate with all relevant stakeholders, including customers and suppliers, in relation to our compliance measures and professional ethics guidelines. We have anti-corruption and anti-bribery clauses in a majority of our business contracts, and we require our suppliers and other third parties who cooperate with us to comply with relevant laws and regulations.

We continually improve our internal policies according to changes in laws, regulations and industry standards, and update internal templates for legal documents. We also undertake compliance management over various aspects of our operations and employee activities, and have established an accountability system in respect of employees' violations of laws, regulations and internal policies. In addition, we continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

### **Board Oversight**

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have established an audit committee to monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Mr. CHANG Stanley Yi, Mr. HE Haijian and Ms. HUANG Bei, all of which being our independent non-executive Directors. Mr. CHANG Stanley Yi is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, please see "Directors and Senior Management" in this prospectus.

### **LICENSES, APPROVALS AND PERMITS**

We are required to obtain various licenses, approvals and permits for our operations. As advised by our PRC Legal Adviser, as of the Latest Practicable Date, we had obtained all material licenses, approvals

## BUSINESS

and permits as required by PRC laws in all material aspects which are necessary to our current operations, and such licenses, approvals and permits were valid and remain in effect.

We renew all our permits and licenses from time to time to comply with the relevant laws and regulations. If the application documents for renewal have been submitted to the relevant authorities in accordance with applicable laws and regulations, we expect there will not be any material legal impediment to renewing such permits or licenses as they expire in future.

The following summarizes the relevant material licenses, approvals and permits requirements under the PRC laws and regulations for a PRC-based retailer of pharmaceutical products, medical equipment and nutritional supplements:

- Pharmaceutical Operation License (《藥品經營許可證》). Each of our pharmacies, if operates pharmaceutical product retail business, is required to hold Pharmaceutical Operation License for retailers.
- Medical Devices Operation License (《醫療器械經營許可證》). Each of our pharmacies, if distributes Class III medical devices, is required to hold Medical Devices Operation License.
- Class II Medical Device Operation Filing Certificate (《第二類醫療器械經營備案憑證》). Each of our pharmacies, if distributes Class II medical devices, is required to hold Class II Medical Device Operation Filing Certificate.
- Food Operation License (《食品經營許可證》). Each of our pharmacies, if distributes nutritional supplements, is required to hold Food Operation License.

The following table sets forth a list of our other material licenses, approvals and permits as of the Latest Practicable date:

No.	Entity	Name of the License, Approval, Permit	Expiration Date
1	Guangdong Dahui	Pharmaceutical Operation License (《藥品經營許可證》)	July 14, 2024
2	Guangdong Dahui	Medical Devices Operation License (《醫療器械經營許可證》)	August 13, 2025
3	Guangdong Dahui	Class II Medical Device Operation Filing Certificate (《第二類醫療器械經營備案憑證》)	N/A <sup>(1)</sup>
4	Guangdong Dahui	Food Operation License (食品經營許可證)	December 24, 2024
5	Sipai Beijing Network	Value-Added Telecommunications Business Operating License (增值電信業務經營許可證)	November 13, 2024
6	Sipai (Beijing) Insurance Brokerage Co., Ltd.	Insurance Intermediary License (保險中介許可證)	December 9, 2024
		Value-Added Telecommunications Business Operating License (增值電信業務經營許可證)	July 9, 2026

*Note:*

(1) Class II Medical Device Operation Filing Certificate has no expiration date.