

JDH 京东健康

JD Health International Inc.

京东健康股份有限公司

(A company incorporated in the Cayman Islands with limited liability)

Stock Code: 6618

Global Offering



Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Financial Advisor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents in this document, you should obtain independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 381,900,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 19,095,000 Shares (subject to reallocation)
Number of International Offer Shares	: 362,805,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$70.58 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)
Nominal value	: US\$0.0000005 per Share
Stock code	: 6618

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Financial Advisor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager



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Joint Bookrunners and Joint Lead Managers



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A copy of this document, having attached thereto the documents specified in "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V to this document, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, December 1, 2020 and, in any event, not later than Monday, December 7, 2020. The Offer Price will be no more than HK\$70.58 per Offer Share and is currently expected to be no less than HK\$62.80 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed by Monday, December 7, 2020 between the Joint Representatives (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Joint Representatives may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at <https://ir.jdhealth.com> not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. See "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" for more details.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting—Underwriting arrangements and expenses—Hong Kong Public Offering—Grounds for termination" for more details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this document, including the risk factors set out in the section headed "Risk factors".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered or sold within or to the United States, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (i) solely to QIBs pursuant to an exemption from registration under Rule 144A of the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at <https://ir.jdhealth.com>. If you require a printed copy of this document, you may download and print from the website addresses above.

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

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This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at <https://ir.jdhealth.com>. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Center by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8690 on the following dates:

Thursday, November 26, 2020 — 9:00 a.m. to 9:00 p.m.
Friday, November 27, 2020 — 9:00 a.m. to 9:00 p.m.
Saturday, November 28, 2020 — 9:00 a.m. to 6:00 p.m.
Sunday, November 29, 2020 — 9:00 a.m. to 6:00 p.m.
Monday, November 30, 2020 — 9:00 a.m. to 9:00 p.m.
Tuesday, December 1, 2020 — 9:00 a.m. to 12:00 noon

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this document for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

EXPECTED TIMETABLE

If there is any change in the following expected timetable, we will issue an announcement on the respective websites of the Company at <https://ir.jdhealth.com>⁽⁶⁾ and the Hong Kong Stock Exchange at www.hkexnews.hk.

	Date ⁽¹⁾
Hong Kong Public Offering commences	9:00 a.m. on Thursday, November 26, 2020
Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Tuesday, December 1, 2020
Application lists open ⁽³⁾	11:45 a.m. on Tuesday, December 1, 2020
Latest time for (a) completing payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Tuesday, December 1, 2020
<p>If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.</p>	
Application lists close ⁽³⁾	12:00 noon on Tuesday, December 1, 2020
Expected Price Determination Date ⁽⁵⁾	Tuesday, December 1, 2020
Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at https://ir.jdhealth.com ⁽⁶⁾ and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on or before	Monday, December 7, 2020
The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:	
<ul style="list-style-type: none"> • in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at https://ir.jdhealth.com⁽⁶⁾ and www.hkexnews.hk, respectively • from the designated results of allocations website at www.iporesults.com.hk (alternatively: English https://www.eipo.com.hk/en/Allotment; Chinese https://www.eipo.com.hk/zh-hk/Allotment) with a "search by ID" function from • from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on 	<p>Monday, December 7, 2020</p> <p>8:00 a.m. on Monday, December 7, 2020 to 12:00 midnight on Sunday, December 13, 2020</p> <p>Monday, December 7, 2020, Tuesday, December 8, 2020, Wednesday, December 9, 2020 and Thursday, December 10, 2020</p>
Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before ⁽⁷⁾⁽⁹⁾	Monday, December 7, 2020
White Form e-Refund payment instructions/refund checks in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before ⁽⁸⁾⁽⁹⁾	Monday, December 7, 2020
Dealings in the Shares on the Hong Kong Stock Exchange expected to commence	at 9:00 a.m. on Tuesday, December 8, 2020

EXPECTED TIMETABLE

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, December 1, 2020, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares—C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker or custodian** to apply on your behalf via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares—Applying Through CCASS EIPO Service” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Tuesday, December 1, 2020 and, in any event, not later than Monday, December 7, 2020. If, for any reason, we do not agree with the Joint Representatives (on behalf of the Underwriters) on the pricing of the Offer Shares by Monday, December 7, 2020, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.
- (9) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund checks (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, December 7, 2020 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed “How to Apply for Hong Kong Offer Shares—G. Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks—Personal Collection—If you apply through CCASS EIPO service” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Share certificates and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed “How to Apply for Hong Kong Offer Shares—F. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares—G. Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks” in this prospectus.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will make an announcement as soon as practicable thereafter.

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This document is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstance. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this document. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representations not contained or made in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives, or any other parties involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.

OUR MISSION

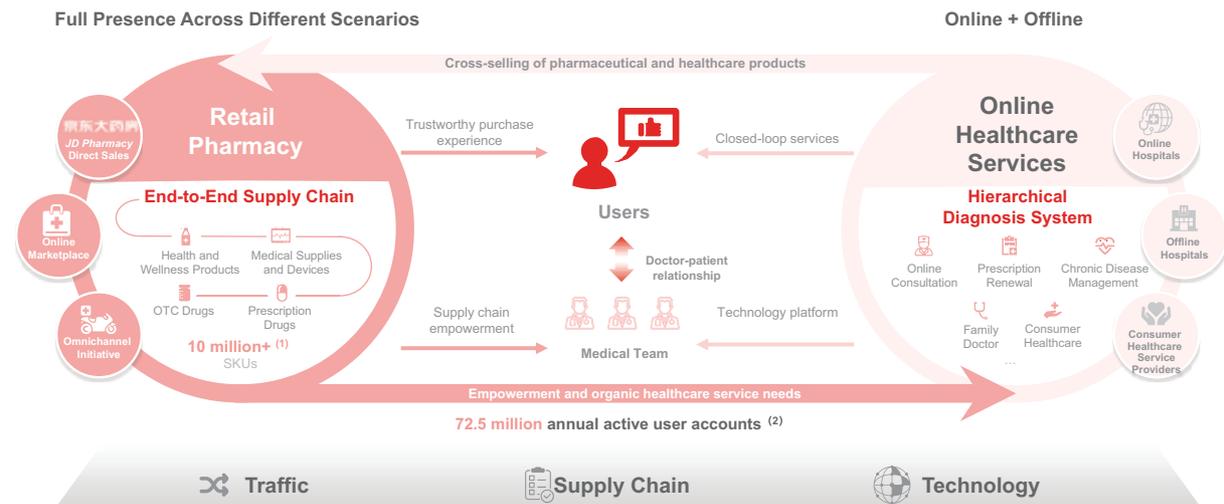
Our mission is to become the go-to health management platform for everyone in China.

Health is essential to each individual’s well-being and quality of life. Demand for better healthcare in China is rapidly rising, driven by an aging population, increasing disposable income, the rising prevalence of chronic diseases and growing health awareness. The Chinese healthcare industry still faces many challenges, such as industry inefficiency and uneven access to healthcare resources. We believe the advancement of technology and a progressive regulatory environment are creating an unprecedented opportunity for a paradigm shift in China’s healthcare industry.

We are dedicated to creating a complete and comprehensive “Internet + healthcare” ecosystem. We provide a wide assortment of high-quality pharmaceutical and healthcare products that cater to all aspects of users’ diverse healthcare needs. Our strong fulfillment capabilities allow us to deliver our products timely and safely. We also offer holistic healthcare services to satisfy users’ needs across all aspects of the healthcare products and services sector. We are pioneering the digitalization and transformation of the healthcare industry and strive to empower all of its participants through our continual investment in supply chain and technologies.

Through our relentless efforts, we believe we can provide easily accessible, convenient, high-quality yet affordable healthcare products and services.

OUR BUSINESS



Notes:

(1) As of June 30, 2020

(2) For the twelve months ended June 30, 2020

SUMMARY

According to the Frost & Sullivan Report, we are the largest online healthcare platform by revenue in China in 2019, recording a total revenue of RMB10.8 billion. We are also the largest online retail pharmacy by revenue in China in 2019 with a market share of 29.8%, according to the Frost & Sullivan Report. Our technology-driven platform is centered on the supply chain of pharmaceutical and healthcare products and strengthened by healthcare services, encompassing a user's full life span for all healthcare needs. Through our end-to-end supply chain and online-plus-offline approach, we believe that we can redefine the way users manage personal health.

Retail pharmacy

We are one of the first movers in transforming the supply chain of pharmaceutical and healthcare products in China. We allow users to purchase pharmaceutical and healthcare products anytime and anywhere, and provide them with an integrated one-stop shopping experience, combining direct sales, online marketplace and omnichannel initiative. At the same time, we have achieved an immense scale with a wide product selection while maintaining stringent quality control and competitive pricing, thus gaining users' trust.

Our retail pharmacy is the largest online retail pharmacy by revenue in China in 2019, according to the Frost & Sullivan Report. Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our direct sales business operates mainly through *JD Pharmacy* (“京東大藥房”). We have established a supply chain network with industry-leading pharmaceutical companies and healthcare product suppliers. In addition, we partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses and over 230 other warehouses as of June 30, 2020. Our online marketplace leverages our brand recognition, large and growing user base, and proprietary technology platform, and offers more diversified pharmaceutical and healthcare products that supplement those of *JD Pharmacy*. As of June 30, 2020, there were over 9,000 third-party merchants on our online marketplace. Our omnichannel initiative meets users' needs for urgent medication and offers same-day, next-day and 30-minute, 24/7 on-demand delivery services. As of June 30, 2020, our omnichannel initiative covered over 200 cities in China. By building a complete online-plus-offline model, with strong presence in retail channels and partnerships with hospitals, we are able to satisfy diverse user demands, covering a range of healthcare scenarios from acute and urgent diseases to chronic conditions. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. In 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, revenue from our retail pharmacy business accounted for a majority of our total revenue, of which (i) sales of pharmaceutical and healthcare products accounted for 88.4%, 88.8%, 87.0%, 87.5% and 87.6% of our total revenue, respectively and (ii) the marketplace service revenue accounted for 7.9%, 7.4%, 7.3%, 7.3% and 6.8% of our total revenue, respectively.

Online healthcare services

We provide comprehensive online healthcare services, such as online consultation and prescription renewal, chronic disease management, family doctor and consumer healthcare. These services are offered on a 24/7 basis. We have assembled a team of in-house doctors and external medical professionals across departments and specialties and partnered with numerous third-party hospitals and healthcare institutions. In addition, we are developing our consumer healthcare services.

SUMMARY

By collaborating with offline consumer healthcare institutions, our platform allows users to make appointments and pay for services such as general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. During the COVID-19 pandemic, we were the first company in China to offer online appointments for COVID-19 nucleic acid testing service. By establishing a hierarchical diagnosis system, we engage with doctors, especially general practitioners, to move consultations for minor and chronic diseases, follow-up visits and health management online, while referring patients with serious and critical diseases to offline medical institutions. As a result, we provide users with high-quality healthcare services, while optimizing the allocation of medical resources and improving the service capabilities of primary care institutions. For each period of the Track Record Period, revenue from our online healthcare services accounted for an insignificant portion of our total revenue.

OUR OPERATING AND FINANCIAL PERFORMANCE

Our Operating Performance

The following table sets forth the key operating metrics of our retail pharmacy business for the years/periods or as of the dates indicated.

	For the Twelve Months Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2019	June 30, 2020
Annual Active User Accounts (in millions)	43.9	50.5	56.1	53.5	72.5

	For the Twelve Months Ended			
	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
Average Revenue Per User ⁽¹⁾ (RMB)	111.7	143.8	168.3	176.0

Note:

- (1) Average revenue per user is calculated by dividing total product revenue for a 12-month period by the number of annual active user accounts for that period.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
GMV⁽¹⁾⁽²⁾ (RMB in billions):					
Direct sales	8.0	11.7	14.7	6.9	11.5
Online marketplace	12.4	18.0	28.5	12.9	22.4
Total GMV	<u>20.4</u>	<u>29.7</u>	<u>43.2</u>	<u>19.8</u>	<u>33.9</u>

Notes:

- (1) Gross merchandise value, or GMV, refers to the total value of all orders for products placed with us under our direct sales business or online marketplace, regardless of whether the goods are sold or delivered or whether the goods are returned. During the Track Record Period, healthcare products generated more GMV than pharmaceutical products.
- (2) We collect commissions on sales by third-party merchants on our online marketplace. The take rate, defined as a percentage of the value of the fulfilled orders that we keep as our revenue, varies across products categories on our marketplace and such information is generally publicly available on our marketplace website and mobile apps. Currently, we are charging a take rate primarily ranged between 1% and 10% across product categories on our marketplace.

	As of December 31,			As of June 30,	
	2017	2018	2019	2019	2020
Number of Third-party Merchants	5,601	6,935	8,615	7,173	9,092

SUMMARY

The following table sets forth the key operating metrics of our online healthcare business for the years/periods or as of the dates indicated.

	As of December 31,			As of June 30,	
	2017	2018	2019	2019	2020
Number of Doctors:					
In-house doctors ⁽¹⁾	—	—	70	2	138
External doctors	854	5,219	9,396	7,489	21,319
Total ⁽²⁾	<u>854</u>	<u>5,219</u>	<u>9,466</u>	<u>7,491</u>	<u>21,457</u>

Notes:

(1) The number of in-house doctors have taken into account both in-house doctors and medical assistants being trained in a variety of medical specialties or expertise.

(2) As of September 20, 2020, we had 171 in-house doctors and 68,549 external doctors.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
Average Daily Online Consultations	12	1,378	19,390	14,835	86,100

Our Financial Performance

We have experienced significant growth during the Track Record Period. We generate revenue primarily from sales of pharmaceutical and healthcare products through our direct sales business, and to a lesser extent, from commissions and platform usage fees from third-party merchants and digital marketing service fees from suppliers and third-party merchants, among others. Our total revenue increased from RMB5.6 billion in 2017 to RMB8.2 billion in 2018 and further to RMB10.8 billion in 2019. Our total revenue increased from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020. Our product revenue is generated from sales of pharmaceutical and non-pharmaceutical products. Our pharmaceutical products mainly include a comprehensive selection of common OTC and prescription drugs, and our product revenue generated by sales of pharmaceutical products accounted for 21%, 25%, 27%, 27% and 29% of our total product revenue for the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively. Our non-pharmaceutical products include healthcare products, as well as medical supplies and devices, primarily consisting of contact lenses, adult products, family planning products, as well as medical devices for home healthcare, aftercare and health monitoring. Our product revenue generated by sales of non-pharmaceutical products accounted for 79%, 75%, 73%, 73% and 71% of our total product revenue for the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively. During the Track Record Period, sales from OTC drugs accounted for the majority of our revenue from sales of pharmaceutical products, and as the relevant policies in China towards online sales of prescription drugs become clearer, sales from prescription drugs as a percentage of our revenue from sales of pharmaceutical products had been rising during the Track Record Period. In addition, during the Track Record Period, revenue from non-pharmaceutical products had a larger gross profit margin than revenue from pharmaceutical products, and among the pharmaceutical products, revenue from OTC drugs had a larger gross profit margin than revenue from prescription drugs.

SUMMARY

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

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(Unaudited)			
Product revenue:										
Sales of pharmaceutical and healthcare products	4,907,244	88.4	7,254,582	88.8	9,434,984	87.0	4,365,153	87.5	7,693,261	87.6
Service revenue:										
Marketplace	440,183	7.9	601,882	7.4	791,151	7.3	364,546	7.3	598,462	6.8
Digital marketing and other services	205,701	3.7	312,593	3.8	616,005	5.7	258,838	5.2	485,767	5.6
Total	5,553,128	100.0	8,169,057	100.0	10,842,140	100.0	4,988,537	100.0	8,777,490	100.0

Product revenue is generated from online direct sales of pharmaceutical and healthcare products. Service revenue is mainly generated from (i) operating an online marketplace, for which we primarily charge commission fees and platform usage fees from third-party merchants on our online marketplace; and (ii) providing digital marketing services, for which we charge digital marketing services fees from third-party advertisers. See “Financial Information—Description of Major Components of Our Results of Operations—Revenue” for a more detailed analysis of our revenue.

Our digital marketing services are provided to advertisers, primarily consisting of third-party merchants on our and JD Group’s various website channels and third-party marketing affiliates’ websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which advertisers are charged based on display per thousand impressions or per effective click on their products or service listings. Our third-party merchants, when joining our marketplace, have the options to open an advertising account through which they could elect to advertise their products on our or JD Group’s platforms, as well as third-party platforms. For each of the three years ended December 31, 2017, 2018 and 2019, and for the six months ended June 30, 2020, more than 50% of our third-party merchants used our advertising services. When the online marketing services are rendered using our resources and/or platforms, we act as the principal and recognize the gross amounts of services provided because (i) we own and control the digital marketing resources and can determine the transfer of the services to the customers; (ii) we have full discretion in determining the pricing for digital marketing services delivery; and (iii) we retain the inventory risks that the digital marketing resources are not sold out. When the online marketing services are rendered using JD Group’s resources and/or platforms or using resources outside both our Group and JD Group’s platforms, we act as the agent and recognize the revenue for the shared marketing services fees from JD Group since we do not satisfy the criteria mentioned above. See “Connected Transactions—6. Marketing Services Framework Agreement” for more details on the marketing services fee sharing arrangement between our Group and JD Group.

During each period of the Track Record Period, revenue from our online healthcare services (including online hospital services and consumer healthcare services) accounted for an insignificant portion of our total revenue. Accordingly, revenue from our online healthcare services was grouped as part of the digital marketing and other services during the Track Record Period.

In 2017, 2018 and 2019, we recorded a profit of RMB178.5 million, a profit of RMB214.9 million and a loss of RMB971.8 million, respectively. For the six months ended June 30, 2019 and

SUMMARY

June 30, 2020, we recorded a profit of RMB236.3 million and a loss of RMB5.4 billion, respectively. The loss recorded in 2019 and for the six months ended June 30, 2020 was primarily attributable to an increase in the fair value of Series A Preference Shares in 2019 and for the six months ended June 30, 2020 as a result of an increase in our equity value.

Excluding the impact of fair value changes of convertible preferred shares and a few other non-recurring items, we had (i) a non-IFRS profit of RMB209.0 million in 2017, RMB248.4 million in 2018 and RMB344.1 million in 2019; and (ii) a non-IFRS profit of RMB254.0 million for the six months ended June 30, 2019 and RMB370.8 million for the six months ended June 30, 2020. See “Financial Information—Non-IFRS Measure: Non-IFRS Profit For the Year/Period” for more details on this non-IFRS measure.

The following table sets forth our key financial ratios for the years/periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
Gross profit of product revenue (RMB in thousands)	746,920	1,076,817	1,422,492	716,929	1,154,587
Gross profit of service revenue (RMB in thousands)	633,578	902,141	1,389,780	614,746	1,062,980
Total revenue growth (%)	—	47.1	32.7	—	76.0
Gross margin of product revenue (%)	15.2	14.8	15.1	16.4	15.0
Gross margin of service revenue (%)	98.1	98.7	98.8	98.6	98.0
Total gross margin (%)	24.9	24.2	25.9	26.7	25.3
Non-IFRS net margin (%) ⁽¹⁾	3.8	3.0	3.2	5.1	4.2

Note:

(1) Non-IFRS net margin represents non-IFRS profit for the year/period as a percentage of total revenue of such year/period. For details of the non-IFRS profit of the year/period, see “—Non-IFRS Measure: Non-IFRS Profit For the Year/Period.”

OUR CLOSED-LOOP BUSINESS MODEL

Our retail pharmacy business and online healthcare services complement each other to create a synergistic closed-loop business model in the healthcare value chain. Our retail pharmacy business directs its user base to our healthcare services for online consultation and prescription renewal. Through offerings such as chronic disease management and family doctor service, as well as high-quality service, our online healthcare services anticipate user demand, improve user experience and redirect their user traffic back to our retail pharmacy business for purchase of other healthcare products such as supplements and medical devices. The two businesses reinforce each other, forming a virtuous cycle and symbiotic ecosystem.

OUR CONTROLLING SHAREHOLDERS AND CONTINUING CONNECTED TRANSACTIONS

As of the date of this document, JD.com, through its wholly-owned subsidiary JD Jiankang, indirectly controlled in aggregate 78.29% of our total issued Shares. JD.com is controlled by Mr. Richard Qiangdong Liu, including through Max Smart Limited and Fortune Rising Limited. Immediately after the completion of the Global Offering, JD.com, through JD Jiankang, will indirectly control in aggregate 68.73% of our total issued Shares (assuming that the Over-allotment Option is not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme). Accordingly, our Company will remain as a subsidiary of

SUMMARY

JD.com after the Listing, and JD.com, JD Jiankang, Fortune Rising Limited, Max Smart Limited and Mr. Richard Qiangdong Liu will constitute a group of Controlling Shareholders of our Company.

Overlapping businesses

Our retail pharmacy business is generally intended to be carried out only by our Group, except for certain protective equipment products via direct sales channel that are related to healthcare (e.g. thermometers and facemasks) which are also sold on JD Group's platform. Such overlapping protective equipment products sold by JD Group (taking into account the transfer of JD branded facemasks to our Group upon the Listing) only accounted for approximately 1.7%, 1.3%, 1.6% and 4.2% of our Group's revenue (enlarged to take into account the revenue attributed to the JD branded facemasks) for the three years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020. In the unlikely event of the proportion of the remaining protective equipment sold by JD Group exceeds 10% of our Group's total revenue, JD Group and our Group are prepared to transfer such remaining protective equipment to our Group. Our Group will have appropriate internal control measures in place to monitor the relevant proportion. For further details of such overlapping businesses and related measures, please refer to the section headed "Relationship with our Controlling Shareholders". Save as set out in this paragraph, JD Group's healthcare businesses have been conducted through our Group as a separate and distinct line of business and JD Group has not been involved in the healthcare business other than through our Group.

Reliance on JD Group

Our Group's businesses capitalize, and depend (to a certain extent) on JD Group's platform, including the extensive services offered by JD Group to facilitate the online sales and marketing of our products and services, technology and traffic support, sharing of loyalty programs, logistics services arrangements and payment processing services. Among the above, all of our loyalty programs and payment processing are currently serviced by JD Group and its associates. While transactions under our Group's businesses are executed and capitalize on JD Group's platforms (both webpage and mobile app) and payment processing services, our Group has set up individual websites, which will eventually lead and redirect the customer back to JD Group's platforms for payment processing. In other words, our Group's businesses operate (i) as part of JD Group's mobile app and website, (ii) its own standalone websites which will eventually lead and redirect the customer back to JD Group's platforms for payment processing, and (iii) its standalone JD Health branded mobile app which will eventually lead and redirect the customer back to JD Group's platforms for payment processing. A substantial portion of our businesses are currently initiated or re-directed from JD Group's mobile app and website. Our Group's standalone websites are held by our Group, while the standalone JD Health branded mobile app is currently held by JD Group but will be transferred to our Group after the Listing. This achieves consistency and synergies between JD Group and our Group and also ensures a consistent and superior customer experience, and will lead to increased user growth and stickiness for both JD Group and our Group. Furthermore, we believe that our relationship with and reliance on JD Group represents an industry norm in light of our early stage of development and JD Group being one of the few leading e-commerce platforms in China operating an integrated ecosystem.

Continuing connected transactions

In light of our reliance on JD Group as noted above, we entered into a number of non-exempt and partially exempt continuing connected transactions with JD Group and its associates, including (i)

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provision of technology and traffic support services, sharing of loyalty programs and payment services arrangements from JD Group and its associates; (ii) various logistics services provided by JD Group; and (iii) certain other non-exempt and partially exempt continuing connected transactions. For example, for the three years ended December 31, 2019 and six months ended June 30, 2020, the fees charged by JD Group on our Group under the following arrangements (as if such arrangements existed throughout the Track Record Period) included: (i) the technology and traffic support services accounted for approximately 5.0%, 5.2%, 4.9% and 4.8% of our Group’s total revenue, respectively, (ii) the loyalty program arrangements accounted for approximately 0.4%, 0.3%, 0.3% and 0.3% of our Group’s total revenue, respectively, (iii) the logistics services arrangements accounted for approximately 8.5%, 8.1%, 7.6% and 6.7% of our Group’s total revenue, respectively, and (iv) the payment services arrangements accounted for approximately 0.9%, 1.1%, 1.2% and 1.1% of our Group’s total revenue, respectively. Please refer to the section headed “Relationship with our Controlling Shareholders—Operational Independence” and “Connected Transactions” in this document for further details.

OUR VALUE PROPOSITIONS

We believe that we offer compelling value propositions for participants in the healthcare value chain. Leveraging our extensive user reach, strong supply chain capabilities and industry-leading technologies, we connect pharmaceutical companies and healthcare product suppliers, distributors and users. We integrate offline hospitals and our online healthcare platform, connecting patients and doctors, to create a seamless experience. Our platform improves the accessibility of affordable, high-quality healthcare products and services in China, especially for those who live in areas with limited healthcare resources. We have streamlined the distribution channels and improved efficiency and allocation of healthcare resources across the country. We believe that the “Internet + healthcare” ecosystem we build will help to better provide healthcare for everyone, transform the healthcare industry, and create immense value for society. See “Business—Our Value Propositions” for more details.

OUR STRENGTHS

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

- unparalleled market leadership and economies of scale in retail pharmacy;
- fast-growing online healthcare services;
- superior user experience;
- closed-loop business model integrating retail pharmacy and online healthcare services;
- cutting-edge technologies empowering the healthcare value chain;
- strong synergies with JD Group; and
- visionary and experienced management team.

OUR STRATEGIES

We strive to achieve our long-term goal of helping optimize healthcare resources allocation and accelerate industry transformation. To achieve this goal, we intend to pursue the following strategies:

- further expand our user base and enhance user engagement;

SUMMARY

- reinforce our supply chain capabilities in pharmaceutical and healthcare products;
- grow our online healthcare services; and
- enhance our technology empowerment solutions and continue to innovate.

RISK FACTORS

Our operations and the Global Offering involve certain risks and uncertainties, which are set out in the section headed “Risk Factors.” You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face relate to:

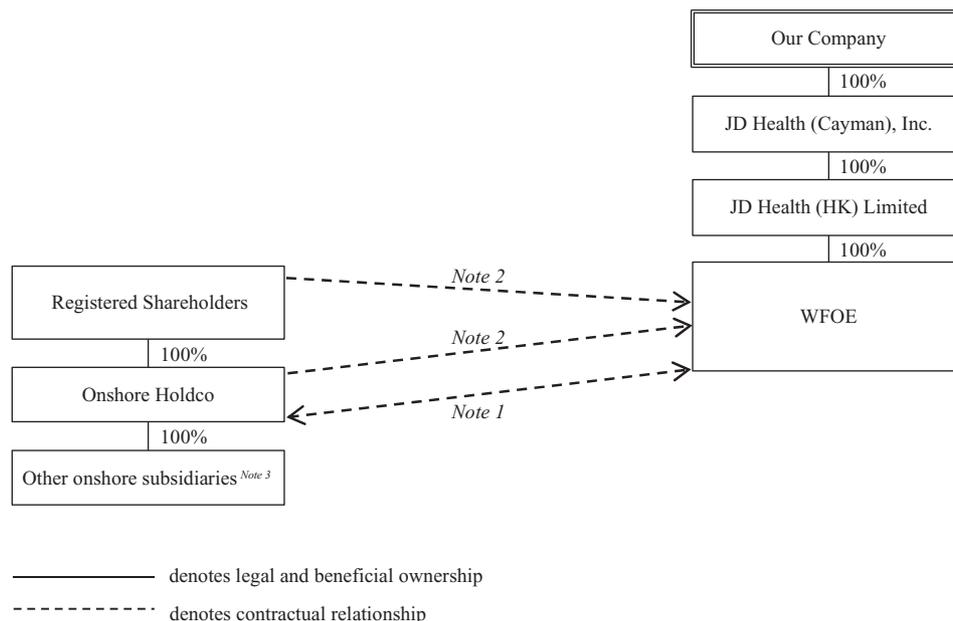
- our reliance on JD Group and the fact that there are certain overlapping businesses between our Group and JD Group as set out in the section headed “Relationship with our Controlling Shareholders” in this document;
- the fact that we may have conflicts of interest with JD Group;
- our ability to maintain a good relationship with JD Group, taking into account the extensive connected transactions between us and JD Group;
- our ability to manage the growth of our business and operations or implement our business strategies successfully;
- the fact that we are subject to extensive and evolving regulatory requirements;
- our ability to compete effectively;
- the fact that we are in the early stage of development with a limited operating history in an emerging and dynamic industry;
- our ability to maintain, protect and enhance the reputation and recognition of our brand;
- our ability to continue to attract and retain users, provide superior user experience and maintain users’ trust in our platform;
- the fact that our sale of pharmaceutical and healthcare products is subject to a variety of risks; and
- our ability to handle and secure data.

CONTRACTUAL ARRANGEMENTS

Our Company operates or may operate in certain industries that are subject to restrictions under the current PRC laws and regulations. In order to comply with such laws, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we control our Consolidated Affiliated Entities through the Contractual Arrangements entered into on September 17, 2020. Hence, we do not directly own any equity interest in our Consolidated Affiliated Entities. Pursuant to the Contractual Arrangements, we have effective control over the financial and operational policies of our Consolidated Affiliated Entities and are entitled to all the economic benefits derived from the Consolidated Affiliated Entities’ operations. For further details, please see section headed “Contractual Arrangements” in this document.

SUMMARY

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Company stipulated under the Contractual Arrangements:



Notes:

- (1) The WFOE provides business support, technical and consulting services in exchange for service fees from the Onshore Holdco. Please refer to “Contractual Arrangements—Our Contractual Arrangements—Exclusive Business Cooperation Agreement”.
- (2) The Registered Shareholders executed the exclusive option agreement in favor of the WFOE, for the acquisition of all or part of the equity interests in and all or part of the assets in the Onshore Holdco. See section headed “Contractual Arrangements—Our Contractual Arrangements—Exclusive Option Agreement”.
The Registered Shareholders executed the shareholders’ rights entrustment agreement and powers of attorney in favor of the WFOE, for the exercise of all shareholders’ rights in the Onshore Holdco. See section headed “Contractual Arrangements—Our Contractual Arrangements—Shareholder’s Rights Entrustment Agreement and Powers of Attorney”.
The Registered Shareholders granted security interests in favor of the WFOE, over the entire equity interests in the Onshore Holdco. See section headed “Contractual Arrangements—Our Contractual Arrangements—Share Pledge Agreement”.
- (3) Onshore Holdco holds, among others, 100% of the equity interests of Yinchuan JD Online Hospital and Jiangsu Jingdong Hongyuan. Onshore Holdco also holds 100% of the equity interest of Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd. (京東善元(青島)電子商務有限公司), which holds 100% of the equity interest of Jingdong Pharmacy Qingdao. Jingdong Pharmacy Qingdao holds, among others, 100% of the equity interests of Jingdong Pharmacy Taizhou.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our combined financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document. The summary combined financial data set forth below should be read together with, and is qualified in its entirety by reference to, the combined financial statements in this document, including the related notes. Our combined financial information was prepared in accordance with IFRSs.

SUMMARY

Selected Combined Statements of Profit or Loss Items

The following table sets forth our combined statements of profit or loss with line items in absolute amounts and as percentages of our revenue for the periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(Unaudited)			
Revenue	5,553,128	100.0	8,169,057	100.0	10,842,140	100.0	4,988,537	100.0	8,777,490	100.0
Cost of revenue ⁽¹⁾	(4,172,630)	(75.1)	(6,190,099)	(75.8)	(8,029,868)	(74.1)	(3,656,862)	(73.3)	(6,559,923)	(74.7)
Gross profit	1,380,498	24.9	1,978,958	24.2	2,812,272	25.9	1,331,675	26.7	2,217,567	25.3
Fulfillment expenses	(636,150)	(11.5)	(927,877)	(11.4)	(1,169,654)	(10.8)	(521,170)	(10.4)	(911,008)	(10.4)
Selling and marketing expenses	(257,979)	(4.6)	(391,822)	(4.8)	(746,014)	(6.9)	(257,545)	(5.2)	(544,375)	(6.2)
Research and development expenses	(122,667)	(2.2)	(218,282)	(2.7)	(338,239)	(3.1)	(150,897)	(3.0)	(278,175)	(3.2)
General and administrative expenses	(107,417)	(1.9)	(133,855)	(1.6)	(124,922)	(1.2)	(66,311)	(1.3)	(84,648)	(1.0)
Other (losses)/gains	(221)	(0.0)	3,562	0.0	565	0.0	229	0.0	(1,887)	(0.0)
Finance income	4	0.0	84	0.0	31,783	0.3	27	0.0	60,327	0.7
Finance costs	(82)	(0.0)	(150)	(0.0)	(35,502)	(0.3)	(81)	(0.0)	(1,745)	(0.0)
Fair value changes of convertible preferred shares	—	—	—	—	(1,263,130)	(11.7)	—	—	(5,705,251)	(65.0)
Impairment losses under expected credit loss model, net of reversal	(7)	(0.0)	(4,386)	(0.1)	(1,859)	(0.0)	(938)	(0.0)	477	0.0
Share of results of a joint venture	—	—	—	—	—	—	—	—	(8,607)	(0.1)
Profit/(loss) before income tax	255,979	4.6	306,232	3.7	(834,700)	(7.7)	334,989	6.7	(5,257,325)	(59.9)
Income tax expense	(77,445)	(1.4)	(91,305)	(1.1)	(137,105)	(1.3)	(98,735)	(2.0)	(103,590)	(1.2)
Profit/(loss) for the year/period	178,534	3.2	214,927	2.6	(971,805)	(9.0)	236,254	4.7	(5,360,915)	(61.1)
Owners of the Company	178,534	3.2	214,927	2.6	(971,805)	(9.0)	236,254	4.7	(5,358,752)	(61.1)
Non-controlling interests	—	—	—	—	—	—	—	—	(2,163)	(0.0)
Non-IFRS Measure⁽²⁾:										
Non-IFRS profit for the year/period (unaudited)	208,954	3.8	248,398	3.0	344,053	3.2	253,967	5.1	370,802	4.2

Notes:

- (1) Our cost of revenue primarily consists of cost of purchasing pharmaceutical and healthcare products that we sell directly through *JD Pharmacy* and the related inbound logistics charges and inventory write-downs. See “Financial Information—Description of Major Components of Our Results of Operations—Cost of Revenue” for a more detailed analysis of our cost of revenue.
- (2) We define “non-IFRS profit” as profit/(loss) for the year/period, excluding share-based payment expenses and fair value changes of convertible preferred shares. We exclude these items because they are not expected to result in future cash payments that are recurring in nature and they are not indicative of our core operating results and business outlook. Non-IFRS profit is not a measure required by, or presented in accordance with IFRSs. The use of non-IFRS profit has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRSs. See “Financial Information—Non-IFRS Measure: Non-IFRS Profit For the Year/Period” for details.

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NON-IFRS MEASURE: NON-IFRS PROFIT FOR THE YEAR/PERIOD

To supplement our combined financial statements, which are presented in accordance with IFRSs, we also use non-IFRS profit as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. We believe non-IFRS profit facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items which our management considers non-indicative of our operating performance.

We believe non-IFRS profit provides useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, our presentation of non-IFRS profit may not be comparable to similarly titled measures presented by other companies. The use of non-IFRS profit has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

We define non-IFRS profit as profit/(loss) for the year/period, excluding share-based payment expenses and fair value changes of convertible preferred shares. We exclude these items because they are not expected to result in future cash payments that are recurring in nature and they are not indicative of our core operating results and business outlook. We account for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued by JD.com, Inc. The grant-date fair value of the award is recognized as compensation expense, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. The reconciling item is non-cash and does not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with guidance letter HKEX-GL103-19 issued by the Stock Exchange (“GL103-19”). In addition, we account for the convertible preferred shares as financial liabilities at fair value through profit or loss. The fair value of convertible preferred shares has been determined by using the income approach and is affected primarily by the changes in our equity value. The convertible preferred shares will automatically convert into ordinary shares upon the completion of the Global Offering, and no further loss or gain on fair value changes is expected to be recognized afterwards. The reconciling item is non-cash, non-recurring and does not result in cash outflow, which complies with GL103-19.

The following table reconciles our non-IFRS profit for the years/periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is profit/(loss) for the year/period:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in thousands)				
Reconciliation of profit/(loss) to non-IFRS profit:					
Profit/(loss) for the year/period	178,534	214,927	(971,805)	236,254	(5,360,915)
Add:					
Share-based payment expenses	30,420	33,471	52,728	17,713	26,466
Fair value changes of convertible preferred shares	—	—	1,263,130	—	5,705,251
Non-IFRS profit for the year/period	<u>208,954</u>	<u>248,398</u>	<u>344,053</u>	<u>253,967</u>	<u>370,802</u>

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Selected Combined Statements of Financial Position Items

The following table sets forth selected information from our combined statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Total non-current assets	10,218	15,810	52,634	901,545
Total current assets	901,145	1,166,337	8,624,043	10,493,379
Total assets	911,363	1,182,147	8,676,677	11,394,924
Total non-current liabilities	1,594	2,411	7,590,832	13,781,421
Total current liabilities	247,145	430,515	1,544,876	3,445,817
Total liabilities	248,739	432,926	9,135,708	17,227,238
Paid-in capital/share capital	2,000	2,000	7	7
Reserves	714,669	841,991	909,753	896,350
Accumulated losses	(54,045)	(94,770)	(1,368,791)	(6,727,543)
Equity attributable to owners of the Company	662,624	749,221	(459,031)	(5,831,186)
Non-controlling interests	—	—	—	(1,128)
Total equity	662,624	749,221	(459,031)	(5,832,314)
Net current assets	654,000	735,822	7,079,167	7,047,562

We had net liabilities of RMB459.0 million and RMB5.8 billion as of December 31, 2019 and June 30, 2020, respectively, primarily due to the convertible preferred shares of RMB7.6 billion and RMB13.6 billion we recorded as of December 31, 2019 and June 30, 2020, respectively, resulting from our Series A financing and the fair value changes of convertible preferred shares. In August 2020, we issued 130,319,819 Series B Preference Shares for a cash consideration of approximately US\$914 million (equivalent to RMB6,314 million). Our convertible preferred shares (including Series A Preference Shares and Series B Preference Shares) will automatically be converted into ordinary shares upon Listing. Afterwards, we do not expect to recognize any further loss or gain on fair value changes from the convertible preferred shares and may revert back to a net assets position from a net liabilities position.

SUMMARY

Selected Combined Statements of Cash Flows Items

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(in thousands of RMB)				
Net cash generated from operating activities	36,116	187,226	409,470	460,372	359,667
Net cash used in investing activities	(8,623)	(13,689)	(1,448,623)	(454)	(3,097,063)
Net cash (used in)/generated from financing activities	(33,299)	(2,924)	6,509,119	983,849	907,651
Net (decrease)/increase in cash and cash equivalents	(5,806)	170,613	5,469,966	1,443,767	(1,829,745)
Net contribution from/(return to) JD Group	12,652	(161,801)	(561,887)	(561,887)	—
Cash and cash equivalents at the beginning of the year/period	555	7,401	16,213	16,213	4,965,272
Effects of foreign exchange rate changes on cash and cash equivalents	—	—	40,980	—	64,793
Cash and cash equivalents at the end of the year/period	<u>7,401</u>	<u>16,213</u>	<u>4,965,272</u>	<u>898,093</u>	<u>3,200,320</u>

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the listing committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue (including the shares on conversion of the Preference Shares), to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. We applied on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2019, being RMB10.84 billion (equivalent to approximately HK\$12.43 billion), which is over HK\$500 million, and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. Any future decision to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, the availability of dividends received from our subsidiaries, our earnings, capital and investment requirements, level of indebtedness, and other factors that our Board deems relevant. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. We do not have a fixed dividend payout ratio.

As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account. Even if there is an accumulated loss, a dividend may be paid out of the share premium account, provided that the memorandum and articles of association do not prohibit such payment. In no circumstances may a dividend be declared or paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. However, investors should not purchase our shares with the expectation of receiving cash dividends.

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GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises of:

- (a) the Hong Kong Public Offering of initially 19,095,000 Offer Shares (subject to reallocation) in Hong Kong as described below in the section headed “—The Hong Kong Public Offering”; and
- (b) the International Offering of initially 362,805,000 Offer Shares (subject to reallocation and the Over-allotment Option) outside the United States in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or other available exemption from the registration requirements of the U.S. Securities Act.

The Offer Shares will represent 12.21% of the issued share capital of the Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.

RECENT DEVELOPMENTS

Our Directors confirm that there have been no material adverse changes in our financial, operational or trading positions or prospects since June 30, 2020, being the date of the latest reporting period ended of our combined financial statements as set out in the Accountants’ Report in Appendix I to this document, and up to the date of this document. The unaudited financial information for the nine months ended September 30, 2020 is derived from our unaudited interim condensed financial information for the nine months ended September 30, 2020. We are responsible for the preparation of the unaudited interim condensed financial information for the nine months ended September 30, 2020 in accordance with the basis of preparation and presentation as well as the accounting policies, which conform with the International Financial Reporting Standards, consistent with those adopted for the preparation of the historical financial information for the three years ended December 31, 2019 and six months ended June 30, 2020 as set out in the Accountants’ Report in Appendix I to this document. Our unaudited interim condensed financial information for the nine months ended September 30, 2020 has been reviewed by our Reporting Accountant in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

On August 21, 2020, we raised approximately US\$914 million by issuing 130,319,819 Series B Preference Shares with a par value of US\$0.0000005 per share. See “History, Reorganization And Corporate Structure—2. Principal terms of the Pre-IPO Investments” in this document for more details.

For the twelve months ended September 30, 2020, we had 80.0 million annual active user accounts. For the nine months ended September 30, 2020, we recorded total revenue of RMB13.2 billion, representing a 77.1% increase from the same period in 2019, and gross profit of RMB3.4 billion, representing a 66.3% increase from the same period in 2019.

In line with our overall growth strategy in 2020, we expect our selling and marketing expenses, research and development expenses and general and administrative expenses to continue to increase in 2020, in particular, in the fourth quarter of 2020. The growth in these expenses might outpace the growth in our revenue or gross profit, due to our continuous and increased effort to (i) enhance our

SUMMARY

brand recognition and promote our platform; (ii) expand our technology team, enhance our data analytics capabilities and develop new features and applications to better serve various participants in the healthcare ecosystem; and (iii) hire additional employees to support our business operations and planned expansion. If that happens, our financial performance in 2020 might be impacted compared with that in 2019.

We expect that our net loss for the year ending December 31, 2020 will increase compared to the year ended December 31, 2019 due to the expected loss on fair value changes of convertible preferred shares, which was in relation to the Pre-IPO Investments. Although our convertible preferred shares will be automatically converted to Shares upon the completion of the Global Offering, to the extent we need to revalue the preferred shares prior to the completion of the Global Offering, any change in fair value of these convertible preferred shares could materially affect our financial positions and results of operations. The fair value of our convertible preferred shares increased further after June 30, 2020 due to our issuance of Series B Preference Shares in August 2020, which is expected to have a negative impact on our combined statements of profit or loss. Assuming we revalue the convertible preferred shares immediately prior to the conversion to Shares upon completion of the Global Offering, based on Offer Price of HK\$66.69 per Offer Share (being the mid-point of our Offer Price range of HK\$62.80 to HK\$70.58 per Offer Share), the unaudited fair value change of the balance of convertible preferred shares for the year ending December 31, 2020 is expected to be approximately RMB15.8 billion. We expect this will have a negative impact on our combined statements of profit or loss for the year ending December 31, 2020 because the increase in the balance of fair value change instruments will result in loss associated with fair value change in convertible preferred shares. See “Risk Factors—Our results of operations, financial conditions and prospects have been adversely affected by fair value changes of financial instruments at fair value through profit or loss, in particular, by fair value changes in our convertible preferred shares.”

In November 2020, the State Administration for Market Regulation, or the SAMR, published a discussion draft of the Guideline on Anti-monopoly of Platform Economy Sector (《關於平台經濟領域的反壟斷指南（徵求意見稿）》) (the “Draft Guideline”), aiming to improve anti-monopoly administration on online platforms. The released Draft Guideline, if enacted, will operate as a compliance guidance under the existing PRC anti-monopoly laws and regulations for platform economy operators. See “Regulations—Regulations Relating to Anti-Monopoly in China” for a brief summary of the Draft Guideline. As advised by our PRC Legal Adviser, the Draft Guideline was released for public comment only, and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. It is impossible to predict the impact of the Draft Guideline, if any, at this stage, we will closely monitor and assess the trajectory of the rule-making process.

Impact of COVID-19 On Our Operations

The vast majority of our revenue is derived from sales of pharmaceutical and healthcare products. Our results of operations and financial condition in 2020 have been and may continue to be affected by the spread of COVID-19. Although China had gradually controlled the spread of COVID-19 by the end of June 2020, the extent to which COVID-19 impacts our results of operations in 2020 will depend on the future developments of the pandemic, which are highly uncertain and unpredictable.

In response to intensifying efforts to contain the spread of COVID-19, the Chinese government has taken a number of actions, which included compulsory quarantine arrangements, travel restrictions,

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remote work arrangements and public activities restrictions, among others. COVID-19 also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have also taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees. These measures have temporarily reduced the capacity and efficiency of our operations and have negatively impacted our procurement of products, which negatively affected our results of operations.

During the early stage of COVID-19 outbreak, we have seen a decrease in demand for certain health and wellness products, likely due to the decrease in consumer spending in general caused by the pandemic. Leveraging JD Group's logistics network, the general public's increased awareness and significant unmet need for healthcare products and services, we have resumed normal operations and have seen an increase in demand for our online healthcare services, in particular, the demand for our online hospital services, along with an increase in demand for our pharmaceutical products. Despite the impact of the COVID-19 outbreak, our revenue increased by 76.0% from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020.

As of June 30, 2020, we had cash and cash equivalents of RMB3.2 billion and term deposit of RMB2.8 billion. In August 2020, we raised over US\$900 million by issuing Series B Preference Shares to investors. We believe our liquidity is sufficient to successfully navigate an extended period of uncertainty.

Taking into account (i) the worst case scenario that our operations and businesses are adversely affected by the COVID-19 outbreak, (ii) the financial resources available to us, including cash and cash equivalents, term deposits and the portion of the estimated net proceeds from the Global Offering expected to be used for working capital and general corporate purposes, and (iii) the prudent estimates for the settlement of trade receivables and account payables, we believe we retain substantial ability to manage our business growth and achieve an optimal balance between business expansion and operating cost management. Accordingly, we believe that we can further stretch our internal resources and net proceeds from the Global Offering designated for general working capital and our operations based on the low-end of the Offer Price, and remain financially viable for more than five years.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 381,900,000 Offer Shares are issued pursuant to the Global Offering; and (ii) 3,127,082,111 Shares are issued and outstanding following the completion of the Global Offering.

	<u>Based on an Offer Price of HK\$62.80 per Share</u>	<u>Based on an Offer Price of HK\$70.58 per Share</u>
Market capitalization of our Shares ⁽¹⁾	HK\$196,381 million	HK\$220,709 million
Unaudited pro forma adjusted combined net tangible assets per Share ⁽²⁾	HK\$6.57 (RMB5.56)	HK\$7.73 (RMB6.54)

Notes:

- (1) The calculation of market capitalization is based on 3,127,082,111 Shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible asset per Share as of June 30, 2020 is calculated after making the adjustments referred to in Appendix II and on the basis that 2,531,153,732 Shares are expected to be in issue immediately upon completion of the Global Offering.

For the calculation of the unaudited pro forma adjusted net tangible asset value per Share attributed to our Shareholders, see the section headed "Unaudited Pro Forma Financial Information" in

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Appendix II. Please note that in preparing the unaudited pro forma financial information, no adjustment has been made to our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as of June 30, 2020 to reflect any operating result or other transactions of us entered into subsequent to June 30, 2020. In particular, the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company have not been adjusted to illustrate the effect of the issuance of Series B Preference Shares in August 2020 and the conversion of Series A Preference Shares and Series B Preference Shares into Shares upon the completion of the Global Offering. As of June 30, 2020, the carrying amount of 372,552,238 Series A Preference Shares of our Company was RMB13,609 million and recognized as financial liabilities. The Series A Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1. In August 2020, we issued 130,319,819 Series B Preference Shares for a cash consideration of approximately US\$914 million (equivalent to RMB6,314 million). The Series B Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1.

LISTING EXPENSES

Based on the mid-point Offer Price of HK\$66.69, the total estimated listing related expenses payable by us in relation to the offering of the Offer Shares under the Global Offering, together with the fees and expenses for professional advisors and service providers engaged for the Global Offering, is approximately RMB402.2 million (or approximately RMB87.1 million after excluding underwriting commission, SFC transaction levy and Stock Exchange trading fee of approximately RMB315.1 million and assuming the Over-allotment Option is not exercised), representing approximately 1.9% of the gross proceeds of the Global Offering (assuming the Over-allotment Option is not exercised). We estimate that the total listing expenses for the year ended December 31, 2020 in the amount of RMB73.6 million will be charged to our consolidated statements of comprehensive income for the year ending December 31, 2020. The balance of approximately RMB328.6 million, which includes underwriting commission, is expected to be capitalized. These listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering and the underwriting commission and discretionary incentive fee payable to the Underwriters in connection with the offering of Offer Shares under the Global Offering.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$24,994 million after deducting the underwriting commissions and other estimated expenses paid and payable by us in relation to the Global Offering and taking into account any additional discretionary incentive fee (assuming the full payment of the discretionary incentive fee), assuming an Offer Price of HK\$66.69 per Share, being the mid-point of the indicative Offer Price range of HK\$62.80 to HK\$70.58 per Share. We intend to use the net proceeds we will receive from the Global Offering for the following purposes:

- approximately 40% of the net proceeds, or approximately HK\$9,997 million, is expected to be used for business expansion in the next 36 to 60 months, including:
 - further developing our retail pharmacy business and online healthcare services, including (i) continuing to strengthen our retail pharmacy business by procuring more

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drug SKUs and introducing more novel drugs from a larger base of quality suppliers for our direct sales business; (ii) increasing the number of drug warehouses that we utilize through collaboration with JD Group, which will enhance our supply chain capabilities; (iii) cooperating with more offline pharmacies to enrich the product categories and expand the urgent delivery services of our omnichannel initiative to more cities in China with enhanced efficiency and coverage; (iv) continuing to invest in the development of our healthcare services network and the expansion of our healthcare service offerings to satisfy all-round demand from users with serious, acute and/or chronic diseases, by recruiting more in-house doctors and cooperating with more external doctors and providing them with attractive compensation packages and training and collaboration opportunities, collaborating with more top industry experts to build specialist medical centers and expanding our consumer healthcare services to more categories; and (v) investing in new initiatives such as developing and purchasing more advanced technology infrastructures to help digitalize the transaction process between upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies;

- enhancing user growth and engagement, including (i) strengthening our supply chain capabilities through expanding our supply chain human resources and investments in relevant technologies for logistics to achieve economies of scale and operating efficiency and enable us to offer more diversified delivery options and competitive pricing, improving user experience; (ii) continuing to improve user experience of our online healthcare services by expanding the breadth and depth of our service offerings, such as expanding the types and numbers of offerings in dental services and aesthetic medicines of our consumer healthcare services; and (iii) investing in the technology to improve the capability of our mobile apps and the development of data-driven and personalized services based on insights into user preferences, backed by our data analytics capabilities and the use of AI in analyzing user behaviors, for example, to recommend related or similar non-drug healthcare products based on users' search and purchase history;
- consistently promoting brand awareness through increasing our online and offline marketing and promotional activities, such as TV branding, news feed ads, advertisements through major search engines and web portals, and seasonal and holiday promotional campaigns; and
- approximately 30% of the net proceeds, or approximately HK\$7,498 million, is expected to be used for research and development in the next 24 to 36 months, including (i) further developing our digital infrastructure and new initiatives with continuous investments in our healthcare services platforms, AI-assisted prescription verification, and big data and cloud computing technologies, to consistently optimize our service process, improve user experience, boost operation efficiency and expand the scope of Internet and technology related solutions offered to participants in the healthcare value chain; (ii) continuously attracting, through offering competitive compensation packages, and cultivating world-class software engineers, data scientists, artificial intelligence experts and other research and development talents, and expanding our portfolio of intelligent assets; and (iii) investing in smart healthcare solutions for offline hospitals and other medical institutions, such as software, IOT systems and integrated platform solutions designed for various scenarios based on their specific needs to further improve patient monitoring and

SUMMARY

management, enhance daily operation efficiency of hospitals and position them for greater integration with online service offerings;

- approximately 20% of the net proceeds, or approximately HK\$4,999 million, is expected to be used for our potential investments and acquisitions or strategic alliances. We are interested in healthcare companies with advanced technologies and services, companies with complementary business lines and companies that have synergies with our current business. We have no intention to use any portion of the net proceeds to settle the payments for the minority investments or the acquisitions referred to in the section headed “Waivers from Strict Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.” As of the Latest Practicable Date, we have not identified any other target of potential acquisition; and
- approximately 10% of the net proceeds, or approximately HK\$2,499 million, is expected to be used for working capital and general corporate purposes.

In the event that the Offer Price is set at the high point or the low point of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$1,463 million, respectively. Under such circumstances, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the additional net proceeds that we will receive will be approximately HK\$3,763 million, assuming an Offer Price of HK\$66.69 per Share, being the mid-point of the indicative Offer Price range. We may be required to issue up to an aggregate of 57,285,000 additional Offer Shares pursuant to the Over-allotment Option. See the section headed “—Use of Proceeds” in this document for further details of the use of proceeds.

SPIN-OFF

Having considered, among other things, that our healthcare business has grown to a sufficient size that warrants a separate listing on the Stock Exchange, JD.com submitted a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. The Stock Exchange has confirmed that JD.com may proceed with the Spin-off as proposed. Our Company will comply with the requirements under Practice Note 15 and the applicable requirements of the Listing Rules regarding the Spin-off, save with respect to paragraph 3(f) of Practice Note 15, in respect of which JD.com has applied for, and the Stock Exchange has granted, a waiver from the requirement for us to provide existing shareholders of JD.com with an assured entitlement to apply for Shares pursuant to the Global Offering. See the section headed “History, Reorganization and Corporate Structure—Spin-off” in this document for further details of the Spin-off.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the following meanings.

“ADSs”	American Depositary Shares (each representing two Class A ordinary shares) of JD.com
“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“annual active user accounts”	user accounts that made at least one purchase during the past trailing twelve months ended on the applicable date, primarily through JD Pharmacy, online marketplace and omnichannel initiative
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on November 23, 2020 with effect from the Listing Date, a summary of which is set out in “Summary of the constitution of our Company and Cayman Islands company law” in Appendix III to this document
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audited Financial Statements”	the audited combined financial statements of our Company for the Track Record Period, as included in the section headed “Accountants’ report” in Appendix I to this document
“Board”	the board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAC”	the Cyberspace Administration of China
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Center by completing an input request
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFDA”	China Food and Drug Administration (中華人民共和國國家食品藥品監督管理總局), formerly known as State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局), part of which has been replaced by the NMPA
“China” or “the PRC”	the People’s Republic of China, and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Class A ordinary share(s)”	Class A ordinary shares in the share capital of JD.com with par value of US\$0.00002 each, conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at JD.com’s general meeting
“Class B ordinary share(s)”	Class B ordinary shares in the share capital of JD.com with par value of US\$0.00002 each, conferring weighted voting

DEFINITIONS

	rights in JD.com such that a holder of a Class B ordinary share is entitled to 20 votes per share on any resolution tabled at JD.com’s general meeting
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, or “the Company”	JD Health International Inc. (京东健康股份有限公司), an exempted company with limited liability incorporated in the Cayman Islands on November 30, 2018
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely the Onshore Holdco and its respective subsidiaries. For further details of these entities, see the section headed “History, Reorganization and Corporate Structure” in this document
“Contractual Arrangement(s)”	the series of contractual arrangements entered into between, among others, the WFOEs, the Onshore Holdcos and the Registered Shareholders, as detailed in the section headed “Contractual Arrangements”
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to JD Jiankang, JD.com, Mr. Richard Qiangdong Liu, Max Smart Limited and Fortune Rising Holdings Limited
“Conversion”	the conversion of Series A Preference Shares and Series B Preference Shares into Shares upon the completion of the Global Offering
“C2M”	customer to manufacturer
“deployment environment isolation”	isolating a deployment environment, namely the physical location, the infrastructure facilities, the platform constraints, as well as anything that can affect the access mechanisms of the deployed applications
“demilitarized zone”	a network configuration that separates the corporate network from the internet, creating a tightly secured area where servers can be placed

DEFINITIONS

“Director(s)”	the director(s) of our Company
“Dubbo”	a Java-based high-performance, light weight framework
“Elastic Database Tools”	tools for elastic database, a feature that allows for simultaneous monitor of several databases
“Extreme Conditions”	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date
“GAAP”	generally accepted accounting principles
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GMV”	refers to the total value of all orders for products placed with us, regardless of whether the goods are sold or delivered or whether the goods are returned
“Governmental Authority(ies)”	any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company, its subsidiaries and the Consolidated Affiliated Entities from time to time, including where the context otherwise requires, any companies and businesses transferred to our Group as part of the Reorganization (as the case may be)
“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 19,095,000 Shares being initially offered for subscription in the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering”)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this document and the Green Application Form, as further described in the section headed “Structure of the Global Offering—The Hong Kong Public Offering”
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Takeovers Code” or “Takeovers Code”	Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting—Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement, dated November 25, 2020, relating to the Hong Kong Public Offering, entered into by our Company, the Joint Sponsors, the Joint Representatives and the Hong Kong Underwriters, as further described in the section headed “Underwriting—Underwriting arrangements and expenses—Hong Kong Public Offering—Hong Kong Underwriting Agreement”
“IFRSs”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Independent Third Party(ies)”	any entity or person who is not a connected person of our Company or an associate of such person within the meaning ascribed to it under the Listing Rules
“International Offer Shares”	the 362,805,000 Shares being initially offered for subscription under the International Offering together, where relevant, with any additional Shares that may be sold pursuant to any exercise of the Over-allotment Option (subject to reallocation as described in the section headed “Structure of the Global Offering”)

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“International Offering”	the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from the registration requirements under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering”
“International Underwriters”	the underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement, expected to be entered into on or about December 1, 2020, relating to the International Offering, expected to be entered into by, among others, our Company, the Joint Representatives and the International Underwriters, as further described in the section headed “Underwriting—International Offering”
“IoT”	the internet of things, which describes the network of physical objects—“things”—that are embedded with sensors, software, and other technologies for the purpose of connecting and exchanging data with other devices and systems over the internet
“Issuance”	the issuance of Series B Preference Shares in August 2020
“JDOS”	Jingdong Datacenter Operating System, an operating system developed by JD Group for automated management of shared container clusters and containerized applications in a scalable and elastic manner
“JD.com”	JD.com, Inc., one of our Controlling Shareholders, a company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to the Cayman Islands on January 16, 2014 as an exempted company registered by way of continuation under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 9618) under Chapter 19C of the Listing Rules and the ADSs of which are listed on Nasdaq under the symbol “JD” and, where the context requires, includes its consolidated subsidiaries and consolidated affiliated entities from time to time
“JD Group”	JD.com and its subsidiaries and consolidated affiliated entities, excluding our Group
“JD Jiankang”	JD Jiankang Limited, a company incorporated in the BVI on April 24, 2019 and one of our Controlling Shareholders

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“JD Logistics”	JD.com’s logistics business that provides integrated supply chain and logistics services to JD.com and third-party business partners across a wide range of industries
“JD Share(s)”	Class A ordinary shares and Class B ordinary shares in the share capital of JD.com
“JD Shareholder(s)”	holder(s) of JD Shares and ADSs
“Jiangsu Jingdong Hongyuan”	Jiangsu Jingdong Hongyuan Information Technology Co., Ltd. (江蘇京東弘元信息技術有限公司), a company incorporated under the laws of PRC on August 2, 2019, a wholly-owned subsidiary of the Onshore Holdco and one of our Consolidated Affiliated Entities
“JIMDB”	Jingdong in-memory data base, a data caching tool that JD Group developed based on Redis
“Jingdong Pharmacy Qingdao”	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司), a company incorporated under the laws of PRC on January 22, 2010, an indirectly wholly-owned subsidiary of the Onshore Holdco and one of our Consolidated Affiliated Entities
“Jingdong Pharmacy Taizhou”	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司), a company incorporated under the laws of PRC on October 23, 2017, a wholly-owned subsidiary of the Jingdong Pharmacy Qingdao and one of our Consolidated Affiliated Entities
“Jingdong Shanyuan”	Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd. (京東善元(青島)電子商務有限公司), a company incorporated under the laws of PRC on August 28, 2013, the holding company of Jingdong Pharmacy Qingdao and one of our Consolidated Affiliated Entities
“JMQ”	a message tool based on MQ developed by JD Group for managing large amounts of messaging data
“Joint Bookrunners”	the joint bookrunners as named in the section headed “Directors and Parties Involved in the Global Offering” of this document
“Joint Global Coordinators”	the joint global coordinators as named in the section headed “Directors and Parties Involved in the Global Offering” of this document
“Joint Lead Managers”	the joint lead managers as named in the section headed “Directors and Parties Involved in the Global Offering” of this document

DEFINITIONS

“Joint Representatives”	Merrill Lynch (Asia Pacific) Limited, Haitong International Securities Company Limited, UBS AG Hong Kong Branch and China Renaissance Securities (Hong Kong) Limited
“Joint Sponsors”	the Joint Sponsors of the listing of the Shares on the Main Board of the Hong Kong Stock Exchange, being Merrill Lynch Far East Limited, Haitong International Capital Limited and UBS Securities Hong Kong Limited
“JSF”	a distributed framework platform that JD.com developed based on Dubbo, which provides service support for middle-end infrastructure
“Latest Practicable Date”	November 18, 2020, being the latest practicable date for ascertaining certain information in this document before its publication
“Laws”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about December 8, 2020 on which the Shares are to be listed and on which dealings in the Shares are to be first permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Major Subsidiaries”	our principal subsidiaries and consolidated affiliated entities as identified in “History, Reorganization and Corporate Structure—Major Subsidiaries”
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on November 23, 2020, with effect from the Listing Date

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“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHRSS”	the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NHC”	National Health Commission of the PRC (中華人民共和國國家衛生健康委員會), and formerly known as National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會), or NHFPC
“NMPA”	the National Medical Products Administration (國家藥品監督管理局)
“NPC”	the National People’s Congress (全國人民代表大會)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and International Offer Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed “Structure of the Global Offering—Pricing and Allocation”
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional Shares to be sold by our Company pursuant to the exercise of the Over-allotment Option
“Onshore Holdco” or “Suqian Tianning”	Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司), a company established in the PRC on June 10, 2019 and our Consolidated Affiliated Entity
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Stabilizing Manager on behalf of the International Underwriters for up

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to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 57,285,000 additional Shares (representing in aggregate 15% of the initial Offer Shares) to the International Underwriters to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering—The International Offering—Over-allotment Option”

“PBOC”	the People’s Bank of China
“Post-IPO Share Award Scheme”	the post-IPO share award scheme conditionally approved and adopted by our Company on November 23, 2020, the principal terms of which are set out in the section headed “Statutory and General Information—D. Share Incentive Schemes—3. Post-IPO Share Award Scheme” in Appendix IV to this document
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally approved and adopted by our Company on November 23, 2020, the principal terms of which are set out in the section headed “Statutory and General Information—D. Share Incentive Schemes—2. Post-IPO Share Option Scheme” in Appendix IV to this document
“PRC Legal Adviser”	Shihui Partners, our legal adviser on PRC law
“Pre-IPO ESOP”	the pre-IPO employee share incentive plan conditionally approved and adopted by our Company on September 14, 2020, the principal terms of which are set out in the section headed “Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in Appendix IV to this document
“Pre-IPO Investment(s)”	the investments in our Company undertaken by the Pre-IPO Investors pursuant to the Series A Share Subscription Agreement and Series B Share Subscription Agreements, as applicable, prior to this initial public offering, the details of which are set out in the section headed “History, Reorganization and Corporate Structure”
“Pre-IPO Investor(s)”	the investors as set out in the section headed “History, Reorganization and Corporate Structure—2. Principal terms of the Pre-IPO Investments—5. Information on the Pre-IPO Investors”

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“Pre-IPO Shareholders’ Agreement”	the second amended and restated shareholder agreement dated August 21, 2020 between, among others, our Company, JD.com, JD Jiankang, Novacare Investment Limited and Pre-IPO Investors
“Preference Shares”	Series A Preference Shares and Series B Preference Shares
“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about December 1, 2020 and in any event no later than December 7, 2020, on which the Offer Price is to be fixed for the purposes of the Global Offering
“Principal Share Registrar”	Maples Fund Services (Cayman) Limited
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Redis”	Remote Dictionary Server, a software implementing an in-memory data structure
“Registered Shareholders”	the registered shareholders of the Onshore Holdco, namely Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱)
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the corporate restructuring of the Group in preparation for the Listing, as described in the section headed “History, Reorganization and Corporate Structure—Corporate Reorganization”
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has now been merged into the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)

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“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAT”	State Administration of Taxation (國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“Series A Preference Shares”	the series A preference shares of our Company with par value of US\$0.0000005 each, of which 372,552,238 series A preference shares are currently in issue as of the Latest Practicable Date and held by the Series A Preference Shareholders and Novacare Investment Limited, each having the rights and restrictions as set forth in the Pre-IPO Shareholders’ Agreement
“Series A Preference Shareholders”	CJD eHealthcare Investment Limited, Triton Bidco Limited, China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥)), CICC e-Healthcare Investment Limited, Eastar Medical Investment, L.P., Skycus China Fund, L.P., Danqing Fund II Investment L.P.) (蘇州丹青二期創新醫藥產業投資合夥企業(有限合夥)), Danqing-JDH Investment L.P. and Qianshan Health L.P.
“Series A Share Subscription Agreement”	Series A Preference Shares Subscription Agreement by and among the Company and each of the Series A Preference Shareholders (or their affiliates) and Novacare Investment Limited (through its representative) dated as of May 9, 2019, as amended from time to time
“Series B Preference Shares”	the series B preference shares of our Company with par value of US\$0.0000005 each, of which 130,319,819 series B preference shares are currently in issue as of the Latest Practicable Date and held by the Series B Preference Shareholders, each having the rights and restrictions as set forth in the Pre-IPO Shareholders’ Agreement
“Series B Preference Shareholders”	SUM XI Holdings Limited, CJD eHealthcare Investment Limited, Triton Bidco Limited, CICC e-Healthcare Investment Limited and Domking Medical Investment, L.P.
“Series B Share Subscription Agreements”	Series B Preference Shares subscription agreements by and among the Company and each of the Series B Preference Shareholders dated on or around August 17, 2020, as amended from time to time
“SFC”	Securities and Futures Commission of Hong Kong

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“SFO” or “Securities and Futures Ordinance”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company with par value of US\$0.0000005 each
“Shareholder(s)”	holder(s) of our Share(s)
“Spin-off”	the separate listing of our Shares on the Main Board, which is expected to be effected by way of the Global Offering
“Stabilizing Manager”	Merrill Lynch (Asia Pacific) Limited, through its affiliates
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Track Record Period”	the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. SEC”	the Securities and Exchange Commission of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States”, “U.S.” or “US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “U.S. dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax

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“WFOE”	Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司), a company established in the PRC on June 6, 2019 and a wholly-owned subsidiary of our Company
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider, www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Yinchuan JD Online Hospital”	Yinchuan JD Online Hospital Co., Ltd. (銀川京東互聯網醫院有限公司), a company incorporated under the laws of PRC on June 23, 2017, a wholly-owned subsidiary of the Onshore Holdco and one of our Consolidated Affiliated Entities
“5G”	the fifth generation technology standard for broadband cellular networks
“%”	per cent

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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An investment in our Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.

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

Risks Related to Our Business and Industry

We rely on JD Group to a certain extent and there are certain overlapping businesses between our Group and JD Group. We may have conflicts of interest with JD Group and, because of JD Group’s controlling ownership interest in our Company, may not be able to resolve such conflicts on favorable terms for us.

Our Group’s businesses capitalize, and depend (to a certain extent) on JD Group’s platform, including the extensive services offered by JD Group to facilitate the online sales and marketing of our products and services, technology and traffic support, sharing of loyalty programs and payment processing services. JD Group may from time to time make strategic decisions that it believes are in the best interests of its business and shareholders as a whole. These decisions may be different from the decisions that we would have made on our own.

Conflicts of interest may arise between us and JD Group, one of our Controlling Shareholders, in a number of areas relating to our ongoing relationships. Potential conflicts of interest that we have identified mainly include the following:

- *Overlapping businesses with JD Group.* Our retail pharmacy business is generally intended to be carried out only by our Group, except for certain protective equipment products via direct sales channel that are related to healthcare (e.g. thermometers and facemasks) which are also sold on JD Group’s platform. Such overlapping protective equipment products sold by JD Group (taking into account the transfer of JD branded facemasks to our Group upon the Listing) only accounted for approximately 1.7%, 1.3%, 1.6% and 4.2% of our Group’s revenue (enlarged to take into account the revenue attributed to the JD branded facemasks) for the three years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020. In the unlikely event of the proportion of the remaining protective equipment sold by JD Group exceeds 10% of our Group’s total revenue, JD Group and our Group are prepared to transfer such remaining protective equipment to our Group. Our Group will have appropriate internal control measures in place to monitor the relevant proportion. For further details of such overlapping businesses and related measures, please refer to the section headed “Relationship with our Controlling Shareholders”.
- *Agreements with JD Group.* We have entered into agreements with JD Group with respect to material aspects of our operations and JD Group’s continued cooperation with and

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support to us (including logistic services support, technology support, user traffic support, payment processing support and marketing and administrative support). See the sections headed “Connected Transactions” and “Relationship with our Controlling Shareholders” in this document for further details of such agreements. JD Group may use its control over us to prevent us from bringing a legal claim against JD Group in the event of a contractual breach, notwithstanding our contractual rights under the agreements and any other agreement we may enter into with the JD Group from time to time.

- *Allocation of business opportunities.* There may arise business opportunities in the future that both we and JD Group are interested in and which may complement the respective businesses. Due to the controlling interest of JD Group and its leading market position and brand in China, JD Group may decide to take up such opportunities unilaterally, which would prevent us from taking advantage of those opportunities.
- *Employee recruiting and retention.* Because both JD Group and we are operating in the internet industry in China, we may compete with JD Group in the hiring of employees.
- *Sales of shares in our Company.* JD Group may decide to sell all or a portion of the Shares in our Company it holds to a third party, including to one of our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other Shareholders.
- *Developing business relationships with JD Group’s competitors.* So long as JD Group remains our Controlling Shareholder, we may be limited in our ability to do business with its competitors. This may limit our ability to market our services for the best interests of our Company and our other Shareholders.
- *Our Directors and employees may have conflicts of interests.* Some of our Directors are also employees of JD Group. These relationships could create, or appear to create, conflicts of interests when these persons are faced with decisions with potentially different implications for JD Group and us.

Although we will be a stand-alone public company after the Global Offering, we expect to operate, for as long as JD Group remains one of our Controlling Shareholders, as an affiliate of JD Group. JD Group may from time to time make strategic decisions that it believes are in the best interests of its business and shareholders as a whole. These decisions may be different from the decisions that we would have made on our own. As a Controlling Shareholder that is able to exercise more than 30% voting power in us, JD Group’s decisions with respect to us or our business may be resolved in ways that favor JD Group and its shareholders, which may not necessarily align with our interests and the interests of our other Shareholders. After we become a stand-alone public company, we will have an audit committee, consisting of independent non-executive Directors, to review and approve all proposed connected transactions as defined in the Listing Rules, including any transactions between us and JD Group and/or its associates. However, we may not be able to resolve all potential misalignments in interests, and even if we do so, the resolution may be less favorable to us than if we were dealing with a non-controlling shareholder. For further details as to how we address such conflicts, see the section headed “Relationship with our Controlling Shareholders” in this document.

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Any negative development with respect to JD Group or our relationship with JD Group may materially and adversely affect our business and brand.

We will continue to be controlled by JD Group after the Global Offering and will continue our substantial cooperation with JD Group for various support (including logistic services support, technology and traffic support, payment processing support and marketing and administrative support). If JD Group loses its market position or suffers any negative publicity, it could have an adverse impact on our business, our marketing efforts, our relationships with strategic partners and users, our reputation and brand. If JD Group reduces, suspends or terminates any type of support to us, we will need to obtain such support from other sources, or improve the capabilities on our own.

If JD Group fails to continue its cooperation with us, provide support to us, or conducts business in an unacceptable manner or takes other actions that are detrimental to our interests, we may have to renegotiate with JD Group for the cooperation or support or attempt to approach other business partners as replacements, which may be expensive, time-consuming and disruptive to our operations. If we are unable to maintain our relationship with JD Group, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and financial condition.

Furthermore, as the “JD” brand name is shared among the members of JD Group and us, if we or these entities or our or their respective directors, management personnel or other employees take any action that damages the “JD” brand name or its corporate image, or if any material negative publicity is associated with any of them, for example, as a result of regulatory investigations into, or other proceedings (including alleged or future securities class actions) involving, or wrongdoing or corrupt or other practices engaged by, any such directors, management personnel or employees, our brand image and reputation as well as our market value may be adversely affected.

We may not be able to manage the growth of our business and operations or implement our business strategies successfully, or at all.

Our business has become increasingly complex in terms of both type and scale. Any future expansion may increase the complexity of our operations and place a significant strain on our managerial, operational, financial and human resources. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. We cannot assure you that we will be able to effectively manage our growth or to implement all these systems, procedures and control measures successfully. If we are unable to manage our growth effectively, our business and prospects may be materially and adversely affected.

We are also continually executing a number of new initiatives, strategies and operating plans designed to enhance our business. See “Business—Smart Healthcare Solutions and Other New Initiatives.” These initiatives are new and evolving, some of which are still at the inception or trial stage and may prove unsuccessful. We may not be able to successfully complete these growth initiatives, strategies and operating plans and realize all of the benefits that we expect to achieve or it may be more costly to do so than we anticipate. If, for any reason, the benefits we realize are less than our estimates, or the implementation of these growth initiatives, strategies and operating plans adversely affects our operations, or it costs more or takes longer to effectuate than we expect, or if our assumptions prove inaccurate, our business, financial condition and results of operations may be materially and adversely affected.

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

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

Due to the complex nature of our business, we are subject to legal and regulatory requirements of multiple industries in the PRC. These industries primarily include internet, healthcare, internet healthcare and pharmaceutical and healthcare products retail industries. Various regulatory authorities of the PRC government are empowered to promulgate and implement regulations governing broad aspects of these industries. Any violation of the relevant laws, rules and regulations may result in harsh penalties and, under certain circumstances, lead to criminal prosecution.

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

Sales of pharmaceutical and healthcare products in China are each subject to extensive and evolving government regulation and supervision as well as monitoring by various government authorities. Any unfavorable regulatory changes in these industries may also increase our compliance burden and materially and adversely affect our business, profitability and prospects. Certain other laws, rules and regulations may affect the pricing, demand and sales of pharmaceutical and healthcare products, such as those relating to procurement, prescription and dispensing of drugs by hospitals and other medical institutions, retail pharmacy, government funding for private healthcare and medical services, and the inclusion of products in the drugs catalogs for national basic medical insurance, on-the-job injury insurance and maternity insurance jointly promulgated by the National Healthcare Security Administration and the MOHRSS.

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

The PRC anti-monopoly enforcement agencies have in recent years strengthened enforcement under the PRC Anti-monopoly Law (《中華人民共和國反壟斷法》). In March 2018, the SAMR was

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formed as a new governmental agency to take over, among other things, the anti-monopoly enforcement functions from the relevant departments under the MOFCOM, the NDRC and the SAIC, respectively. Since its inception, the SAMR has continued to strengthen anti-monopoly enforcement. On December 28, 2018, the SAMR issued the Notice on Anti-monopoly Enforcement Authorization (《關於反壟斷執法授權的通知》), which grants authorities to its province-level branches to conduct anti-monopoly enforcement within their respective jurisdictions. On September 11, 2020, the SAMR issued Anti-monopoly Compliance Guideline for Operators (《經營者反壟斷合規指南》), which requires, under the PRC Anti-monopoly Law, operators to establish anti-monopoly compliance management systems to prevent anti-monopoly compliance risks. In November 2020, the State Administration for Market Regulation, or the SAMR, published a discussion draft of the Guideline on Anti-monopoly of Platform Economy Sector (《關於平台經濟領域的反壟斷指南(徵求意見稿)》) (the “Draft Guideline”), aiming to improve anti-monopoly administration on online platforms. The released Draft Guideline, if enacted, will operate as a compliance guidance under the existing PRC anti-monopoly laws and regulations for platform economy operators. See “Regulations—Regulations Relating to Anti-Monopoly in China” for a brief summary of the Draft Guideline. The Draft Guideline intends to regulate abuse of a dominant position and other anti-competitive practices by online platform operators and the related merchants and service providers on online platforms. Pursuant to the Draft Guideline, representative examples of abuse of dominance include unfairly locking in exclusive agreements with merchants and targeting specific customers with unreasonable big-data driven tailored pricing through their online behavior to eliminate or limit market competition. Pursuant to Section 19 of the PRC Anti-monopoly Law, a market participant that has more than 50% of the market share in a relevant market is presumed to have a dominant position in that market.

As advised by our PRC Legal Adviser, the Draft Guideline was released for public comment only, and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. Although it is impossible to predict the impact of the Draft Guideline, if any, at this stage, we will closely monitor and assess the trajectory of the rule-making process. In the event that a final version of the Draft Guideline is adopted and in light of the substantial uncertainty over the Draft Guideline, we may face challenges in addressing its requirements and making necessary changes to our policies and practices, and may incur significant costs and expenses in an effort to do so. Any failure or perceived failure by us to comply with the enacted version of the Draft Guideline and other anti-monopoly laws and regulations may result in governmental investigations or enforcement actions, litigation or claims against us and could have an adverse effect on our business, financial condition and results of operations.

If we are unable to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.

The industries we operate in are highly competitive. Our key competitors include, but not limited to, pharmaceutical retail companies (such as traditional offline pharmacies and online platforms) and companies that offer online healthcare services. These companies may have greater financial, technical, research and development, marketing, distribution, retail and other resources than we do. They may also have longer operating histories, a larger user base or broader and deeper market coverage. As a result, our competitors may be able to respond more quickly and effectively to new or evolving opportunities, technologies, standards or user requirements than us and may have the ability to initiate or withstand significant regulatory changes and industry evolution. Furthermore, when we expand into other markets, we will face competition from new competitors, domestic or foreign, who may also enter markets where we currently operate or will operate.

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

Any significant increase in competition may have a material adverse effect on our revenue and profitability as well as on our business and prospects. We cannot assure you that we will be able to continually distinguish our products and services from those of our competitors, preserve and improve our relationships with various participants in the healthcare value chain, or increase or even maintain our existing market share. We may lose market share, and our financial condition and results of operations may deteriorate significantly if we fail to compete effectively.

We are in the early stage of development with a limited operating history in an emerging and dynamic “Internet + healthcare” industry, and our historical results of operations and financial performance are not indicative of future performance.

We operate in the emerging and dynamic healthcare, e-commerce and online healthcare service industries in China. These industries are relatively new and it is uncertain whether such industries would achieve and sustain high levels of demand, consumer acceptance and market reaction. We have experienced significant growth during the Track Record Period. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. We define “annual active user accounts” as user accounts that made at least one purchase during the past trailing twelve months ended on the applicable date, primarily through *JD Pharmacy*, online marketplace and omnichannel initiative. As a result, our total revenues increased from RMB5.6 billion in 2017 to RMB8.2 billion in 2018 and further increased to RMB10.8 billion in 2019, and our total revenues increased from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020.

Although our business has grown rapidly during the Track Record Period, due to our limited operating history, our historical growth and past revenues may not be indicative of our future performance. In addition, we cannot assure you that we can successfully continue to implement our business model. As the market and our business develop, we may modify our platform, products and services. These changes may not achieve expected results and may have a material and adverse impact on our results of operations and financial condition. We cannot assure you that we will be able to achieve similar results or grow at the same rate as we had in the past or at all. Rather than relying on our historical operating and financial results to evaluate us, you should consider our business prospects in light of the risks and difficulties we may encounter as an early stage company operating in emerging and dynamic industries, including, among other things, our ability to attract and retain users, our ability to create value for participants in our ecosystem and increase monetization, our ability to navigate an evolving regulatory environment, our ability to provide high-quality products and satisfactory services, build up our reputation and promote our brand, and our ability to anticipate and adapt to changing market conditions. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, results of operations and financial condition.

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

We depend on our reputation and brand names in many aspects of our business operations. However, we cannot assure you that we will be able to maintain a positive reputation or brand names for all of our businesses in the future. Our reputation and brand names may be materially and adversely affected by a number of factors, many of which are beyond our control, including:

- adverse associations with the third-party-branded products we sell or which are sold by third-party merchants on our platform, including with respect to their quality, efficacy or side effects;
- lawsuits, regulatory investigations, fines and penalties against us or otherwise relating to the products or services available on our platform;
- improper or illegal conduct by our employees, suppliers, third-party merchants and other business partners, that is not authorized by us; and
- adverse publicity associated with us, our Directors, officers, employees or business partners, the products or services available on our platform or our industry in general, whether founded or unfounded.

Any damage to our brand names or reputation as a result of these or other factors may cause our products and services to be perceived unfavorably by users, third-party merchants, regulators, medical professionals and other business partners, and our business operations and prospects could be materially and adversely affected as a result.

If we are unable to continue to attract and retain users, provide superior user experience and maintain users' trust in our platform, our business, financial condition and results of operations may be materially and adversely affected.

We generate our revenue primarily from sales of pharmaceutical and healthcare products. Therefore, our business is highly dependent on our user base. Growth in the number of our active user accounts is a key driver of our revenue growth. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. Our ability to continue to attract and retain users depends on our ability to provide superior user experience. In order to do so, we need to continue to provide a wide selection of pharmaceutical and healthcare products, maintain the quality of products, source products that are responsive to user demands, ensure timely and reliable delivery, flexible payment options and superior after-sales services. Such ability, in turn, depends on a variety of factors beyond our control. In particular, we rely on a number of third parties in the provision of our products and services, such as third-party merchants, suppliers and medical professionals. Their failure to provide high-quality user experience to our users may adversely affect our users' receptiveness of, and willingness to purchase, our products and services, which may damage our reputation and cause us to lose users.

In addition, we leverage JD Group's fulfillment and customer service capabilities, among others, to facilitate timely fulfillment and delivery to our users and to provide real-time assistance to our users. If the products purchased by our users fail to be delivered to them in a timely fashion, our brand and user loyalty may be adversely affected. Additionally, if the customer service representatives fail to provide satisfactory service, or if waiting time is too long due to high volume of inquiries from users at peak times, user experience will be materially and adversely affected. Moreover, any negative

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publicity or poor feedback on our fulfillment or customer service may harm our brand and reputation and, in turn, cause us to lose users and market share.

Furthermore, our business model innovates the traditional approach of selling pharmaceutical and healthcare products. We facilitate sales of pharmaceutical and healthcare products on our online platform, whereas it is customary to purchase such products at hospitals and local pharmacies offline. The general public, many of whom are our potential users, may not recognize and accept the concept of online purchases of pharmaceutical and healthcare products. They may also have concerns over the reliability, safety and efficacy of the products purchased from our platform. If we cannot continue to provide superior user experience, wide selection of products and ensure their efficacy in addressing our users' needs and meeting their expectation, and maintaining the reliability, security and functionality of our platform, we may not be able to retain our existing user base or attract new users, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects.

Our sale of pharmaceutical and healthcare products is subject to a variety of risks, which may materially affect our business, financial condition and results of operations.

We generate a vast majority of our revenues from the sale of pharmaceutical and healthcare products. Maintaining and increasing sales of pharmaceutical and healthcare products is subject to a variety of risks, including:

- inability to successfully execute effective marketing and promotional programs necessary to maintain and increase awareness of our brand and products, to the extent permitted by applicable PRC laws and regulations;
- failure to implement effective pricing and other strategies in response to market competition;
- inability to respond to changes in demand and preferences of our users in a timely manner;
- inability to stock an adequate supply of pharmaceutical and healthcare products that meet the demand of our users;
- our inability to obtain and maintain regulatory or governmental permits, approvals and clearances, or to pass PRC government inspections or audits; and
- the risk of, and resulting liability from, any contamination, injury or other harm caused by any use, misuse or misdiagnosis involving products sold or healthcare services provided by us.

The occurrence of any such risks may cause a decrease in our product sales or demand for our services, damage our overall business and reputation, and may have a material and adverse effect on our financial condition and results of operations.

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

Our business generates and processes a large amount of personal, transaction, demographic and behavioral data including medical records and other personal information. We face risks inherent in

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handling large volumes of data and in securing and protecting such data. In particular, we face a number of data-related challenges related to our business operations, including:

- protecting the data in and hosted on our system, including against attacks on our system by external parties or fraudulent behavior by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, provision or security of personal information, including any requests from regulatory and government authorities relating to such data.

Regulatory requirements regarding the protection of such data are constantly evolving and can be subject to significant change, making the extent of our responsibility in that regard uncertain. Under certain regulations, rules and measures promulgated by the MIIT, since 2011, any collection and use of a user's personal information by an internet services provider must be subject to the consent of the user, abide by the principles of legality, rationality and necessity, and be within the specified purposes, methods and scopes. The internet services provider must keep all information collected strictly confidential and is prohibited from divulging, tampering with or destroying any such information, or selling or providing such information to other parties. In particular, the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, which took effect on June 1, 2017, is formulated to maintain network security, safeguard the cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and further enhance personal information protection, such as through requirements on the collection, use, processing, storage and provision of personal information. Furthermore, in August 2018, the Standing Committee of China's National People's Congress, or the SCNPC, promulgated the E-Commerce Law of the People's Republic of China, or the E-Commerce Law, to regulate the e-commerce activities conducted within the territory of the PRC, which further strengthens the protection of consumers' personal data and privacy. With respect to the healthcare data, in May 2014, the National Health and Family Planning Commission of the PRC, or the NHFPC (currently known as the National Health Commission of the PRC, or the NHC) promulgated the Measures for Administration of Population Health Information (Trial), the medical institution shall be responsible for collection, management, utilization, safety and privacy protection of population healthcare information which includes the medical service information. Additionally, in July 2018, the NHC promulgated the Administrative Measures Regarding National Healthcare Big Data Standards, Safety and Service Management (Trial), or Administrative Measures of Healthcare Big Data, to further standardize the standard management, security management and service management of the healthcare data produced in the course of disease treatment and health management. Since the Cyber Security Law, Administrative Measures of Healthcare Big Data, E-Commerce Law and relevant regulations, rules and measures are relatively new, there are uncertainties as to the interpretation and application of these laws and regulations, and it is possible that our data protection practices are or will be inconsistent with regulatory requirements. Any violation of the provisions and requirements under the Cyber Security Law, Administrative Measures of Healthcare Big Data, E-Commerce Law and other relevant regulations, rules and measures may subject us to warnings, fines, confiscation of illegal gains, revocation of licenses, suspension of business, shutting down of websites or even criminal liabilities. Complying with such requirements could cause us to incur substantial expenses or to alter or change our practices in a manner that could harm our business. Any system failure or security breach or lapse that results in the unauthorized release of our user data could harm our reputation and brand and, consequently, our business, in addition to exposing us to potential legal liability.

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Our privacy policies and practices concerning the collection, use and disclosure of user data are posted on relevant mobile app or website that we operate. Any failure, or perceived failure, by us to comply with our privacy policies or with any applicable regulatory requirements or privacy protection-related laws, rules and regulations could result in proceedings or actions against us by governmental entities or others. These proceedings or actions may subject us to significant penalties and negative publicity, require us to change our business model or practices, increase our costs and severely disrupt our business, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We source our pharmaceutical and healthcare products from our suppliers under our direct sales model. Our collaboration with suppliers are subject to a variety of risks.

We source the pharmaceutical and healthcare products we sell under our direct sales model from our suppliers, primarily pharmaceutical and healthcare products companies or their sales agents. Our business, results of operations, financial condition and prospects could be materially and adversely impacted if (i) we are unable to continue sourcing sufficient volumes of quality pharmaceutical and healthcare products from our current suppliers or (ii) our suppliers fail to supply sufficient quantities of pharmaceutical and healthcare products on time or supply products that do not meet the relevant quality standards. In addition, as the scale of our business continues to grow, there can be no assurance that we will be able to expand our sourcing network to include new suppliers on reasonable terms and prices.

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

Some of the pharmaceutical and healthcare products that we sell on our platform are manufactured in whole or in substantial part outside of China. In most cases, the products or merchandise are imported by our suppliers and sold to us. As a result, significant changes in tax or trade policies, tariffs or trade relations between China and other countries or any changes in their local policies, such as the imposition of unilateral tariffs on imported products, any negative sentiments towards China in response to increased import tariffs and other changes in China's trade regulations, could result in significant increases in our costs, restrict our access to suppliers, depress economic activity, and have a material adverse effect on our businesses, operating results and cash flows.

Additionally, our suppliers are primarily independent third parties that are subject to their own operational and financial risks that are outside our control. If the supply of pharmaceutical and healthcare products is interrupted for whatever reason, including but not limited to supply shortages, supplier quality issues, supplier production disruption, or closing or bankruptcies of our suppliers, our business, financial condition, results of operations and prospects may be materially and adversely affected. Changes in business conditions, force majeure, governmental changes and other factors

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beyond our control or that we do not presently anticipate could also affect our suppliers' ability to deliver pharmaceutical and healthcare products to us on a timely basis. Any of the foregoing could materially and adversely affect our business, results of operations, financial condition and prospects.

Failure to manage our inventory effectively could have a material and adverse effect on our business, financial condition and results of operations.

We are required to manage a large volume of inventory effectively for our retail pharmacy business. We depend on our demand forecasts for various kinds of products to make purchase decisions and to manage our inventory. Demand for products, however, can change significantly between the time inventory is ordered and the date by which we target to sell it. Demand may be affected by seasonality, new product launches, changes in product life cycles and pricing, product defects, changes in customer spending patterns, manufacturer back orders and other vendor-related problems, as well as the volatile economic environment in China, and our users may not order products in the quantities that we expect. In addition, when we begin selling a new product, it may be difficult to establish supplier relationships, determine appropriate product selection, and accurately forecast demand. The acquisition of certain types of inventory may require significant lead time and prepayment, and they may not be returnable. We cannot assure you that we will be able to maintain proper inventory levels for our retail pharmacy business at all times, and any such failure may have a material and adverse effect on our business, financial condition and results of operations.

Our inventories have increased significantly in recent periods, from RMB884.0 million as of December 31, 2017, to RMB1,115.3 million as of December 31, 2018, to RMB1,278.3 million as of December 31, 2019, and further to RMB1,999.9 million as of June 30, 2020. Our inventory turnover days were 61.8 days in 2017, 58.1 days in 2018, 53.7 days in 2019 and 45.0 days in the six months ended June 30, 2020. Inventory turnover days for a period equals the average of the opening and closing inventory balance divided by cost of revenues for the relevant period and multiplied by 180 days or 360 days, as applicable. Inventory levels in excess of user demand may result in inventory write-downs, expiration of products or an increase in inventory holding costs and a potential negative effect on our liquidity. As we plan to continue expanding our product offerings, we expect to include more products in our inventory, which will make it more challenging for us to manage our inventory effectively and will put more pressure on our warehousing system.

If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

Conversely, if we underestimate user demand, or if our suppliers fail to provide products to us in a timely manner, we may experience inventory shortages, which may, in turn, require us to acquire inventories at higher costs, result in unfulfilled user orders, leading to a negative impact on our financial condition and user relationships.

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Some pharmaceutical products offered on our platform are subject to and will continue to be subject to price restrictions and price competition in China, which could adversely affect our profitability and results of operations.

Narcotic and Class I psychotropic drugs are subject to and will continue to be subject to price restrictions in China. Some other pharmaceutical products are currently subject to relatively market-based pricing system adopted by medical insurance bureaus and relevant authorities. Historically, some of pharmaceutical products offered on our platform were subject to government price controls in the form of fixed retail prices or retail price ceilings and periodic downward adjustments imposed by the NDRC, and other authorities. Pursuant to the Notice Regarding the Opinion on Facilitating the Pharmaceutical Pricing Reform jointly issued by the NDRC, the NHFPC and five other PRC government agencies in May 2015, the price ceilings imposed by the PRC government on pharmaceutical products other than narcotic and Class I psychotropic drugs were lifted on June 1, 2015.

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

In addition, the State Council and other relevant authorities issued a series of policies on deepening the reform of medical and healthcare system in 2019. According to the Notice on Issuance of the Pilot Plan regarding the Organization of Centralized Procurement and Use of Drugs by the State and the Implementation Opinions on Region Expansion of the Organization of Centralized Procurement and Use of Drugs by the State, the state planned to organize centralized procurement and use of certain types of pilot drugs to lower drug price, reduce the burden on patients of drug costs, and lower the transaction costs of pharmaceutical enterprises. The Guidance on Improving "Internet +" Medical Service Price and Medical Insurance Payment Policies issued by the National Healthcare Security Administration proposed to improve project management, optimize the pricing mechanism and clarify the payment policy of "Internet +" medical services. Although such policies may lower the transaction costs of the pharmaceutical enterprises and increase the amount of drugs purchased, they may also reduce the sales prices of drugs and increase market competition within the pharmaceutical industry, which may materially and adversely affect our business, results of operations and financial condition. There are still uncertainties relating to the actual implementation of such policies.

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

We are exposed to risks inherent in marketing, distributing and selling pharmaceutical and healthcare products and providing online healthcare services in China. Claims, user complaints or administrative penalties may arise if any of our products are deemed or proven to be unsafe, ineffective or defective, or they are found to contain illicit substances. We may also be subject to allegations of having engaged in practices such as improper filling of prescriptions, sale of counterfeit and

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substandard medicines or other healthcare products, or providing inadequate warnings or insufficient or misleading disclosures of side effects.

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

Any product liability claims made against us could cause negative publicity, impairment of users' confidence in us, significant decrease in sale volume and may result in fines and penalties from regulatory authorities. Any claims made against us that are not fully covered by insurance could be costly to defend against, result in substantial damage awards against us and divert the attention of our management team from our operations, which could have a material adverse effect on our business, financial condition, results of operations and reputation. In the event that such product liability claims are attributable to our suppliers or business partners, there can be no assurance that we will obtain full indemnification from them. Even if we do, our reputation may still be severely impaired.

We may incur liability or become subject to administrative penalties for counterfeit, substandard or unauthorized products sold on our platform, or for products sold on or content posted on our platform that infringe on third-party intellectual property rights, or for other misconduct.

We source our products from various suppliers. Third-party merchants on our online marketplace are separately responsible for sourcing the products they sell on our platform. Although we have adopted measures to verify the authenticity and authorization of products sold on our platform and avoid potential infringement of third-party intellectual property rights in the course of sourcing and selling products, we may not always be successful. As we source certain products outside of China and allow overseas brands to be sold through our online marketplace, it would be more difficult for us to verify the authenticity and authorization of products sold.

In the event that counterfeit, substandard, unauthorized or infringing products are sold on our platform or infringing content is posted on our platform, we could face claims that we should be held liable. We have in the past received and may in the future continue to receive claims alleging our infringement of third parties' rights. Irrespective of the validity of such claims, we could incur significant costs and efforts in either defending against or settling such claims. If there is a successful claim against us, we might be required to pay substantial damages or refrain from further sale of the relevant products. Potential liability under PRC law if we negligently participated or assisted in infringement activities associated with counterfeit goods includes injunctions to cease infringing activities, rectification, compensation, administrative penalties and even criminal liability. Moreover, such third-party claims or administrative penalties could result in negative publicity and our reputation could be severely damaged. Any of these events could have a material and adverse effect on our business, results of operations or financial condition.

Under our standard form agreements, we require suppliers or third-party merchants to indemnify us for any losses we suffer or any costs that we incur due to any counterfeit, substandard, unauthorized or infringing products we source from these suppliers or any such products sold by these third-party merchants. However, not all of our agreements with suppliers and third-party merchants

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have such terms, and for those agreements that have such terms, we may not be able to successfully enforce our contractual rights and may need to initiate costly and lengthy legal proceedings in China to protect our rights.

Our expansion into new product categories and service offerings and substantial increase in product and service offerings may expose us to new challenges and more risks.

In recent years, we have expanded our product offerings to include a wide range of products including OTC remedies, prescription drugs, medical supplies and devices and other pharmaceutical and healthcare products. In addition to expanding the coverage of the pharmaceutical and healthcare products we sell, we have been working to offer more convenient access to a wider spectrum of healthcare services on our platform. Furthermore, leveraging our technology infrastructure and capabilities, we provide smart healthcare solutions to hospitals and other medical institutions, as well as our suppliers and pharmacy partners. We create and provide various applications and solutions designed for different scenarios based on their respective needs. Expansion into diverse new product categories and service offerings and substantial increase in such expansion involves new risks and challenges. Our lack of familiarity with these products and services and lack of relevant user data relating to these products and services may make it more difficult for us to anticipate user demand and preferences. We may misjudge user demand, resulting in inventory buildup and possible inventory write-down as well as unpleasant user experience. It may also make it more difficult for us to inspect and control quality and ensure proper handling, storage and delivery of our products and the quality and user reception of our services. We may experience higher return rates on certain new products or services, receive more user complaints about them and face costly product liability claims as a result of selling them, which would harm our brand and reputation and our financial performance. Furthermore, we may not have much purchasing power in new categories of products and we may not be able to negotiate favorable terms with suppliers. We may need to price aggressively to gain market share or remain competitive in new categories of products. It may be difficult for us to achieve profitability in the new product categories and our profit margin, if any, may be lower than we anticipate, which would adversely affect our overall profitability and results of operations. We may not be able to replicate our success in sales of pharmaceutical and healthcare products to our new services offerings. Our new services offering may not succeed or generate results as we anticipate. We cannot assure you that we will be able to recoup our investments in introducing these new product categories and service offerings.

Sale of prescription drugs is subject to stringent scrutiny, which may expose us to risks and challenges.

Sale of prescription drugs is subject to stringent scrutiny, which may expose us to risks and challenges. In particular, under the Administrative Measures for the Supervision and Administration of Circulation of Pharmaceuticals promulgated by the CFDA in 2007, a company is prohibited from either selling prescription drugs to consumers without prescription or selling prescription drugs via internet or by post. A company in violation of such prohibitions will be instructed to rectify, given a disciplinary warning, and/or imposed an administrative penalty of no more than RMB30,000 per violation. The newly revised Drug Administration Law of the People's Republic of China, or the Drug Administration Law, abolishes the restriction on online sale of prescription drugs and adopts the principle of keeping online and offline sales consistent. In November 2020, NMPA published for public comment the Draft Measures for the Supervision and Administration of Online Pharmaceuticals Sales (“the Draft Measures”) (《藥品網絡銷售監督管理辦法（徵求意見稿）》), aiming to enhance the

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supervision of online pharmaceutical sales and related platform services. The Draft Measures provides specific and explicit rules for the online sales of prescription drugs, which is perceived to be more conducive to online prescription drug sellers including us, but also presents challenges for us to be in compliance. The Draft Measures provides that, among others, online prescription drug sellers shall (i) ensure the accuracy and reliability of the source of e-prescription, (ii) keep records of any e-prescription for at least five years and no less than one year after the expiration date of the prescription drugs, and (iii) disclose safety warnings including “prescription drugs should only be purchased and used with prescriptions and guidance of licensed pharmacists” when displaying information of prescription drugs. As advised by our PRC Legal Advisor, the Draft Measures was released for public comment only and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. We will closely monitor and assess the trajectory of the rule-making process.

It remains uncertain that our sales model and online platform are and will be in full compliance with the relevant laws and regulations or any new laws and regulations that may be promulgated in the future, which are evolving and subject to changes. Any failure to comply with such laws and regulations could subject us to disciplinary warnings and administrative penalties, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects. Additionally, we cannot assure you that our scrutiny measures and mechanism will be effective or sufficient. There may be loopholes in our scrutiny measures and such measures may not be able to detect prescriptions abuse or fraudulent orders effectively and timely. As the methods used to bypass or cheat our scrutiny measures may change frequently and may not be recognized until they succeed, we may be unable to anticipate these methods or to implement adequate preventative measures. Failure to effectively screen the sale of prescription drugs could expose us to liability under PRC laws and regulations, which may incur significant liability and our business, financial condition and results of operations could be materially and adversely affected. In addition, failure by our third-party merchants on online marketplace to effectively screen the sale of prescription drugs could expose them to liability under PRC laws and regulations, which, in turn, may have a negative impact on our reputation and on our financial condition and results of operations.

We could be adversely affected by a decrease in the introduction of new brand name drugs and generic prescription drugs as well as increase in the cost to procure prescription drugs.

The profitability of our retail pharmacy business partially depends upon the utilization of prescription drugs. Utilization trends are affected by, among other factors, the introduction of new and successful prescription drugs as well as lower-priced generic alternatives to existing brand name drugs. Inflation in the price of drugs also can adversely affect utilization. New brand name drugs can result in increased drug utilization and associated sales, while the introduction of lower priced generic alternatives typically results in relatively lower sales, but relatively higher gross profit margins. Accordingly, a decrease in the number or magnitude of significant new brand name drugs or generics successfully introduced, delays in their introduction, or a decrease in the utilization of previously introduced prescription drugs, could materially and adversely affect our results of operations.

In addition, if we experience an increase in the amounts we pay to procure pharmaceutical drugs, including generic drugs, it could have a material adverse effect on our results of operations. Our gross profit margins would be adversely affected to the extent we are unable to offset such cost increases. Any failure to fully offset any such increased prices and costs or to modify our activities to

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mitigate the impact could have a material adverse effect on our results of operations. Additionally, any future changes in drug prices could be significantly different than our expectations.

Any disruption to the operation of the warehousing facilities we use, or to the development of new warehousing and logistics facilities, could have a material adverse effect on our business, financial condition and results of operations.

We partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses across China to store our OTC and prescription drugs inventory as of June 30, 2020. Natural disasters or other unanticipated catastrophic events, including power interruptions, water shortage, storms, fires, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land underlying these facilities, could destroy any inventory located in these facilities and significantly impair our business operations. In addition, warehousing and logistics facilities that meet the requirements of modern logistics operations for guaranteed storage safety, optimal and flexible space utilization and high operational efficiency are in short supply. We may not be able to replace these facilities and equipment in a timely manner, should any of the foregoing occur.

Furthermore, the leases for the warehousing and logistics facilities that we use could be challenged by third parties or government authorities, which may cause interruptions to our business operations. To our knowledge, certain lessors of the leased fulfillment centers we use have not provided their property ownership certificates or any other documentation proving their right to lease those properties. If the lessors of these facilities are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant government authorities, such leases could be invalidated and such leases may need to be renegotiated with the owners or the parties who have the right to lease the properties, and the terms of the new leases may be less favorable. Although we are not aware of any claims or actions being contemplated or initiated by government authorities, property owners or any other third parties with respect to the leasehold interests in or use of such properties, we cannot assure you that our use of such leased properties will not be challenged. In the event that our use of leased properties is successfully challenged, we may be subject to fines and forced to relocate the affected operations. We can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties.

We partner with JD Group to deliver orders, and our third-party merchants also use third-party couriers to deliver a significant number of orders. If these couriers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.

We partner with JD Group to deliver our products under our direct sales model. Third-party merchants on our online marketplace also use third-party couriers if they elect not to use JD Group's delivery services. Interruptions to or failures in these delivery services could prevent the timely or proper delivery of the products to users. These interruptions may be due to events that are beyond our control or the control of these delivery companies, such as inclement weather, natural disasters, virus outbreaks, transportation disruptions or labor unrest. In addition, if the couriers we collaborate with fail to comply with applicable rules and regulations in China, their services may be materially and adversely affected, which in turn will materially and adversely affect our business. We may not be able to find alternative delivery companies to provide delivery services in a timely and reliable manner, or

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at all. Delivery of our products could also be affected or interrupted by the merger, acquisition, insolvency or government shut-down of the delivery companies that we or third-party merchants engage to make deliveries, especially those local companies with relatively small business scales. If our products are not delivered in proper condition or on a timely basis, our business and reputation may be materially and adversely affected.

If our online marketplace fails to keep providing attractive value propositions to third-party merchants or retain them in cooperating with us, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The success of our online marketplace depends on third-party merchants to sell their products, which in turn is driven by our ability to provide attractive value propositions to them or to retain them in cooperating with us. These third-party merchants are drawn to our platform and to cooperate with us primarily due to monetization potentials and opportunities resulted from their participation in our ecosystem. We create value for them by providing them with access to our user base, fulfillment capabilities and deeper market coverage. For example, we launched the omnichannel initiative, which is a location-based service for urgent delivery needs of users by leveraging the on demand intra-city delivery services of our business partners. Under our omnichannel initiative, offline pharmacies, primarily operated by third-party merchants on our online marketplace, join our platform by providing us with access to their inventories, and we manage all steps of their online sales for them, including online listing and deliveries. However, we cannot assure that such value propositions are attractive to them or we are able to retain them in cooperating with us. As third-party merchants on our online marketplace generally have their own independent operations, they may choose to focus on their offline operations, rather than cooperating with us for online operations. In addition, they may consider our online marketplace and omnichannel initiative ineffective and cease to cooperate with us. Furthermore, as the internet healthcare market is highly competitive, they may choose to cooperate with our competitors instead of us. As a result, those third-party merchants may not provide superior user experience, quality products and services and meet the needs and demands of our users. If any of the above occurs, our online marketplace and omnichannel initiative may not develop as anticipated and our business, financial condition and results of operations may be materially and adversely affected.

Our online marketplace and omnichannel initiative are subject to risks associated with third-party merchants.

We do not have as much control over the procurement, storage and delivery of products sold by or quality of services provided by third-party merchants on our online marketplace and under our omnichannel initiative as we do over the products and services that we sell or provide directly ourselves. Many of our third-party merchants use their own or third-party facilities to store their products. Many of third-party merchants also use their own or third-party delivery partners to deliver their products to our users, which makes it more difficult for us to ensure that our users get the same high quality services for all products sold on our platform. If any third-party merchant does not adequately control the quality of the products or services that it sells or provides on our online marketplace or under our omnichannel initiative, fails to timely deliver its products to users, delivers products or provides services that are faulty or materially different from description, sells products or provides services that are counterfeit or unlicensed, sells products or provides services without licenses or permits as required by the relevant laws and regulations, sells products or provides services that infringe upon the intellectual property rights of a third party, sells products or provides services that lead to serious physical harm or property damage,

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or sells substandard products or provide substandard services, the reputation of our online marketplace, omnichannel initiative and our brand may be materially and adversely affected. In addition, we could face claims and lawsuits for the losses, and may also be subject to administrative inquiries, inspections, investigations and proceedings by relevant regulatory and other governmental agencies for misconduct by any of our third-party merchants. Actions brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our business, financial condition, results of operations and reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. A significant judgment or regulatory action against us or a material disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees would have a material adverse effect on our liquidity, business, financial condition, results of operations, reputation and prospects. Moreover, despite our efforts to prevent it, some products sold or services provided on our online marketplace may compete with the products we sell or services we provide directly, which may cannibalize our online retail. In addition, the supplier relationships, user acquisition dynamics and other requirements for our online marketplace may not be the same as those for our direct sales operations, which may complicate the management of our business. In order for our online marketplace and omnichannel initiative to be successful, we must continue to identify and attract third-party merchants, and we may not be successful in this regard.

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

We have adopted shipping policies that do not necessarily pass the full cost of shipping on to our users. We have also adopted policies that permit the return and exchange of certain of our products in certain circumstances for specified reasons. See “User Experience—Customer service.” We may also be required by law to adopt new or amend existing return and exchange policies from time to time. For example, pursuant to the Consumer Protection Law and relevant regulations and rules, consumers are generally entitled to return products purchased within seven days upon receipt without reason when they purchase the products from business operators on the internet with certain exception, such as pharmaceutical products. These policies subject us to additional costs and expenses which we may not recoup through increased revenue. Our ability to handle a large volume of returns is unproven. If we revise these policies to reduce our costs and expenses, our users may be dissatisfied, which may result in loss of existing users or failure to acquire users at a desirable pace, which may materially and adversely affect our results of operations.

Except that the pharmaceutical products may not be returned or exchanged under the Administrative Standard of Pharmaceutical Operating Quality (which prohibits returns and exchanges of pharmaceutical products except for quality reasons), other products sold by us are generally returnable within seven days upon receipt without reason in accordance with Consumer Protection Laws. If our product return rates increase or are higher than expected, our revenues and costs can be negatively impacted. Furthermore, as we cannot return some products to our suppliers pursuant to our contracts with them or if return rates for such products increase significantly, we may experience an increase in our inventory balance, inventory impairment and fulfillment cost, which may materially and adversely affect our working capital. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Failure to properly manage and create values for various participants in the healthcare value chain may materially and adversely affect our business.

Our results of operations depend on our ability to manage and create values for participants in the healthcare value chain and generate more monetization opportunities for us. We provide these

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participants, including pharmaceutical companies, healthcare product suppliers and distributors, hospitals and medical professionals, with integrated, smart solutions and services to help them create value. By integrating these solutions into and channeling these participants onto our platform, we manage to foster a closed-loop ecosystem where all participants within the healthcare value chain could utilize the resources on our platform for all kinds of needs under the healthcare scenario, which in turn may increase monetization opportunities for us.

However, we cannot assure you that we are able to continuously manage and create value for such participants, or at all. Those participants may consider our smart solutions and other services ineffective. If we fail to manage or create value for those participants, we may not be able to increase their engagement and connection with us and deepen our penetration in the healthcare value chain, which in turn may deprive monetization venues for us to drive our revenue growth.

The online healthcare services market is immature and volatile, and if it does not develop, if it develops more slowly than we expect, or if our services do not drive user engagement, the growth of our business will be harmed.

The online healthcare services market is relatively new and unproven, and it is uncertain whether it will achieve and sustain high levels of demand, user acceptance and market adoption. Our success will depend to a substantial extent on the willingness of users to use, and to increase the frequency and extent of their utilization of, our services, as well as on our ability to demonstrate the value of our services to users, hospitals, medical professionals and other participants in the healthcare value chain. If users or healthcare service providers do not perceive the benefits of our services, or if our services do not drive user engagement, then our market may not develop at all, or it may develop more slowly than we expect. Similarly, individual and healthcare industry concerns regarding patient confidentiality and privacy in the context of online healthcare services in general could limit market acceptance of our online healthcare services. If any of these events occurs, it could have a material adverse effect on our business, financial condition or results of operations.

We may fail to attract or retain sufficient users or medical professionals for our online healthcare services.

We offer convenient access to a wide spectrum of healthcare services on our platform, which primarily include: (i) online hospital services, primarily consisting of online consultation and prescription renewal, chronic disease management and family doctor, and (ii) consumer healthcare, which connects our users with offline consumer healthcare providers that offer services such as genetic testing and appointment services for general physical exams, aesthetic medicine, dental services and vaccination appointments. For our online healthcare services, we primarily generate revenue from users paying for our services. Therefore, our ability to acquire and retain sufficient users for our online healthcare services is critical to the continued success and growth of such services, which in turn primarily depends on the overall experience we provide to our users as well as the actual or perceived effectiveness of our services. In order to attract and retain users for our online healthcare services, we must continue to build our brand and reputation as an effective online healthcare platform, as well as effectively market and precisely target our services to prospective users. To retain and engage our user base, we must provide personalized, superior user experience, offer quality services covering a wide range of user demands and cultivate users' stickiness to our platform. However, we cannot assure you that our users will consider their experience satisfactory or our services effective. For example, users who do not get satisfactory results following the recommendations from our online consultation and

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prescription renewal service may attribute such failure to the ineffectiveness of our services. In addition, some users may encounter trouble in navigating our platform or experience technical difficulties.

On the other hand, we also need to attract and retain sufficient medical professionals to our platform for our online healthcare services. Our medical team is staffed by our in-house doctors and medical professionals, as well as external doctors and medical experts who are passionate about the online healthcare industry, possess a user service mindset and are willing to accept challenging and creative tasks. We believe our platform and online healthcare services provide compelling value propositions to those medical professionals by offering them an access to internet traffic and an innovative healthcare venue. However, we cannot assure you that such medical professionals would be attracted to or stay at our platform. For example, as our external doctors have responsibilities at their hospitals, they may not be willing to set aside additional hours from their busy schedule to participate in our online healthcare services. Additionally, they may not share our vision about online healthcare services and may still stick to their traditional practices.

If we fail to address, among other things, any of the foregoing challenges, users may become frustrated by or dissatisfied with our online healthcare services, and may leave our platform without making purchases, and existing users may discontinue using our online healthcare services. Furthermore, if we fail to attract or retain sufficient number of medical professionals, our medical services may not further develop and we may not be able to provide satisfactory services or user experience. As a result, our business, results of operations and financial condition could be materially and adversely affected.

We may become subject to medical liability claims in connection with our online healthcare services, which could cause us to incur significant expenses and be liable for significant damages if any claim is not covered by insurance.

We face risks of medical liability claims against our in-house doctors, external doctors and us in connection with our online healthcare services. In particular, our in-house doctors, external doctors and healthcare institutions and consumer healthcare service providers that we partner with, may provide sub-standard services, mishandle sensitive information, engage in other misconduct or commit medical malpractice, which could subject us to medical liability claims. Although we carry insurance covering medical malpractice claims in amounts that we believe are appropriate in light of the risks attendant to our business, successful medical liability claims could result in substantial damage awards that may exceed the limits of our insurance coverage. We carry professional liability insurance for our in-house doctors and external doctors in relation to the provision of online hospital services over our platform. See “Business—Insurance.” Professional liability insurance premiums may increase significantly in the future, particularly as we expand our services. As a result, adequate professional liability insurance may not be available to our in-house and external doctors or us in the future on commercially acceptable terms, or at all.

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

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We may be subject to penalties or disputes against us for failure to manage our in-house medical team and external doctors.

The practice of doctors is strictly regulated under PRC laws, rules and regulations. Doctors who practice at medical institutions must hold practicing licenses and may only practice within the scope of their licenses and at the specific medical institutions as stated in their licenses. As advised by our PRC Legal Adviser, under applicable PRC regulations, a doctor is required to register the medical institutions at which he or she practices in his or her license. If a doctor is found practicing at a medical institution not registered in his or her license, the doctor would be subject to regulatory penalties, from warning to suspension of practice and, in the worst-case scenario, revocation of licenses. A doctor practicing in multiple institutions must apply to register or file with competent in-charge administrative authorities and can only have the right to prescribe medicine at the registered or filed practicing institution. If the doctor issues a prescription in a medical institution not registered in his or her license, the relevant medical institution would also be subject to regulatory penalties, including a fine of up to RMB5,000 and, in the worst-case scenario, revocation of the medical institution's Practicing License for Medical Institutions.

We cannot assure you that our in-house and external doctors will complete the registration and relevant government procedures in a timely manner, or at all, or that our in-house and external doctors will not practice outside the permitted scope of their respective licenses or strictly take their individual responsibilities under the applicable laws and regulations in connection with medical services especially internet healthcare services. Our failure to properly manage or check the registration of our in-house or external doctors may subject us to administrative penalties against our medical institution, including fines, or, in the worst-case scenario, revocation of our Practicing License for Medical Institutions, which could materially and adversely affect our business. Meanwhile, if our in-house and external doctors are found to have deficient registration or found to be practicing beyond the scope permitted by relevant authorities, they may be disciplined and lose their practicing licenses. In the event that the multi-institution practices of our in-house and external doctors are in breach of their contractual obligations owed to other institutions, such as non-compete obligations, we may be exposed to indemnity or other legal liabilities if we are deemed to have aided in these breaches, and are therefore susceptible to legal disputes and potential damages. As a result, we may no longer be able to employ them in offering our online consultation and prescription renewal service, which could materially and adversely affect our business. In addition, there can be no assurance that we could timely find qualified replacements on commercially reasonable terms, or at all.

During the Track Record Period, one of our doctors issued a prescription through our platform without registering our medical institution in his license as required under applicable PRC regulations. As of the Latest Practicable Date, we have implemented policies to ensure our practicing external doctors permitted to issue the prescription and our practicing in-house doctors to register our medical institution in their licenses as required under the relevant PRC regulations. Nevertheless, there can be no assurance that all of such medical professionals will strictly abide by these policies and that the relevant healthcare administrative authorities would not retrospectively find deficiency in the registration of these medical professionals and subject the relevant medical professionals and/or us to penalties, which could materially and adversely affect our business.

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Failure of in-house medical team or external doctors to provide adequate and proper medical services on our platform may have a material and adverse effect on our reputation, business and results of operations.

Our in-house medical team, external doctors and other employees may provide sub-standard services, mishandle sensitive information, engage in other misconduct or commit medical malpractice, which could subject us to medical liability claims. We only carry and pay for professional liability insurance covering medical malpractice claims for our in-house doctors and our external doctors that provide prescription renewal services on our platform. Adequate professional malpractice insurance coverage may not be available to our in-house medical team, external doctors or us in the future on commercially acceptable terms, or at all.

Our business, financial condition, results of operations and reputation may be materially and adversely affected if any such claims are made against us or our medical professionals in connection with these actions that are not fully covered by insurance. See “—We may become subject to product liability claims, which could cause us to incur significant expenses and be liable for significant damages if not covered by insurance.” With respect to external doctors, as they often work remotely, we have limited control over them as well as the quality of their online healthcare consultation services. There can be no assurance that our risk management procedures will be sufficient to monitor their performance and control the quality of their work. In the event that our external doctors fail to comply with the contractual obligations and applicable laws in relation to the provision of our online consultation services, our user experience could deteriorate, and we may suffer as a result of any actual or alleged misconduct by them, which could materially and adversely affect our business, financial condition, results of operations and reputation.

Our consumer healthcare business and growth strategy depend on our ability to maintain and expand a network of qualified healthcare service providers. If we are unable to do so, our future growth would be limited and our business, financial condition and results of operations would be harmed.

The success of our consumer healthcare services is dependent upon our continued ability to maintain and expand a network of qualified healthcare service providers. If we are unable to attract and retain them, our business, results of operations and prospects would be adversely affected. These service providers could demand higher payments or take other actions that could result in higher medical costs, less attractive service for consumers. Our ability to develop and maintain satisfactory relationships with these service providers also may be negatively impacted by other factors not associated with us, such as changes in medical insurance reimbursement levels. The failure to maintain or to secure new cost-effective service provider contracts may result in a loss of or inability to grow our user base, higher costs, healthcare provider network disruptions or less attractive service for consumers, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

We continue to execute a number of new business initiatives, strategies and operating plans designed to diversify our business and unleash the monetization potential of our leading position in China’s internet healthcare industry. For example, we started to offer online hospital services in December 2017 as part of our emerging services and currently such service alone is gross loss making.

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Also, we provide a chronic disease management platform, which consists of a patient management portal in an APP form for doctors and a Weixin portal for patient-doctor communications. In addition, we recently launched our family doctor service, which offers one-stop services integrating all of our online healthcare services. Furthermore, we provide hospitals with a holistic smart solution that boost their daily operation efficiency and help them better serve patients. These business initiatives are new and evolving, some of which are still at the inception or trial stage and may prove unsuccessful. In addition, we may not have sufficient experience in executing these new business initiatives effectively. Our ability to predict our user preferences and needs and to customize our services to users may be limited, which could impede our ability to deliver the user experience expected by our users at the early stage of these business initiatives. Further, we may incur increasing research and development spending, sales and marketing expenditures, personnel expenses and compliance costs as more efforts on product and service development, brand and service promotion, general administration and legal compliance are required for our businesses newly launched or to be launched, and no guarantee on the effectiveness of our efforts can be given. As a result, we cannot assure you that any of these business initiatives will achieve wide market acceptance, increase the penetration of our addressable market or generate revenues or profit. If our efforts fail to enhance our monetization abilities, we may not be able to maintain or increase our revenues or recover any associated costs, and our business and results of operations may be materially and adversely impacted.

We recorded net liabilities as of December 31, 2019 and June 30, 2020.

We had net liabilities of RMB459.0 million and RMB5,832.3 million as of December 31, 2019 and June 30, 2020, respectively, primarily due to the convertible preferred shares of RMB7,584.4 million and RMB13,609.4 million we recorded as of December 31, 2019 and June 30, 2020, respectively, resulting from our Series A financing and the fair value changes of convertible preferred shares. Our convertible preferred shares will be automatically converted into Shares upon Listing. Afterwards, we do not expect to recognize any further loss or gain on fair value changes from the convertible preferred shares and may revert back to a net assets position from a net liabilities position. However, there can be no assurance that we will not experience liquidity problems in the future. If we fail to generate sufficient revenue from our operations, or if we fail to maintain sufficient cash and financing, we may not have sufficient cash flows to fund our business, operations and capital expenditure and our business and financial position will be adversely affected.

The accounting treatment we used to present our financial information is different from the approach adopted in some of the previous spin-off Hong Kong initial public offerings.

In preparing and presenting our financial information during the Track Record Period, we adopted a “carve-out” approach in accordance with the “Carve Outs” section in Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKSIR 200”). As disclosed in Note 1.2 to the Accountants’ Report in Appendix I, our financial information has been prepared as if our business had been operated by our Company throughout the Track Record Period. As opposed to the approach adopted in some of the previous spin-off Hong Kong initial public offerings, we did not recognize the financial assets and financial liabilities of the Remaining Listing Business (as defined under “Financial Information—Basis of Presentation”), including trade receivables, trade payables, other financial assets and financial liabilities, in our combined statements of financial position. There are a few reasons for this difference in financial treatment. First, we were not legally entitled to collect or obligated to pay for the transactions in

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relation to the Remaining Listing Business operated by JD Group; instead, JD Group had such rights and obligations. Second, we did not maintain separate bank accounts in relation to the Remaining Listing Business since the treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group and the net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group. Third, we did not enter into any separation agreements with JD Group.

Although we endeavor to make as clear as possible the rationale behind the approach we have taken in preparing and presenting our financial information, there is no assurance that our approach will be as informative to the investors as the approach that has been adopted by some of the previous spin-off Hong Kong initial public offerings, which may impact their investment decision in our Shares.

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

We invest resources from time to time in a variety of marketing and brand promotion efforts designed to enhance our brand recognition and increase sales of our products and services. However, our brand promotion and marketing activities may not be well received and may not result in the levels of sales that we anticipate. Meanwhile, marketing approaches and tools in the PRC internet healthcare market are continually evolving, which may further require us to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and user preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share and materially and adversely affect our financial condition, results of operations and profitability. In addition, we are subject to certain limitations in promoting services and products. Our in-house medical team and external doctors and other relevant parties in the provision of our medical and wellness services have to comply with rules and regulations that restrict the promotion or dissemination of information about the professional healthcare services and practice provided by licensed doctors, and the publication or marketing efforts for the predominant purpose of promoting the products or services of doctors to consumers or potential consumers. Such restrictions may affect our ability to further enhance our brand recognition or secure new business opportunities in the future.

Under PRC laws and regulations, all advertisements published online containing drug names, applicable symptoms treated by such drugs (major functions) or other drug-related content, and advertisements published online containing medical device names and the applicable scope, performance, structure and composition, function and other contents relevant to medical device are subject to examination by relevant government authorities. We are prohibited from publishing advertisements of prescription drugs on the websites that we operate and must ensure that any advertisement of medical treatment, drugs or medical devices does not include any assertion or guarantee as to the function and safety or any statement of curative rate and effectiveness of such medical treatment, drugs or medical devices. Any violation of advertisement-related laws and regulations may subject us to fine, or even suspension of our business or revocation of our business license. Although we have implemented internal procedures to examine the content of advertisements displayed on the websites that we operate, we cannot assure you that all such content meets the requirements under PRC advertising-related laws and regulations at all times.

There can be no assurance that our existing practices of monitoring our information dissemination process and publication would continue to be effective and would fully comply with

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relevant laws and regulations. Should there be any change in the relevant rules and regulations, or change of interpretation thereof, we, our in-house medical team, external doctors and other relevant third parties may be regarded as breaching the relevant rules and regulations and may be subject to regulatory penalties or disciplinary actions, which may materially and adversely affect our business and reputation.

The wide variety of payment methods that we accept subjects us to third-party payment processing-related risks.

We accept payments using a variety of methods, including payment on delivery, bank transfers, online payments through various third-party online payment platforms such as Weixin Pay, UnionPay and JD Pay. We may be charged interchange and other fees for certain payment methods, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment and cash on delivery options. Given some users choose the cash-on-delivery option when they place their orders online, the delivery personnel of our contracted couriers collect payments on our behalf, and we require the contracted third-party couriers to remit the payment collected to us on the following day. If they fail to remit the payment collected to us in a timely fashion or at all, if they become unwilling or unable to provide these services to us, or if their service quality deteriorates, our business could be disrupted. We are also subject to various rules, regulations and requirements governing electronic funds transfers, both in China and globally, which could change or be reinterpreted to make it difficult or impossible for us to comply with. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our users, process electronic funds transfers or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

Our results of operations are subject to seasonal fluctuations.

We experience seasonality in our business, reflecting a combination of online retail seasonality patterns and new patterns associated with healthcare products in particular. For example, E-commerce companies in China hold special promotional campaigns from time to time, which can affect our results for those quarters. We generally experience more user traffic and purchase orders on and around June 18 and November 11 each year as a result of special promotional campaigns, which have significant impact on our results for those quarters. Furthermore, we may experience seasonal fluctuations with different types of products, depending on their respective efficacy. For example, we observed increase in demands for respiratory drugs during flu seasons. The seasonality of our business is subject to a variety of uncertainties and may increase further in the future. Our financial condition and results of operations for future periods may continue to fluctuate.

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

Our business is subject to governmental supervision and regulation by various PRC governmental authorities, including, but not limited to, the MOFCOM, the MIIT, and the NHC, National Medical Products Administration, or the NMPA, the SAMR, the Cyberspace Administration of China, or the CAC, and the corresponding local regulatory authorities. Such government authorities

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promulgate and enforce laws and regulations that cover a variety of business activities that our operations concern, such as provision of internet information, online healthcare services, online and offline retail, sales and online operation of pharmaceutical and healthcare products, sales of food, and internet advertisement, among other things. These regulations in general regulate the entry into, the permitted scope of, as well as approvals, licenses, permits, filings and registrations for, the relevant business activities.

In addition to obtaining necessary approvals, licenses and permits for conducting our business, we must comply with relevant laws and regulations. Our businesses, such as online pharmaceutical sale and online healthcare services, are subject to various and complex laws and regulations, extensive government regulations and supervision. We may not be fully informed of all and new requirements under relevant laws and regulations in a timely manner, and even if we become aware of new requirements, due to uncertainties in their interpretations and implementation, it will be difficult for us to determine what actions or omissions would be deemed as violations of applicable laws and regulations. We may also not be able to respond to evolving laws and regulations and take appropriate action in time to adjust our business model. As a result, we may be in violation or non-compliance with such laws and regulations.

Moreover, our online hospital services are subject to governmental supervision and regulation relating to both general medical institution and online hospital. In particular, according to the Measures for the Administration of Internet Diagnosis and Treatment (Trial) by the NHC on July 17, 2018, internet-based diagnosis services shall only provide re-diagnoses service after confirming that the patients have been diagnosed with one or more types of such common or chronic diseases in physical medical institutions. In addition, pursuant to the Administrative Regulations on Medical Institutions promulgated by the State Council on February 6, 2016 and its implementation rules, and the Measures for the Administration of Internet Diagnosis and Treatment (Trial), medical institutions including online hospitals shall carry out diagnosis and treatment activities according to the approved and registered medical subjects. We believe we are largely compliant with the existing applicable laws and regulations. However, it remains uncertain that our online hospital services are and will be in full compliance with the relevant laws and regulations, which are evolving and subject to changes. In addition, we have established and implemented platform policies to manage the behaviors of our doctors and patients to comply with applicable laws and regulations, but we cannot assure you that the practice of our doctors and the patients will follow these requirements under such policy. Any failure to comply with such laws and regulations or any misconduct or even fraud of our doctors and patients could result in administrative penalties against us which could materially and adversely affect our business, results of operations, financial condition and prospects.

Due to the uncertainties in the regulatory environment of the industries in which we operate, there can be no assurance that we have obtained or applied for or completed all the approvals, permits, licenses, filings and registrations required for conducting our business and all activities in the PRC, or that we would be able to maintain or renew or pass the annual inspections (as applicable) of our existing approvals, permits and licenses or obtain any new approvals, permits and licenses or complete filings and registrations in a timely manner if required by any future laws or regulations. If we fail to obtain and maintain approvals, licenses or permits or complete filings and registrations required for our business, or to comply with relevant laws and regulations, we could be subject to liabilities, fines, penalties and operational disruptions, or we could be required to modify our business model, which could materially and adversely affect our business, financial condition and results of operations.

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Failure to deal effectively with any fictitious transactions or other fraudulent conduct would materially and adversely affect our business, financial condition and results of operations.

We may face risks with respect to fraudulent activities on our platform. For example, our users may engage in fictitious transactions by submitting false prescription to purchase prescription drugs on our platform. Users may also provide false information to medical professional on our online healthcare services in order to obtain prescriptions that they are not supposed to get. Although we have implemented various measures to detect and reduce the occurrence of fraudulent activities on our platform, there can be no assurance that such measures will be effective in combating fraudulent transactions or improving overall satisfaction among third-party merchants and users. Such fictitious transactions and fraudulent conduct may subject us to lawsuits, regulatory investigations, fines and penalties against us. In addition to fraudulent transactions with users, third-party merchants on our online marketplace may also engage in fictitious or “phantom” transactions with themselves or collaborators in order to artificially inflate their own ratings on our online marketplace, reputation and search results rankings. This activity may harm other sellers by enabling the perpetrating seller to be favored over legitimate sellers, and may harm our users by deceiving them into believing that a seller is more reliable or trusted than the seller actually is. This activity may also result in inflated transaction volumes from our online marketplace. Moreover, illegal, fraudulent or collusive activities by our employees, such as fraud, bribery or corruption, could also subject us to liability or negative publicity or cause losses. Although we have internal controls and policies with regard to the review and approval of sales activities and other relevant matters, we cannot assure you that such controls and policies will prevent fraud or illegal activity by our employees. Negative publicity and user sentiment generated as a result of actual or alleged fraudulent or deceptive conduct on our platform or by our employees would severely diminish our users’ confidence in us, reduce our ability to attract new or retain current third-party merchants and users, damage our reputation and diminish the value of our brand names, and materially and adversely affect our business, financial condition and results of operations.

We are subject to risks associated with other parties with which we collaborate. If we cannot effectively cooperate with such other parties, or if such other parties fail to perform their obligations, provide reliable or satisfactory services, or operate their businesses, in each case in compliance with applicable laws and regulations, our business, financial condition and results of operations may be materially and adversely affected.

We collaborate with certain other parties in providing products and services to our users. For example, we may work with hospitals, pharmaceutical and healthcare product suppliers and distributors, offline pharmacies and other purchasers. These parties may not be able to properly perform their duties under their agreements with us. Any failure by these parties to continue with good business operations, comply with applicable laws and regulations or any negative publicity on these parties could damage our reputation, expose us to significant penalties and decrease our total revenues and profitability. Also, if we fail to retain existing or attract new parties to collaborate with us, the normal operations of our business may be affected, and our users may lose confidence in our products and services. In addition, certain of these other parties that we collaborate with have access to our user data to a limited extent in order to provide their services. If these other parties engage in activities that are negligent, illegal or otherwise harmful to the trustworthiness and security of our system, including the leak or negligent use of data, or if our users are otherwise dissatisfied with their service quality, we could suffer reputational harm, even if these activities are not related to, attributable to or caused by us.

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Our business may be materially and adversely affected by adverse news, scandals or other incidents associated with China's healthcare industry.

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

We may be the subject of anti-competitive, harassing, or other detrimental conduct by third parties including complaints to regulatory agencies, negative blog postings, and the public dissemination of malicious assessments of our business that could harm our reputation and cause us to lose market share, users and revenues and adversely affect the price of our Shares.

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies. Our brand name and our business may be harmed by aggressive marketing and communications strategies of our competitors. PRC laws and regulations also prohibit agreements and activities which amount to unfair business competition and an abuse of a dominant market position. We cannot assure you that we will not, in the future, be subject to such unfair business competition or dominant market position abuse imposed by third parties. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or websites by anyone, whether or not related to us, on an anonymous basis. Consumers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation or authentication and without regard to its accuracy. The availability of information on social media platforms and devices is virtually immediate, as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our financial performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, users and revenues and adversely affect the price of our Shares.

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

We have established our internal control system, such as an organizational framework and, policies and procedures that are designed to monitor and control potential risk areas relevant to our business operations. However, due to the inherent limitations in the design and implementation of our

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risk management system, our risk management system may not be sufficiently effective in identifying, managing and preventing all risks if external circumstances change substantially or extraordinary events take place.

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

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

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

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

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

The satisfactory performance, reliability and availability of our technology platform are critical to our success and our ability to attract and retain users and provide superior user experience. Any

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system interruptions caused by telecommunications failures, computer viruses, hacking or other attempts to harm our systems that result in the unavailability or slowdown of our platform or reduced order fulfillment performance could reduce the volume of products sold and the attractiveness of product offerings on our platform. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to system interruptions, website slowdown or unavailability, delays or errors in transaction processing, loss of data or the inability to accept and fulfill user orders. Security breaches, computer viruses and hacking attacks have become more prevalent in our industry.

Moreover, smart solutions we provide to pharmacies and hospitals may develop or contain undetected defects or errors. Material performance problems, defects or errors in our existing or new software and applications and services may arise in the future and may result from interface issues between our systems and data that we did not develop and the function of which is beyond our control or undetected in our testing. These defects and errors, and any failure by us to identify and address them, could result in loss of revenue or market share, diversion of development resources, harm to our reputation and increased service and maintenance costs. Defects or errors may discourage existing or potential users from utilizing our solution. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors may be substantial and could have a material adverse effect on our business, financial condition and results of operations. Defects or errors may also affect our pharmacies, pharmaceutical companies or other users who rely on our technologies in the operation of their businesses, which may have a material adverse effect on our reputation, business, results of operations and prospects.

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

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our platform. The industries we operate in are characterized by rapid technological evolution, changes in user requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices, such as mobile internet, in a cost-effective and timely way. In recent years, we invested in the development of many new technologies and business initiatives, such as AI, big data and cloud. The development of websites, mobile apps and other proprietary technologies entails significant technical and business risks. We cannot assure you that we will be able to successfully develop or effectively use new technologies, recoup the costs of developing new technologies or adapt the websites and mobile apps that we operate, and our proprietary technologies and systems to meet user requirements or emerging industry standards. If we are unable to develop technologies successfully or adapt in a cost-effective and timely manner in response to changing market conditions or user requirements, whether for technical, legal, financial or other reasons, our business, prospects, financial condition and results of operations may be materially and adversely affected.

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

We rely heavily on technology, particularly the internet, to provide high-quality online services. However, our technology operations are vulnerable to disruptions arising from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorized access and other similar events. Disruptions to, or instability of, our technology or external technology that supports the offering of our online services and products could materially harm our business and reputation.

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

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

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

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property (which we have ownership or legal rights to use) as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete agreements with our employees and others, to protect our proprietary rights. Although we are not aware of any copycat websites that attempt to cause confusion or diversion of traffic from us at the moment, we may become an attractive target to such attacks in the future because of our brand recognition in online retail, pharmaceutical and internet healthcare industries in China. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, there can be no assurance that our patent applications will be approved, that any issued patents will

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adequately protect our intellectual property, or that such patents will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties on reasonable terms, or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We can provide no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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

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

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compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses may require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, results of operations and financial condition.

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

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

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

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

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

Since our industry is characterized by high demand and intense competition for talent and labor, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. We have observed an overall tightening of the labor market and an emerging trend of shortage of labor supply. Failure to obtain stable and dedicated personnel may lead to underperformance of our operation. Labor costs in China have increased with China's economic development, particularly in the large cities where we operate our business. Therefore, to maintain and enhance our competitiveness, we may from time to time need to adjust certain elements of our operations in response to evolving economic conditions and business needs. Any failure to address these risks and uncertainties could materially and adversely affect our financial performance and prospects of achieving profitability, which could have a material

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adverse impact on our business development, financial conditions and results of operations. In addition, our ability to train and integrate new employees into our operations may also be limited and may not meet the demand for our business growth on a timely fashion, or at all, and rapid expansion may impair our ability to maintain our corporate culture.

Failure to comply with anti-corruption laws and regulations, or effectively manage our employees, affiliates and business partners such as suppliers and merchants, could severely damage our reputation, and materially and adversely affect our business, financial condition, results of operations and prospects.

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

We or our Directors or senior management may from time to time become party to litigation, other legal or administrative disputes and proceedings that may materially and adversely affect our reputation, business, financial condition or results of operations.

Our business operations entail substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to medical disputes, fraud and misconduct, sales and user services and control procedures deficiencies, as well as the protection of personal and confidential information of our users and business partners, among others. We may be subject to claims and lawsuits in the ordinary course of our business. We may also be subject to inquiries, inspections, investigations and proceedings by relevant regulatory and other governmental agencies. Actions brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our business, financial condition, results of operations and reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. A significant judgment or regulatory action against us or a material disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees would have a material adverse effect on our liquidity, business, financial condition, results of operations, reputation and prospects. In addition, events or activities attributed to our Directors or senior management, and related publicity, whether or not justified, may affect their ability or willingness to

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continue to serve our company or dedicate their efforts to our company and negatively affect our brand and reputation, resulting in an adverse effect on our business, operating results and financial condition. In April 2019, a civil lawsuit was filed before a Minneapolis court against Mr. Richard Qiangdong Liu, our Director, and JD.com (for vicarious liability), arising from an incident involving alleged non-consensual contact in August 2018, seeking damages exceeding US\$50,000 from Mr. Liu and JD.com. JD.com and Mr. Liu believe that all such claims against JD.com and Mr. Liu are without merit and intend to vigorously defend against the validity of all such claims. This lawsuit remains at an early stage, and the ultimate resolution of such claims cannot be determined.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results, meet our reporting obligations or prevent fraud.

Our success depends on our ability to effectively utilize our standardized management system, information systems, resources and internal controls. As we continue to expand, we will need to modify and improve our financial and managerial controls, reporting systems and procedures and other internal controls and compliance procedures to meet our evolving business needs. If we are unable to improve our internal controls, systems and procedures, they may become ineffective and adversely affect our ability to manage our business and cause errors or information lapses that affect our business. Our efforts in improving our internal control system may not result in eliminating all risks. If we are not successful in discovering and eliminating weaknesses in our internal controls, our ability to effectively manage our business may be affected.

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

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

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

Some of the lessors of our leased properties have not provided us with their property ownership certificates or any other documentation proving their right to lease those properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with the owners or the parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us. Some of our leased properties were also subject to mortgage at the time the leases were entered into. Such lease may not be binding on the transferee of the property in the event that the mortgage holder forecloses on the mortgage and transfers the property to another party. In addition, a substantial portion of our leasehold interests in leased properties have not been registered with the

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relevant PRC government authorities as required by PRC law, which may expose us to potential fines if we fail to remediate after receiving any notice from the relevant PRC government authorities. Also, in the event that the actual use of our leased properties is inconsistent with the use registered on the land use right certificate or our leased properties are on allocated land (劃撥土地), the competent authorities may require the lessors to return the land and impose fines on the lessors, or confiscate the proceeds from the leasing of the properties and imposed fines on the lessor if such properties are leased without their consent or handing in such income, as applicable. We can provide no assurance that we will not be subject to the aforementioned penalties as a lessee to the properties, and the relevant lease agreements may be deemed to be in breach of the law and therefore be void.

As of the Latest Practicable Date, we are not aware of any material claims or actions being contemplated or initiated by government authorities, property owners or any other third parties with respect to our leasehold interests in or use of such properties. However, we cannot assure you that our use of such leased properties will not be challenged. In the event that our use of properties is successfully challenged, we may be subject to fines and forced to relocate the affected operations. In addition, we may become involved in disputes with the property owners or third parties who otherwise have rights to or interests in our leased properties. We can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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

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

Our insurance coverage may not be adequate, which could expose us to significant costs and business disruptions.

We have obtained or caused relevant counterparties to obtain insurance to cover certain potential risks and liabilities, such as professional liability insurance for our doctors in connection with their provision of medical consultation services over our platform, and product liability insurance for us with respect to certain products sold under our direct sale model. However, we may not be able to acquire any insurance for certain types of risks such as business liability or service disruption insurance for all of our operations in the PRC, and our coverage may not be adequate to compensate for all losses

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that may occur, particularly with respect to loss of business or operations. For example, we do not maintain business interruption insurance, nor do we maintain key-man life insurance. Any business disruption, litigation, regulatory action, outbreak of epidemic disease or natural disaster could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policies on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

User growth and activity on mobile devices depends upon effective use of mobile operating systems, networks and standards that we do not control.

Purchases using mobile devices by consumers generally, and by our users specifically, have increased significantly, and we expect this trend to continue. To optimize the mobile shopping experience, we may need to attract our users to download mobile apps for their particular devices as opposed to accessing our sites from an internet browser on their mobile device. As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for these alternative devices and platforms, and we may need to devote significant resources to the development, support and maintenance of such applications. In addition, our future growth and our results of operations could suffer if we experience difficulties in the future in integrating the mobile apps that we operate into mobile devices or if problems arise with our relationships with providers of mobile operating systems or mobile app download stores, if the mobile apps we operate receive unfavorable treatment compared to competing apps on the download stores, or if we face increased costs to distribute or have users use mobile apps that we operate. We are further dependent on the interoperability of the sites we operate with popular mobile operating systems that we do not control, such as iOS and Android, and any changes in such systems that degrade the functionality of our sites or give preferential treatment to competitive products could adversely affect the usage of our sites on mobile devices. In the event that it is more difficult for our users to access and use our sites on their mobile devices, or if our users choose not to access or to use our sites on their mobile devices or to use mobile products that do not offer access to our sites, our user growth could be harmed and our business, financial condition and operating results may be adversely affected.

Our operations depend on the performance of the internet infrastructure and fixed telecommunications networks in China, as well as the effectiveness of mobile operating systems and networks.

Almost all access to mobile and internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. We primarily rely on a limited number of telecommunication service providers to provide us with data communications capacity through local telecommunications lines and internet data centers to host our servers. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's public communications networks, such as mobile, internet or the fixed telecommunications networks. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the public communications infrastructure in China will be able to support the demands associated with the continued growth in usage. In addition, we have no control over the costs of the services provided by public communications service providers. If the prices we pay for their services rise significantly, our financial performance may be adversely affected. Furthermore, if mobile access

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fees or other charges to mobile users increase, our user traffic may decline and our business may be harmed.

We are subject to changing laws and regulations regarding corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.

We are or will be subject to rules and regulations by various governing bodies, including, for example, the Stock Exchange, which together with the SFC is charged with the protection of investors and the oversight of companies whose securities are publicly traded, the various regulatory authorities in China, Hong Kong and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

We face risks related to natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of epidemics. In recent years, there have been breakouts of epidemics in China and globally. The outbreak of a novel strain of coronavirus, later named COVID-19, has affected China and many parts of the world. In response to intensifying efforts to contain the spread of the coronavirus, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals in China who had the COVID-19, asking citizens to remain at home and to avoid gathering in public, and other actions. The COVID-19 has also resulted in temporary closures of many corporate offices, manufacturing facilities and factories across China. We adjusted our operations and instructed our employees to all stay at their homes and work from home during the outbreak. During the early stage outbreak of COVID-19, we have seen a decrease in demand for certain health and wellness products. Leveraging JD Group's logistics network, the general public's increased awareness and significant unmet need for healthcare products and services, we have resumed normal operations and have seen an increase in demand for our online healthcare services, in particular, the demand for our online hospital services, and a bounce-back in demand for our pharmaceutical and healthcare products later. See "Financial Information—Impact of COVID-19 On Our Operations" for details. The global spread of COVID-19 pandemic in a significant number of countries around the world has resulted in, and may intensify, global economic distress, and the duration and extent of the impact of COVID-19 outbreak cannot be reasonably estimated at this time. The extent to which it may affect our results of operations, financial condition and cash flow will depend on the future developments of the outbreak, which are highly uncertain and cannot be predicted. Such uncertainty poses operational challenges to our online service offerings. Our operations could be disrupted if one of our employees is suspected of having COVID-19, H1N1 flu, avian flu or another epidemic in our offices, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general.

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We are also vulnerable to natural disasters and other calamities. Our servers and back system are primarily hosted and maintained at cloud servers that are not operated by us. We cannot assure you that our cloud service providers will have adequate measures to protect themselves from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform.

A severe or prolonged downturn in Chinese or global economy could materially and adversely affect our business and financial condition.

COVID-19 has had a severe and negative impact on the Chinese and the global economy so far in 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is likely to be severe. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

Our results of operations, financial conditions and prospects have been adversely affected by fair value changes of financial instruments at fair value through profit or loss, in particular, by fair value changes in our convertible preferred shares.

We expect that our net loss for the year ending December 31, 2020 will increase significantly comparing to the year ended December 31, 2019 due to the expected loss on fair value changes of convertible preferred shares, which was in relation to the Pre-IPO Investments. During the Track Record Period, we had outstanding convertible preferred shares, which were designated as financial liabilities at fair value through profits or losses. Their fair value is determined based on the valuation performed by an independent valuer, using valuation techniques. The assessment of fair value of our convertible preferred shares requires the use of unobservable inputs including discount rate, discount of lack of marketability and expected volatility. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. These valuation methodologies that we use involve a significant degree of management judgment and are inherently uncertain. Changes in these unobservable inputs and other estimates and judgments could materially affect the fair value of our convertible preferred shares, which in turn may adversely affect our results of operations. In 2017, 2018 and 2019, we recognized net fair value losses in convertible preferred shares of nil, nil and RMB1.3 billion, respectively. For the six months ended

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June 30, 2019 and 2020, we recognized net fair value losses in convertible preferred shares of nil and RMB5.7 billion, respectively. We expect continued fluctuation of the fair value of our convertible preferred shares after June 30, 2020 till the Listing Date, upon which all the convertible preferred shares will automatically convert into our Shares. After the automatic conversion of the convertible preferred shares into Shares upon the Listing, which may result in a net asset position, we do not expect to recognize any further loss or gain on fair value changes from the convertible preferred shares in the future.

In addition, we are subject to risks associated with the fair value change of our non-current financial assets at fair value through profit or loss, which, as of June 30, 2020, primarily consisted of a call option granted to us associated with our investment in Tangshan Hongci. As of June 30, 2020, the fair value of the call option was RMB136.4 million. We use unobservable inputs (primarily expected volatility) to assess the fair value of the call option. We use our judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. These valuation methodologies that we use involve a significant degree of management judgment and are inherently uncertain. Changes in these unobservable inputs and other estimates and judgments could materially affect the fair value of our non-current financial assets at fair value through profit or loss, which in turn may adversely affect our results of operations.

Fluctuation of fair value change of the wealth management products we invested in may affect our results of operations.

We made investments in wealth management products during the Track Record Period and recorded a fair value of wealth management products of nil, nil, nil and RMB1,012.4 million as of December 31, 2017, 2018, 2019 and as of June 30, 2020, respectively. The wealth management products we purchased are structured products with the expected rates of return indexed to foreign exchange rate or interest rate ranging from 3.00% to 3.65% for the six months ended June 30, 2020. We are exposed to credit risk in relation to our investments in wealth management products, which may adversely affect the net changes in their fair value. We cannot assure you that market conditions and regulatory environment will create fair value gains on the wealth management products we invest in or we will not incur any fair value losses on our investments in wealth management products at fair value through profit or loss in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

Acquisitions, strategic alliances and investments could be difficult to integrate, which may disrupt our business, and adversely affect our results of operations.

We may evaluate and consider strategic investments and acquisitions or enter into strategic alliances to develop new services or solutions and enhance our competitive position. Investments or acquisitions involve numerous risks, including the potential failure to achieve the expected benefits of the combination or acquisition; difficulties in, and the cost of, integrating operations, technologies, services and personnel; potential write-offs of acquired assets or investments; and downward effect on our operating results. These transactions will also divert the management's time and resources from our normal operations and we may have to incur unexpected liabilities or expenses. We may also in the future enter into strategic alliances with various third parties. Strategic alliances with third parties could subject us to a number of risks, including risks associated with potential leakage of proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business.

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Our investment in a joint venture may subject us to risks associated with conducting operations through joint ventures.

In April 2020, we entered into a series of agreements with Tangshan Hongci Healthcare Management Co., Ltd., or Tangshan Hongci, and its shareholder, pursuant to which we injected approximately RMB668 million in cash to Tangshan Hongci in exchange for a 49% equity interest in Tangshan Hongci in June 2020. We may invest in additional joint ventures in the future. Our results of operations might be affected by the results of any joint venture we invest in, as typically there is no cash flow to us until dividends are received. In addition, investment in a joint venture is not as liquid as compared with other types of investments. Furthermore, our joint venture partners, as well as any future partners, may have interests that are different from ours which may result in conflicting views as to the conduct of the business of the joint venture. In the event that we have a disagreement with a joint venture partner as to the resolution of a particular issue of the joint venture, or as to the management or operations of the business of the joint venture in general, we may not be able to resolve such disagreement in our favor and such disagreement could have a material adverse effect on our interest in the joint venture or the business of the joint venture in general.

Risks Related to Our Corporate Structure

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

Foreign ownership of certain of our businesses including value-added telecommunication services and medical institutions is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (excluding e-commerce, domestic multi-party communications, data collection and transmission services and call centers) and the main foreign investor in the foreign-invested telecommunication enterprise must have experience in providing value-added telecommunications services overseas and maintain a good track record.

We are a Cayman Islands exempted company and our WFOE, Beijing Jingdong Jiankang Co., Ltd., is considered as a foreign-invested enterprise. Accordingly, it is not eligible to provide value-added telecommunication services or provide certain other restricted services related to our businesses. As a result, we will conduct such business activities through our Consolidated Affiliated Entities in PRC, including Yinchuan JD Online Hospital, Jiangsu Jingdong Hongyuan, Jingdong Pharmacy Qingdao and Jingdong Pharmacy Taizhou.

Suqian Tianning is 45% owned by Mr. Richard Qiangdong Liu, our Director, 30% owned by Ms. Yayun Li, our Director, and 25% owned by Ms. Pang Zhang, employee of JD Group. Mr. Liu, Ms. Li and Ms. Zhang are PRC citizens. We entered into a series of Contractual Arrangements with Suqian Tianning and its shareholders, which enable us to:

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

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Because of these Contractual Arrangements, we are the primary beneficiary of Suqian Tianning and hence consolidate its financial results as our Consolidated Affiliated Entity. For a detailed discussion of these Contractual Arrangements, see “History, Reorganization and Corporate Structure.”

In the opinion of Shihui Partners, our PRC Legal Adviser, (i) the ownership structures of our Consolidated Affiliated Entities in China and the WFOE that have entered into Contractual Arrangements with the Onshore Holdco, Suqian Tianning, comply with all existing PRC laws and regulations; and (ii) the Contractual Arrangements between our WFOE and our Onshore Holdco and its shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect. However, our PRC Legal Adviser has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC Legal Adviser. It is uncertain whether any other new PRC laws or regulations relating to consolidated affiliated entity structures will be adopted or if adopted, what they would provide. If we or our Consolidated Affiliated Entities are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

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

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

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

We have relied and expect to continue to rely on Contractual Arrangements with Onshore Holdco and its shareholders to operate part of our retail pharmacy business. For a description of these Contractual Arrangements, see “History, Reorganization and Corporate Structure.” These Contractual Arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities.

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

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

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

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. See “—Risks Related to Doing Business in China— Uncertainties with respect to the PRC legal system could adversely affect us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a consolidated affiliated entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal

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system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

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

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

Mr. Richard Qiangdong Liu, Ms. Yayun Li and Ms. Pang Zhang are the shareholders of our Onshore Holdco, or Suqian Tianning. Mr. Richard Qiangdong Liu is chairman and chief executive officer of JD Group, Ms. Yayun Li is the chief compliance officer of JD Group and Ms. Pang Zhang is an employee of JD Group. The shareholders of our Onshore Holdco may have potential conflicts of interest with us. These shareholders may breach, or cause our Onshore Holdco to breach, or refuse to renew, the existing Contractual Arrangements we have with them and our Onshore Holdco, which would have a material and adverse effect on our ability to effectively control our Consolidated Affiliated Entities and receive substantially all the economic benefits from it. For example, the shareholders may be able to cause our agreements with our Onshore Holdco to be performed in a manner adverse to us by, among other things, failing to remit payments due under the Contractual Arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our Company. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our Onshore Holdco, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries like our WFOE for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If these subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In

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addition, the PRC tax authorities may require our WFOE or any other relevant PRC subsidiary to adjust its taxable income under the contractual arrangements it currently has in place with our Onshore Holdco in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. See “—Contractual Arrangements in relation to our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our Consolidated Affiliated Entities owe additional taxes, which could negatively affect our financial condition and the value of your investment.”

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

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

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

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

Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits, i.e., the difference between its total amount of investment and its registered capital, or certain amount calculated based on elements including capital or net assets and the cross-border financing leverage ratio or the Macro-prudential Management Mode, under relevant PRC laws and the loans must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE, or filed with SAFE in its information system. We may also provide loans to our Consolidated Affiliated Entities or other domestic PRC entities under the Macro-prudential Management Mode. According to the Circular of the PBOC and the State Administration of Foreign Exchange on Adjusting the Macro-prudent Adjustment Parameter for Cross-border Financing issued on March 11, 2020, the limit for the total amount of foreign debt under the Macro-prudential Management Mode is increased to two and a half times from two times of their respective net assets. Moreover, any medium or long-term loan to be provided by us to our Consolidated Affiliated Entities or other domestic PRC entities must also be registered with the NDRC.

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We may also decide to finance our wholly foreign-owned subsidiaries in China by means of capital contributions. These capital contributions shall go through record-filing procedures from competent administration for market regulation. SAFE issued the Circular on the Management Concerning the Reform of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 19, which took effect on June 1, 2015. SAFE Circular 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC provided that such usage shall fall into the scope of business of the foreign-invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment on October 23, 2019, or SAFE Circular 28, pursuant to which all foreign-invested enterprises can make equity investments in the PRC with their capital funds in accordance with the law. As SAFE Circular 28 is new and the relevant government authorities have broad discretion in interpreting the regulation, it is unclear whether SAFE will permit such capital funds to be used for equity investments in the PRC in actual practice.

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

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

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

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

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

On March 15, 2019, the NPC promulgated the Foreign Investment Law or the FIL, which has become effective on January 1, 2020 and replaced the outgoing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, as well their implementation rules and ancillary regulations, or the Outgoing FIE Laws. See “Regulations— Regulations Relating to Foreign Investment.”

Meanwhile, the Implementation Rules to the PRC Foreign Investment Law came into effect as of January 1, 2020, which clarified and elaborated the relevant provisions of the Foreign Investment Law. However, uncertainties still exist in relation to interpretation and implementation of the FIL, especially in regard to, including, among other things, the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organization form of foreign-invested enterprises within the five-year transition period. While FIL does not define contractual arrangements as a form of foreign investment explicitly, it has a catch-all provision under definition of “foreign investment” that includes investments made by foreign investors in the PRC through other means as provided by laws, administrative regulations or the State Council, we cannot assure you that future laws and regulations will not provide for contractual arrangements as a form of foreign investment. Therefore, there can be no assurance that our control over our Consolidated Affiliated Entities through Contractual Arrangements will not be deemed as foreign investment in the future. In the event that any possible implementing regulations of the FIL, any other future laws, administrative regulations or provisions deem contractual arrangements as a way of foreign investment, or if any of our operations through contractual arrangements is classified in the “restricted” or “prohibited” industry in the future “negative list” under the FIL, our Contractual Arrangements may be deemed as invalid and illegal, and we may be required to unwind the Contractual Arrangements and/or dispose of any affected business. Also, if future laws, administrative regulations or provisions mandate further actions to be taken with respect to existing Contractual Arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Furthermore, under the FIL, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements. In addition, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within a five-year transition period, which means that we may be required to adjust the structure and corporate governance of certain of our PRC subsidiaries in such transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance, financial condition and business operations.

Risks Related to Doing Business in China

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

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

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control

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of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the rate of growth has been slowing. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments.

In addition, the global macroeconomic environment is facing challenges. For example, the COVID-19 pandemic has caused significant downward pressure for the global economy, and many major economies have lowered their expected growth rate for 2020. In addition, the impact of the United Kingdom's withdrawal from the European Union, commonly referred to as "Brexit", and the resulting effect on the political and economic future of the U.K. and the European Union is uncertain. Brexit could adversely affect European and worldwide economic and market conditions, and could contribute to instability in global financial and foreign exchange markets. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term.

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

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

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

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violation of these policies and rules. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations.

We are subject to consumer protection laws that could require us to modify our current business practices and incur increased costs.

We are subject to numerous PRC laws and regulations that regulate retailers generally or govern online retailers specifically, such as the Consumer Protection Law. If these regulations were to change or if we, suppliers or third-party merchants on our marketplace were to violate them, the costs of certain products or services could increase, or we could be subject to fines or penalties or suffer reputational harm, which could reduce demand for the products or services offered on our platform and hurt our business and results of operations. For example, the amended Consumer Protection Law, which became effective in March 2014, further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on businesses that operate on the internet. Pursuant to the Consumer Protection Law, except for certain types of products (such as drugs), consumers are generally entitled to return goods purchased within seven days upon receipt without giving any reasons if they purchased the goods over the internet. Consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from merchants or service providers. Where the operators of an online marketplace platform are unable to provide the real names, addresses and valid contact details of the merchants or service providers, the consumers may also claim damages from the operators of the online marketplace platforms. Operators of online marketplace platforms that know or should have known that merchants or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liability with the merchants or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services. Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Although almost all of our PRC operating entities incorporated in various locations in China have made the required employee benefit payments, we cannot assure you that we are able to make adequate contribution in a timely manner at all time. If we are subject to late fees or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

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

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

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

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

Any significant appreciation or depreciation of RMB may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares. For example, to the extent that we need to convert Hong Kong dollars and U.S. dollars we receive into RMB to pay our operating expenses, appreciation of RMB against the Hong Kong dollars and the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of RMB against the Hong Kong dollars and the U.S. dollar may significantly reduce the Hong Kong dollars or the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our Shares.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our Company in the Cayman Islands may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may

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

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

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honored brands. Moreover, the Anti-Monopoly Law requires that the anti-trust governmental authority shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts or other relevant government agencies may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

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

The Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular 75, requires PRC residents to register with the relevant local branch of SAFE before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents and to update such registration in the event of any significant changes with respect to that offshore company. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014, which replaced SAFE Circular 75. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." The term "control" under SAFE Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions. In February 2015, SAFE issued the Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 13 has delegated to the qualified banks the authority to register all PRC residents' investment in "special purpose vehicle" pursuant to SAFE Circular 37, except that those PRC residents who have failed to comply with SAFE Circular 37 will remain to fall into the jurisdiction of the local SAFE branch and must make their supplementary registration application with the local SAFE branch.

We have requested PRC residents who we know hold direct or indirect interest in our Company to make the necessary applications, filings and amendments as required under SAFE Circular 37 and other related rules. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our Company, and we cannot provide any assurance that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements under SAFE Circular 37 or other related rules. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in these regulations may

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subject us to fines and legal sanctions, restrict our cross-border investment activities, limit the ability of our wholly foreign-owned subsidiaries in China to distribute dividends and the proceeds from any reduction in capital, share transfer or liquidation to us, and we may also be prohibited from injecting additional capital into these subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC law for circumventing applicable foreign exchange restrictions. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

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

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options are subject to these regulations. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors and employees under PRC law.

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

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

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

Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body

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that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. On April 22, 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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

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

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

The State Administration of Taxation has issued several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued in December 2009, or SAT Circular 698, the Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises promulgated issued in March 2011, or SAT Circular 24, and the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises issued in February 2015, or SAT Circular 7. Pursuant to these rules and notices, if a non-PRC resident enterprise indirectly transfers PRC taxable properties, referring to properties of an

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establishment or a place in the PRC, real estate properties in the PRC or equity investments in a PRC tax resident enterprise, by disposing of equity interest in an overseas holding company, such indirect transfer should be deemed as a direct transfer of PRC taxable properties and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%. SAT Circular 7 sets out several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose. An indirect transfer satisfying all the following criteria will be deemed to lack reasonable commercial purpose and be taxable under PRC law: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC income tax on the direct transfer of such assets. Nevertheless, the indirect transfer falling into the safe harbor available under SAT Circular 7 may not be subject to PRC tax and the scope of the safe harbor includes qualified group restructuring as specifically set out in SAT Circular 7, public market trading and tax treaty exemptions.

In October 2017, the SAT released the Public Notice Regarding Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Public Notice 37, effective from December 2017. SAT Public Notice 37 replaced a series of important circulars, including but not limited to SAT Circular 698, and revised the rules governing the administration of withholding tax on China-source income derived by a non-resident enterprise. SAT Public Notice 37 provides for certain key changes to the current withholding regime, for example, the withholding obligation for a non-resident enterprise deriving dividend arises on the date on which the payment is actually made rather than on the date of the resolution that declared the dividends.

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

However, as there is a lack of clear statutory interpretation, we face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our Company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our Company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our Company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our Company and

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

Risks Related to the Global Offering

There has been no prior public market for our Shares prior to the Global Offering, and you may not be able to resell our Shares at or above the price you pay, or at all.

Prior to the completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Joint Representatives (for themselves and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

The trading price of the Shares may be volatile which could result in substantial losses to you.

In addition, the trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of China-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance, and may result in losses on your investment in our Shares.

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The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our directors, executive officers and substantial shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our substantial shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future. In addition, certain existing shareholders of our Shares are not subject to lock-up agreements. Market sale of Shares by such shareholders and the availability of these Shares for future sale may have negative impact on the market price of our Shares. See “History, Reorganization and Corporate Structure—2. Principal terms of the Pre-IPO Investments” for more details of the existing shareholders not subject to lock-up agreements.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the Offer Price of Shares is higher than the net tangible book value per share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

We cannot assure you that we will declare and distribute any amount of dividends in the future and you may have to rely on price appreciation of our Shares for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we have not yet adopted a dividend policy with respect to future dividends. Therefore, you should not rely on an investment in our Shares as a source for any future dividend income.

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our Company may only pay dividends either out of profits or share premium account, and provided always that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts at they fall due in the ordinary course of business. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiary, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value or even maintain the price at which you purchased the Shares. You may not realize a return on your investment in our Shares and you may even lose your entire investment in our Shares.

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There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the section headed “Industry Overview,” contains information and statistics relating to the internet healthcare market. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this document, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

Our Controlling Shareholders have significant influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business and operations, including matters relating to management and policies, decisions in relation to acquisitions, expansion plans, business consolidation, the sale of all or substantially all of our assets, nomination of directors, dividends or other distributions, as well as other significant corporate actions. Immediately following the completion of the Global Offering, our Controlling Shareholders will collectively beneficially own approximately 68.73% of the voting power of our outstanding share capital, assuming that the Over-allotment Option is not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. The concentration of voting power and the substantial influence of our Controlling Shareholders over our Company may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and reduce the price of our

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Shares. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Subject to the Listing Rules, our Articles of Association and other applicable laws and regulations, our Controlling Shareholders will continue to have the ability to exercise their substantial influence over us and to cause us to enter into transactions or take, or fail to take, actions or make decisions which conflict with the best interests of our other shareholders.

There will be a time gap of several business days between pricing and trading of our Shares offered in the Global Offering. Holders of our Shares are subject to the risk that trading prices of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of unfavorable market conditions, or other adverse developments, that could occur between the time of sale and the time trading begins.

**WAIVERS FROM STRICT COMPLIANCE WITH
THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

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

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

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives who shall act at all times as the principal channel of communication with the Stock Exchange. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange. At present, our two authorized representatives are Lijun Xin and Chiu Ming King;
- (b) we will implement a policy to provide the contact details of each Director to the Stock Exchange, their alternate representative and to the authorized representatives. This will ensure that the Stock Exchange, their alternate representative and the authorized representatives should have means for contacting all Directors promptly at all times as and when required, including means to communicate with the Directors when they are traveling;
- (c) we will ensure that each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;
- (d) pursuant to Rule 3A.19 of the Listing Rules, we have retained the services of Haitong International Capital Limited as compliance adviser (the "**Compliance Adviser**"), who will act as an additional channel of communication with the Stock Exchange. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company's authorized representatives and Directors. In turn, they will provide the Compliance Adviser with such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the

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performance of the Compliance Adviser’s duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules; and

- (e) meetings between the Stock Exchange and the Directors can be arranged through the authorized representatives, or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Adviser in accordance with the Listing Rules.

WAIVER IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions that will constitute partially-exempt and non-exempt continuing connected transactions of our Company under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with Chapter 14A of the Listing Rules. See “Connected transactions” for more details.

WAIVER IN RELATION TO PRINTED COPIES OF THE PROSPECTUS

We have adopted a fully electronic application process for the Hong Kong Public Offering and we will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. We have applied for, and the Stock Exchange has granted, waivers from strict compliance with Rule 12.04(3), Rule 12.07 and Rule 12.11 of the Listing Rules in respect of the availability of copies of the prospectus in printed form based on the following grounds: our Group’s corporate and social responsibility to reduce printed materials, electronic application being the most used and popular channel for application in Hong Kong public offerings nowadays and the circumstances brought about by the COVID-19 pandemic.

We will adopt additional communication measures to inform the potential investors that they can only subscribe for the Hong Kong Public Offer Shares electronically, including (i) publishing a formal notice of the Global Offering on our website and in selected English and Chinese local newspapers describing the fully electronic application process including the available channels for share subscription; (ii) advertising through the White Form eIPO Service Provider the electronic methods for subscription of the Hong Kong Offer Shares; (iii) the enhanced support provided by our Hong Kong Share Registrar and White Form eIPO Service Provider in relation to the Hong Kong Public Offering (including additional enquiry hotlines for questions about the application for the Hong Kong Offer Shares and increasing its server capacity); and (iv) issuing a press release to remind investors that no printed prospectuses or application forms will be provided.

WAIVER IN RESPECT OF INVESTMENT AND ACQUISITION AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountants’ report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document (the “**Target Historical Financial Information**”).

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Pursuant to guidance letter HKEX-GL32-12 issued by the Stock Exchange (“GL32-12”), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances.

The Stock Exchange will ordinarily grant a waiver in relation to acquisitions of equity securities in the ordinary and usual course of business subject to the following conditions: (i) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of each acquisition are all less than 5% by reference to the most recent financial year of the applicant’s trading record period; (ii) the applicant is neither able to exercise any control, nor has any significant influence, over the underlying company or business; and (iii) the listing document should include the reasons for the acquisitions and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the applicant and its connected persons.

In addition, the Stock Exchange will ordinarily grant a waiver in relation to acquisitions of a business or subsidiary subject to the following conditions: (i) the percentage ratio (as defined under Rule 14.04(9) of the Listing Rules) of the acquired or to be acquired business or subsidiary are all less than 5% by reference to the most recent financial year of the applicant’s trading record period; (ii) the historical financial information of the acquired or to be acquired business or subsidiary is not available or would be unduly burdensome to obtain or prepare; and (iii) the listing document should include at least the information that would be required for a discloseable transaction under Chapter 14 of the Listing Rules on each acquisition.

Ordinary course of Investment since June 30, 2020

During the Track Record Period, the Company has made minority investments in a number of companies in China in the ordinary and usual course of business to further its strategic objectives.

Since June 30, 2020 and up to the Latest Practicable Date, the Company has proposed to make minority investment in a company (the “Investment”). Details of the Investment up to the Latest Practicable Date include:

<u>No.</u>	<u>Name of the target company⁽²⁾</u>	<u>Investment amount⁽¹⁾</u>	<u>Percentage of shareholding / equity interest⁽¹⁾</u>	<u>Principal business activities</u>
1.	Shanghai Jinshida Weining Software Technology Co., Ltd. (上海金仕達衛寧軟件科技有限公司)	RMB150,000,000	7.71%	Medical related technology services

Notes:

- (1) The approximate consideration disclosed in the table represents the Investment after June 30, 2020. The percentage of shareholding / equity interest represents the Company’s approximate total pro forma shareholding in the target company after the completion of the disclosed transaction.
- (2) None of the core connected persons at the level of the Company is a controlling shareholder of the target company.

The Company confirms that the investment amount for the Investment is the result of commercial arm’s length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital required for the relevant company’s operations.

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Conditions for granting the waiver and its scope in respect of the Investment

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules in respect of the Investment on the following grounds:

Ordinary and usual course of business

The Company makes strategic equity investments in sectors relating to its business as part of its ordinary and usual course of business. The Company has a history of making minority investments and have conducted a number of minority investments during the Track Record Period.

The percentage ratios of the Investment are all less than 5% by reference to the most recent fiscal year of the Track Record Period

The applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules for the Investment are all significantly less than 5% by reference to the most recent fiscal year of the Track Record Period.

Accordingly, the Company believes that the Investment has not resulted in any significant changes to its financial position since June 30, 2020, and all information that is reasonably necessary for potential investors to make an informed assessment of its activities or financial position has been included in this document. As such, the Company considers that a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would not prejudice the interests of the investors.

The Company is not able to exercise any control over the underlying company or business

The Company confirms that: (i) it only holds and/or will only hold a minority equity interest in the Investment and does not control its board of directors; and (ii) the Company is also not involved in the day to day management of the Investment and only enjoys minority strategic shareholder rights. The minority rights given to the Company are generally commensurate to its status as a minority shareholder and are for the protection of its interests as a minority stakeholder in the Investment. These rights are neither intended, nor sufficient to compel or require the relevant companies to prepare or to disclose in this document audited financial statements for the purposes of compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules. It could be prejudicial and potentially harmful to the Company's portfolio relationships and commercial interests to make such disclosures. In addition, as some portfolio companies are private, disclosing this information could harm their interests and bring them into an unfavorable competitive position. Accordingly, as the Company does not expect the Investment to result in any material changes to its financial position after the Track Record Period, the Company does not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would prejudice the interest of investor.

Alternative disclosure of the Investment in this document

The Company has disclosed alternative information about the Investment in this document. Such information includes that which would be required for a discloseable transaction under Chapter

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14 of the Listing Rules that the Company's directors consider to be material, including, for example, description of the relevant companies' principal business activities, the investment amount, and a statement that whether the core connected persons at the level of the Company is a controlling shareholder of any of the Investment. Since the relevant percentage ratio of the Investment is substantially less than 5% by reference to the most recent fiscal year of the Company's Track Record Period, the current disclosure is adequate for potential investors to form an informed assessment of the Company. The Company does not expect to use any proceeds from the Listing to fund the Investment.

Acquisition since June 30, 2020

Background to the acquisition

Since June 30, 2020 (being the date to which its latest audited accounts have been made up) and up to the Latest Practicable Date, the Group has proposed to make an acquisition (the "Acquisition"), details of which are set out in below:

No.	Name of the target company ⁽²⁾	Investment amount ⁽¹⁾	Percentage of shareholding / equity interest ⁽¹⁾	Principal business activities
1.	Company B	RMB7,000,000	100.0%	Pharmaceutical products retail

Notes:

- (1) The approximate consideration disclosed in the table represents the Acquisition after June 30, 2020. The percentage of shareholding/equity interest represents the Company's total pro forma shareholding in the target company after the completion of disclosed transaction.
- (2) None of the core connected persons at the level of the Company is a controlling shareholder of any of the target companies.

The acquisition amount for the Acquisition is the result of commercial arm's length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital required for the target company's operations.

Conditions for granting the waiver and its scope in respect of the Acquisition

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules in respect of the Acquisition on the following grounds:

The percentage ratios of the Acquisition are all less than 5% by reference to the most recent fiscal year of the Company's Track Record Period.

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules for the Acquisition are all less than 5% by reference to the most recent fiscal year of the Track Record Period.

Accordingly, the Company believes that the Acquisition has not resulted in any significant changes to the Company's financial position since June 30, 2020, and all information that is reasonably necessary for the potential investors to make an informed assessment of the Company's activities or financial position has been included in this document. As such, the Company considers that a waiver from compliance with Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would not prejudice the interests of the investors.

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The historical financial information of the target would be unduly burdensome to obtain or prepare

The Company confirms that the target in respect of the Acquisition does not have the historical financial information which is readily available for disclosure in this document in accordance with the Listing Rules and the target may not maintain proper records and data for audit purpose. As a result, it would create substantial practical difficulties and require us and our reporting accountant to undertake a considerable amount of work and considerable time and resources to prepare the necessary financial information and supporting documents for disclosure in this document. As such, the Company believes that it would be impractical and unduly burdensome for the Company to disclose the audited financial information of the target as required under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules.

In addition, having considered the Acquisition to be immaterial and that the Company does not expect the Acquisition to have any material effect on its business, financial condition or operations, the Company believes that it would not be meaningful and would be unduly burdensome for it to prepare and include the financial information of the target during the Track Record Period in this document. As the Company does not expect the Acquisition to result in any material changes to its financial position after the Track Record Period, the Company does not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules would prejudice the interests of the investors.

Alternative disclosure of the Acquisition in this document

The Company has provided alternative information about the Acquisition in this document. Such information includes that which would be required for a discloseable transaction under Chapter 14 of the Listing Rules that the Company's directors consider to be material, including, for example, description of the target's principal business activities, the investment amount, and a statement that whether the core connected persons at the level of the Company is a controlling shareholder of any of the target. The Company has however excluded disclosure on the name of the target in connection with the Acquisition because (i) the Company has entered into confidentiality agreement with the target and does not have consent from them for such disclosure and/or (ii) given the competitive nature of the industries in which the Company operates, disclosure of the name of the target in this document is commercially sensitive and may jeopardize the Company's ability to consummate the proposed Acquisition. It is commercially sensitive to disclose the identify of the target the Company propose to acquire as such information may enable its competitors to anticipate the Company's investment strategy. Since the relevant percentage ratios of the Acquisition is less than 5% by reference to the most recent fiscal year of our Track Record Period, the current disclosure is adequate for potential investors to form an informed assessment of the Company. The Company does not expect to use any proceeds from the Listing to fund the Acquisition.

WAIVER AND EXEMPTION IN RELATION TO DISCLOSURE OF INTERESTS INFORMATION

As disclosed in the prospectus of JD.com dated June 8, 2020 (the "**JD.com Prospectus**"), JD.com is subject to the U.S. Exchange Act, which requires any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the U.S. SEC, of more than 5% of a class of equity securities

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registered under Section 12 of the U.S. Exchange Act, to file beneficial ownership reports with the U.S. SEC. These persons must also promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. JD.com applied for, and was granted, (a) a partial exemption by the SFC under section 309(2) of the SFO from the provisions of Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) and (b) a waiver by the Stock Exchange from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules (the “**JD.com Disclosure Exemption and Waiver**”) subject to the conditions that: (a) the bulk of trading in the shares of JD.com is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Listing Rules; (b) all disclosures of interests filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosures in the same manner as disclosures made under Part XV of the SFO; and (c) JD.com shall advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the United States and any significant changes in the volume of JD.com’s worldwide share turnover that takes place on the Hong Kong Stock Exchange.

We have applied for, and the SFC has granted a certificate of exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) to the directors or chief executives of the Company who is/are also a director or chief executive of JD.com (the “**Common Directors/Chief Executives**”) with respect to their disclosure of interest, and short positions, in any shares in JD.com and associated corporations of the Company which are subsidiaries of JD.com (“**Associated Corporations**”), subject to the conditions that (i) the Company continues to be a subsidiary of JD.com; (ii) JD.com maintains its secondary listing on the Stock Exchange pursuant to Chapter 19C of the Listing Rules; (iii) the Common Directors/Chief Executives must file with the Hong Kong Stock Exchange all disclosure of interests notices filed with the SEC in respect of interests in JD.com and the Associated Corporations as soon as practicable on the basis that the Hong Kong Stock Exchange will publish these disclosures in the same way as those it receives from other listed corporations pursuant to Part XV; (iv) the Company shall advise the SFC if there is any change to the Common Directors/Chief Executives set out in the Company’s Part XV exemption application to the SFC; and (v) the Company shall advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the United States or any material change to the facts set out in the Company’s Part XV exemption application to the SFC. For the avoidance of doubt, this exemption does not apply to disclosure obligations of the Company’s directors or chief executives in respect of their interests, and short positions, in any shares in the Company (or any of its subsidiaries or 20%-owned corporations) and their interests in any debentures of the Company (or any of its subsidiaries or 20%-owned corporations). The exemption is given based on the particular circumstances of the Company and should not be regarded as a precedent for other applications. This exemption may be reconsidered by the SFC in the event there is any material change in the information provided to the SFC.

We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules such that the Common Directors/Chief Executives will not be required to disclose their interests and short positions in any shares or underlying shares in the Associated Corporations in accordance with Part XV of the SFO, subject to the conditions that (i) the SFC granting the Common Directors/Chief

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Executives a partial exemption from strict compliance with Part XV of the SFO; (ii) JD.com maintains its secondary listing on the Stock Exchange under Chapter 19C of the Listing Rules.

WAIVER AND EXEMPTION IN RELATION TO THE PRE-IPO ESOP

Under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this document is required to include, among other things, details of the number, description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it, the names and addresses of the persons to whom it or the right to it was given, and their potential dilution effect on the shareholding upon listing as well as the impact on the earnings per share arising from the exercise of such outstanding options (the “**Pre-IPO ESOP Disclosure Requirements**”).

As of the Latest Practicable Date, our Company had granted outstanding options under the Pre-IPO ESOP to 237 grantees, including two Directors, one senior management and four other connected persons of the Company and 230 other employees of our Group, to subscribe for an aggregate of 94,731,468 Shares. As of the date of this document, 93,056,322 Shares have been issued to Amazing Start Management Limited, which is wholly owned by The Core Trust Company Limited, being the trustee holding the Shares on trust for the benefit of the participants of the Pre-IPO ESOP. The remaining 1,675,146 Shares underlying the granted options represent 0.05% of the total number of Shares in issue immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and Shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme). For further details of our Pre-IPO ESOP, see the section headed “Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in Appendix IV.

Our Company has applied to the Stock Exchange and the SFC for: (i) a waiver from strict compliance with the applicable Pre-IPO ESOP Disclosure Requirements; and (ii) a certificate of exemption from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the applicable Pre-IPO ESOP Disclosure Requirements, respectively, on the ground that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons, among others:

- (a) given that 237 grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees under the Pre-IPO ESOP in the prospectus would be costly and unduly burdensome for the Company in light of a significant increase in cost and timing for information compilation, prospectus preparation and printing;
- (b) the grant and exercise in full of the options under the Pre-IPO ESOP will not cause any material adverse impact in the financial position of our Company;
- (c) non-compliance with the above disclosure requirements would not prevent the Company from providing its potential investors with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of the Company; and

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- (d) material information relating to the options under the Pre-IPO ESOP will be disclosed, including the total number of Shares subject to the Pre-IPO ESOP, the exercise price per Share, the potential dilution effect on the shareholding and impact on earnings per Share upon full exercise of the options granted under the Pre-IPO ESOP. The Directors consider that the information that is reasonably necessary for the potential investors to make an informed assessment of the Company in their investment decision making process has been included.

In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application will not prejudice the interests of the investing public.

The Stock Exchange has granted to us a waiver from strict compliance with the applicable Pre-IPO ESOP Disclosure Requirements on the conditions that:

- (i) on an individual basis, full details of the options granted under the Pre-IPO ESOP to each of the Directors, senior management and other connected persons of the Company, and one grantee who has been granted options to subscribe for 1,500,000 shares or above under the Pre-IPO ESOP, will be disclosed in the section headed “Appendix IV—Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in this document as required under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (ii) in respect of the options granted under the Pre-IPO ESOP to remaining grantees (being the other grantees who are not Directors, senior management or other connected persons of the Company, or other grantees who have been granted options to subscribe for 1,500,000 shares or above under the Pre-IPO ESOP), disclosure will be made, on an aggregate basis, of (1) their aggregate number of grantees and number of Shares underlying the options under the Pre-IPO ESOP, (2) the consideration (if any) paid for the grant of the options under the Pre-IPO ESOP and (3) the exercise period and the exercise price of the options granted under the Pre-IPO ESOP;
- (iii) aggregate number of Shares underlying the options granted under the Pre-IPO ESOP and the percentage to the Company’s total issued share capital represented by such number of Shares as of the Latest Practicable Date;
- (iv) the dilutive effect and impact on earnings per Share upon the full exercise of the options under the Pre-IPO ESOP will be disclosed in the section headed “Appendix IV—Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in this document;
- (v) a summary of the major terms of the Pre-IPO ESOP will be disclosed in the section headed “Appendix IV—Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in this document;
- (vi) the particulars of the waiver will be disclosed in this document; and

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- (vii) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting the Company from the disclosure requirements provided in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

The SFC has agreed to grant to our Company a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, subject to the conditions that:

- (i) on an individual basis, full details of the options granted under the Pre-IPO ESOP to each of the Directors, senior management and other connected persons of the Company, and one grantee who has been granted options to subscribe for 1,500,000 shares or above under the Pre-IPO ESOP, will be disclosed in the section headed “Appendix IV—Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in this document as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (ii) in respect of the options granted under the Pre-IPO ESOP to remaining grantees (being the other grantees who are not Directors, senior management or other connected persons of the Company, or other grantees who have been granted options to subscribe for 1,500,000 shares or above under the Pre-IPO ESOP), disclosure will be made, on an aggregate basis, of (1) their aggregate number of grantees and number of Shares underlying the options under the Pre-IPO ESOP, (2) the consideration (if any) paid for the grant of the options under the Pre-IPO ESOP and (3) the exercise period and the exercise price of the options granted under the Pre-IPO ESOP;
- (iii) the particulars of the waiver will be disclosed in this document, and the prospectus will be issued on or before November 26, 2020;
- (iv) a list of all the grantees (including those persons whose details have already been disclosed) containing all the particulars as required under Pre-IPO ESOP Disclosure Requirements will be made available for public inspection in “Documents delivered to the Registrar of Companies and available for inspection” in Appendix V to this document; and
- (v) further details of the Plan will be set forth in the section headed “Appendix IV—Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP”.

WAIVER AND CONSENT IN RELATION TO THE SUBSCRIPTION OF OFFER SHARES BY SUM XI (THROUGH ITS AFFILIATE)

Rule 10.04 of the Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) are fulfilled. The conditions in Rules 10.03(1) and (2) of the Listing Rules are that (1) no securities are offered to the existing shareholder on a preferential basis and no preferential treatment is given to the existing shareholder in the allocation of the securities; and (2) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved.

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Paragraph 5(2) of Appendix 6 to the Listing Rules prohibits allocations of shares in a global offering to existing shareholders of the applicant or their close associates, whether in their own names or through nominees, unless the conditions in Rules 10.03 and 10.04 of the Listing Rules are fulfilled or prior written consent of the Stock Exchange has been obtained.

Hillhouse Capital Management, Ltd. (“**Hillhouse Capital**”) acts as the sole management company of Hillhouse Fund IV, L.P., which owns SUM XI Holdings Limited (“**SUM XI**”), an exempted company incorporated under the laws of Cayman Islands. As at the date of this document, Hillhouse Capital, through SUM XI, holds approximately 4.34% of the total issued share capital of the Company. Please refer to the section headed “History, Reorganization and Corporate Structure—2. Principal terms of the Pre-IPO Investments—5. Information on the Pre-IPO Investors” of this document for further information on Hillhouse Capital.

Pursuant to a letter agreement entered into between the Company and SUM XI on August 21, 2020, SUM XI and/or one or more of its designated affiliates is entitled to, on certain conditions, purchase, as a cornerstone investor and at the Offer Price, Shares to be issued by the Company as part of the Global Offering up to an amount that is equal to a percentage of the total offering size of the Global Offering, with such percentage being the lower of (a) 4.5% or (b) the shareholding percentage that SUM XI holds in the total Shares of the Company on a fully diluted basis immediately prior to the Global Offering (the “**Anti-Dilution Right**”).

Given that, if the Anti-Dilution Right is exercised:

1. the subscription for additional Shares by SUM XI’s affiliate will be made at the Offer Price and on the same terms and conditions as other investors pursuant to the Global Offering;
2. the subscription for additional Shares by SUM XI’s affiliate will form part of the International Offering, and will not have an impact on the Shares to be offered to public investors in Hong Kong under the Hong Kong Public Offering;
3. the Anti-Dilution Right is a pre-existing contractual arrangement between the Company and SUM XI and was agreed on an arm’s length basis, and the subscription for additional Shares by SUM XI’s affiliate is necessary to give effect to the Anti-Dilution Right;
4. the Anti-Dilution Right is, in substance, similar in nature to the typical anti-dilution rights granted to pre-IPO investors and, in particular, the subscription for additional Shares by SUM XI’s affiliate will not result in SUM XI’s aggregate percentage interest in the Company increasing above its percentage interest immediately prior to the Global Offering. Such rights are permitted to be exercised in connection with an initial public offering pursuant to paragraph 3.10 of Guidance Letter HKEX-GL43-12;
5. full disclosure of the Anti-Dilution Right will be made in this document, including the number of Shares to be subscribed for by SUM XI’s affiliate and the fact that the subscription price per Share will be at the Offer Price. In addition, the allotment results announcement of the Company will contain details of the Anti-Dilution Right and any allocation made to SUM XI’s affiliate. On the basis of full disclosure, no investor will be prejudiced or unfairly treated in their investment decision making process; and

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6. the subscription for additional Shares by SUM XI's affiliate will facilitate the marketing of, and boost investors' confidence in, the Global Offering,

we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 10.04 of and consent pursuant to paragraph 5(2) of Appendix 6 to the Listing Rules in respect of the exercise of the Anti-Dilution Right by SUM XI's affiliate to subscribe for additional Shares.

The waiver is subject to the following conditions:

- (a) the allocation is in compliance with the minimum public float percentage of 25%, or such other percentage as may be accepted by the Stock Exchange;
- (b) full disclosure of the Anti-Dilution Right, the number of Shares to be subscribed for by SUM XI's affiliate and the fact that the subscription price per Share will be at the Offer Price will be made in this document;
- (c) the subscription for additional Shares by SUM XI's affiliate will be made at the Offer Price and, in any event, will not result in SUM XI's aggregate percentage interest in the Company increasing above its percentage interest immediately prior to the Global Offering; and
- (d) information on the amount of Shares allocated to SUM XI's affiliate will be disclosed in the allotment results announcement of the Company and the placee lists to be submitted to the Stock Exchange before Listing.

In addition, the Stock Exchange has confirmed that SUM XI can elect to exercise its Anti-Dilution Right by subscribing for additional Shares as a cornerstone investor at the Offer Price. For further information on the subscription by SUM XI's affiliate, please see the section headed "Cornerstone Investors—The Cornerstone Investors—1. Hillhouse" of this document.

WAIVER AND CONSENT IN RELATION TO ALLOCATION OF ADDITIONAL OFFER SHARES TO PARTICIPATING SHAREHOLDERS HOLDING LESS THAN 5% OF THE COMPANY'S VOTING RIGHTS AND THEIR CLOSE ASSOCIATES UNDER RULE 10.04 OF AND PARAGRAPH 5(2) OF APPENDIX 6 TO THE LISTING RULES

Rule 10.04 of the Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Listing Rules are fulfilled. The conditions in Rules 10.03(1) and (2) of the Listing Rules are that (1) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (2) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved.

Paragraph 5(2) of Appendix 6 to the Listing Rules provides that, unless with the prior written consent of the Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Listing Rules are fulfilled.

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As part of the International Offering, the Company may allocate additional Offer Shares at the Offer Price to certain existing shareholders of the Company (“**Participating Shareholders**”), each of which holds less than 5% of the Company’s voting rights as at the date of this document and before the Listing, or their respective affiliates as placees (the “**Allocation to Participating Shareholders**”), subject to customary lock-up restrictions and in compliance with all applicable requirements under the Listing Rules and guidance letters issued by the Stock Exchange. The Participating Shareholders, which may subscribe for Offer Shares either in their own names or through their respective affiliates, are the Pre-IPO Investors (excluding SUM XI). Please refer to the section headed “History, Reorganization and Corporate Structure—2. Principal terms of the Pre-IPO Investments—5. Information on the Pre-IPO Investors” of this document for information on such Participating Shareholders.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 10.04 of and consent pursuant to paragraph 5(2) of Appendix 6 to the Listing Rules to permit the Company to allocate additional Shares in the Global Offering to the Participating Shareholders or their respective affiliates as placees under the International Offering subject to the following conditions:

1. each of the Participating Shareholders together with its affiliate(s) (if applicable) is interested in less than 5% of the Company’s voting rights before the Listing;
2. none of the Participating Shareholders nor any of their respective affiliates is a core connected person of the Company or a close associate of any such core connected person;
3. each of the Participating Shareholders (i) is a minority financial investor of the Company and does not participate in the day-to-day operations or management of the Company; and (ii) does not have the power to appoint Directors or any other special rights in the Company which may influence the allocation process. Accordingly, none of the Participating Shareholders can assert influence over the allocation of the Offer Shares;
4. the allocation to each of the Participating Shareholders or their respective affiliates pursuant to the Allocation to Participating Shareholders will not affect the Company’s ability to satisfy the minimum public float requirement under Rule 8.08(1) of the Listing Rules;
5. written confirmations pursuant to paragraph 4.20 of Guidance Letter HKEX-GL85-16 will be provided to the Stock Exchange:
 - (a) the Joint Sponsors shall confirm that, based on (i) their discussions with the Company and the Joint Bookrunners; and (ii) the confirmations to be provided to the Stock Exchange by the Company and the Joint Bookrunners (as referred to in subparagraphs (b) and (c) below), and to the best of their knowledge and belief, they have no reason to believe that any of the Participating Shareholders or their close associates received any preferential treatment in the allocation in the International Offering as a placee by virtue of their relationship with the Company, and details of the allocation will be disclosed in the allotment results announcement of the Company;
 - (b) the Company shall confirm that no preferential treatment has been, nor will be, given to any Participating Shareholder or its close associates by virtue of their relationship with the Company in any allocation in the International Offering, and details of the

**WAIVERS FROM STRICT COMPLIANCE WITH
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allocation will be disclosed in the allotment results announcement of the Company;
and

- (c) the Joint Bookrunners shall confirm, to the best of their knowledge and belief, that no preferential treatment has been, nor will be, given to any Participating Shareholder or its close associates by virtue of their relationship with the Company in any allocation in the International Offering, and details of the allocation will be disclosed in the allotment results announcement of the Company.

**CONSENT IN RELATION TO ALLOCATION OF SHARES TO A CONNECTED CLIENT
OF ONE OF THE JOINT BOOKRUNNERS**

Paragraph 5(1) of Appendix 6 to the Listing Rules provides that no allocations will be permitted to “connected clients” of the lead broker or of any distributors without the prior written consent of the Stock Exchange.

Paragraph 13(7) of Appendix 6 to the Listing Rules states that a “connected client” in relation to an exchange participant means any client which is a member of the same group of companies as such exchange participant.

ICBC International Capital Limited has been appointed by the Company as one of the Joint Global Coordinators and Joint Bookrunners, while ICBC International Securities Limited has been appointed by the Company as one of the Joint Lead Managers and Underwriters (together, the “**Connected Syndicate Members**”).

China Structural Reform Fund Corporation Limited (“**China Structural Reform Fund**”) has agreed to be a cornerstone investor in the Global Offering. For the purpose of its cornerstone investment, China Structural Reform Fund has engaged ICBC Credit Suisse Asset Management Co., Ltd. (“**ICBCCS**”), an asset manager that is a qualified domestic institutional investor as approved by the relevant PRC authority, to subscribe for and hold the relevant Shares on a discretionary basis on behalf of China Structural Reform Fund. ICBCCS is owned by Industrial and Commercial Bank of China Limited (“**ICBC**”) as to 80%, and each of the Connected Syndicate Members is indirectly wholly owned by ICBC. ICBCCS is in the same group of companies as the Connected Syndicate Members and is therefore a connected client of each of the Connected Syndicate Members under paragraph 13(7) of Appendix 6 to the Listing Rules. For further information on China Structural Reform Fund, please refer to the section headed “Cornerstone Investors—The Cornerstone Investors—4. China Structural Reform Fund” in this prospectus.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, its consent pursuant to paragraph 5(1) of Appendix 6 to the Listing Rules for China Structural Reform Fund to participate as a cornerstone investor in the Global Offering through ICBCCS subject to the following conditions:

1. the Shares to be allocated to ICBCCS will be held on behalf of China Structural Reform Fund, which is an independent third party of the Connected Syndicate Members;
2. China Structural Reform Fund’s cornerstone investment agreement does not contain any material terms which are more favorable to it than those in other cornerstone investment agreements;

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3. the Connected Syndicate Members have not participated in the decision-making process or relevant discussions among the Company, the Joint Bookrunners and the Underwriters as to whether ICBCCS will be selected on behalf of China Structural Reform Fund as a cornerstone investor;
4. no preferential treatment has been, nor will be, given to ICBCCS by virtue of its relationship with the Connected Syndicate Members other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in Guidance Letter HKEX-GL51-13;
5. each of the Company, the Joint Sponsors, the Joint Bookrunners, the Connected Syndicate Members and ICBCCS has provided the Stock Exchange a written confirmation in accordance with Guidance Letter HKEX-GL85-16; and
6. details of the allocation have been/will be disclosed in this prospectus and the allotment results announcement of the Company.

WAIVER IN RELATION TO CLAWBACK MECHANISM

Under paragraph 4.2 of Practice Note 18 of the Listing Rules, where an initial public offering includes both a placing tranche and a public subscription tranche, the minimum allocation of shares to the public subscription tranche shall be an initial allocation of 10% of the shares offered in the initial public offering and subject to a clawback mechanism that increases the number of shares available in the public subscription tranche depending on the demand for those shares as set out in the paragraph. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-subscription, the alternative clawback mechanism shall be applied to the provisions under paragraph 4.2 of Practice Note 18 of the Listing Rules, following the closing of the application lists, subject to the condition that the initial allocation of Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering. For further information of such clawback mechanism, please see the section headed “Structure of the Global Offering—The Hong Kong Public Offering—Reallocation”.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement herein or this document misleading.

THE HONG KONG PUBLIC OFFERING AND THIS DOCUMENT

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document and the Green Application Form set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and the Green Application Form, and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this document and the Green Application Form, and any information or representation not contained herein and therein must not be relied upon as having been authorized by (i) our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, (ii) any of their respective directors, agents, employees or advisers, or (iii) any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement.

The Offer Price is expected to be fixed among the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, December 1, 2020 and, in any event, not later than Monday, December 7, 2020 (unless otherwise determined between the Joint Representatives (for themselves and on behalf of the Underwriters) and our Company). If, for whatever reason, the Offer Price is not agreed between the Joint Representatives and our Company on or before Monday, December 7, 2020 the Global Offering will not become unconditional and will lapse immediately.

See “Underwriting” for further information about the Underwriters and the underwriting arrangement.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set forth in the section headed “How to apply for Hong Kong Offer Shares” in this document and on the Green Application Form.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this document.

SELLING RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Offer Shares will be required to, or be deemed by their acquisition of Offer Shares to, confirm that they are aware of the restrictions on offers of the Offer Shares described in this document and on the Green Application Form.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this document in any jurisdiction other than Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue (including the shares on conversion of the Preference Shares), to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.

We applied on the basis that, among other things, we satisfy the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules with reference to (i) our revenue for the year ended December 31, 2019, being RMB10.84 billion (equivalent to approximately HK\$12.43 billion), which is over HK\$500 million; and (ii) our expected market capitalization at the time of Listing, which, based on the low-end of the indicative Offer Price range, exceeds HK\$4 billion.

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, December 8, 2020. No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering”. Assuming that the Over-allotment Option is

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

exercised in full, our Company may be required to allot and issue up to an aggregate of 57,285,000 additional Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance, and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

SHARE REGISTER AND STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands by our Principal Share Registrar. Our Hong Kong branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar.

All Offer Shares issued pursuant to applications made in the Global Offering will be registered in our Hong Kong branch register of members. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty of 0.1% on the higher of the consideration for or the market value of the Shares and it is charged to the purchaser on every purchase and to the seller on every sale of the Shares. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. For further details of Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding, and dealing in the Shares or exercising any rights attached to them. It is emphasized that none of us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the subscription, purchase, holding, or disposal of the Shares or exercising any rights attached to them.

EXCHANGE RATE CONVERSION

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

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Unless otherwise indicated (i) the translation between Renminbi and Hong Kong dollars was based on the rate of RMB0.8461 to HK\$1, and (ii) the translation between U.S. dollars and Hong Kong dollars was based on the rate of US\$1 to HK\$7.7526.

TRANSLATION

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

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Lijun Xin (辛利軍)	No. 206, Unit 4, Building 3 Fengniaojiayuan Beijing People's Republic of China	Chinese
Non-executive Directors		
Richard Qiangdong Liu (劉強東)	Room 902, Unit 2, Building 3 Courtyard 3, Sanyang North Street Beijing People's Republic of China	Chinese
Lei Xu (徐雷)	No. 1306, 8/F North Dongzhimen Street Beijing People's Republic of China	Chinese
Sandy Ran Xu (許冉)	Block 3, 6/F Nanlang Jiayuan Beijing People's Republic of China	Chinese
Yayun Li (李婭雲)	Room 2502, Unit 1, Jia Hua Block 22/F, Building 3 Xizhaosi Street Beijing People's Republic of China	Chinese
Qingqing Yi	57 Paterson Road, #03-06 Singapore, 238551	Singaporean
Independent non-executive Directors		
Xingyao Chen (陳興堯)	No. 2, Unit 3, 52/F Huanshan Village Beijing People's Republic of China	Chinese
Ling Li (李玲)	No. 207, Apartment No. 12 Langrunyuan Beijing People's Republic of China	Chinese
Wenyi Huang (黃文藝)	No. 14, Beichizi Street Beijing People's Republic of China	Chinese

See “Directors and senior management” for further details.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Merrill Lynch Far East Limited

55/F, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

Haitong International Capital Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

UBS Securities Hong Kong Limited

52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Financial Advisor

China Renaissance Securities (Hong Kong) Limited

Units 8107-08, Level 81
International Commerce Centre
1 Austin Road West
Kowloon
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Joint Representatives

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Central, Hong Kong

Haitong International Securities Company Limited

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China Renaissance Securities (Hong Kong) Limited

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Kowloon
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Global Coordinators

Merrill Lynch (Asia Pacific) Limited

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2 Queen's Road Central
Central, Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

UBS AG Hong Kong Branch

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8 Finance Street
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China Renaissance Securities (Hong Kong) Limited

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International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Goldman Sachs (Asia) L.L.C.

68th Floor, Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

Jefferies Hong Kong Limited

Suite 2201, 22/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

ICBC International Capital Limited

37/F ICBC Tower
3 Garden Road
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Bookrunners

Merrill Lynch (Asia Pacific) Limited

55/F, Cheung Kong Center
2 Queen's Road Central
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Haitong International Securities Company Limited

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ICBC International Capital Limited

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BOCI Asia Limited

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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
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BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

ABCI Capital Limited

11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

CMB International Capital Limited

45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

DBS Asia Capital Limited

73rd Floor, The Center
99 Queen's Road Central
Central
Hong Kong

Mizuho Securities Asia Limited

14-15/F
K11 Atelier
18 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

Futu Securities International (Hong Kong) Limited

Unit C1-2, 13/F
United Centre
No. 95 Queensway
Hong Kong

Joint Lead Managers**Merrill Lynch (Asia Pacific) Limited**

55/F, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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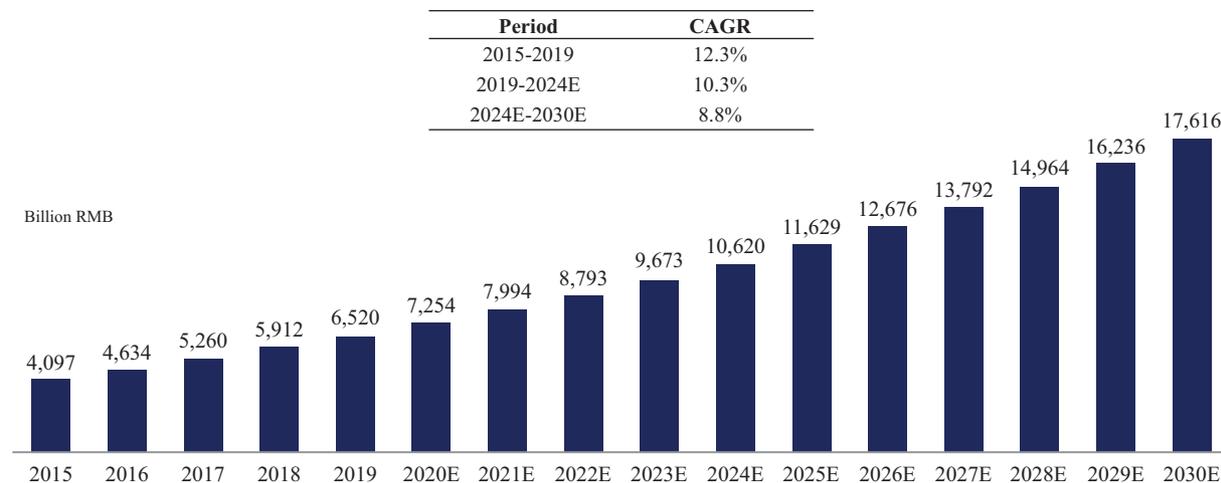
The information and statistics set out in this section and other sections of this prospectus were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. In addition, we engaged Frost & Sullivan for preparing the Frost & Sullivan Report, an independent industry report in respect of the Global Offering. We believe that the sources of the information in this section and other sections of this prospectus are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official and non-official sources has not been independently verified by us, the Joint Representatives, the Joint Global Coordinators, Joint Sponsors, Joint Bookrunners, Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering except Frost & Sullivan, and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report that would qualify, contradict or have a material impact on the information in this Section.

Except as otherwise noted, all of the data and forecasts contained in this section have been derived from the Frost & Sullivan Report.

Overview of the Healthcare Industry in China

China is a major healthcare economy with sizable and steadily increasing healthcare expenditure. According to the Frost & Sullivan Report, China's total healthcare expenditure ranked the second highest globally, reaching RMB6,520 billion in 2019, and is forecasted to reach RMB10,620 billion and RMB17,616 billion by 2024 and 2030, respectively, representing a CAGR of 10.3% from 2019 to 2024 and a CAGR of 8.8% from 2024 to 2030.

Total Healthcare Expenditure in China, 2015-2030E



According to the Frost & Sullivan Report, the following factors are drivers for the growth of China's healthcare expenditure:

- *An aging population.* China's population is expected to increase at a CAGR of 0.3% from 2019 to 2024 and 0.3% from 2024 to 2030 with the size of population aged 65 and above expected to reach 309.3 million, or 21.5% of the total population in 2030, from 12.6% in

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2019. China's demographic shift is expected to create significant demand for healthcare products and healthcare services, particularly as elderly population generally have a greater need for medication and disease management.

- *Rising per capita disposable income.* Along with economic growth and urbanization, Chinese residents' disposable income has continued to expand. From 2015 to 2019, annual per capita disposable income increased from RMB21,966 to RMB30,733, representing a CAGR of 8.8%. Healthcare consumption is expected to take up an increasingly meaningful portion in an individual's spending, estimated to reach 27.7% of the total per capita consumption expenditure by 2030, according to the Frost & Sullivan Report.
- *Increasing prevalence of chronic disease.* Lifestyle and age related chronic diseases spending has consistently taken up a significant portion of the total healthcare expenditure in China. 69.6% of the total healthcare expenditure in 2019 was for the treatment and management of chronic diseases and this proportion is expected to further increase to 84.4% by 2030, according to the Frost & Sullivan Report. Such a trend is predominantly driven by a fast-growing underlying patient pool, for example, the number of HBV, stroke and diabetes cases in China is expected to grow at a CAGR of 11.1%, 4.5% and 2.7% between 2019 and 2024, respectively, according to the Frost & Sullivan Report.
- *Growing health awareness.* Individuals are increasingly demanding more control over the management of their health and wellbeing, driven by shifting demographics, rising prevalence of chronic diseases, as well as technology advancement that have enabled more diseases to be preventable or detectable at an earlier stage. COVID-19 outbreak has further accelerated such a trend by highlighting the importance of preventative care. As a result, per capita healthcare expenditure is expected to increase from RMB4,657 in 2019 to RMB7,471 and RMB12,191 in 2024 and 2030 respectively.

Significant growth potential for "Internet + healthcare"

With substantial demand for healthcare on the rise, China's healthcare industry is simultaneously undergoing unprecedented supply side reforms, which are expected to transform the circulation of pharmaceutical products and provision of healthcare services by promoting the development of out-hospital channels and accelerating the rate of digitalization. Multiple policies favorable to "Internet + healthcare" have been published in recent years, including:

- Policies that removed regulatory uncertainty and demonstrated government's recognition of online retail pharmacy as an important channel, including permitting online prescription and online sales of prescription drugs;
- Policies that shifted pharmaceutical companies and healthcare product manufacturers' distribution strategies towards more transparent and efficient channels, including prescription outflow, assessment of the proportion revenue from drug sale of hospitals, centralized procurement of drugs, two-invoice system, and enhanced supervision of pharmaceutical companies' marketing expenses;
- Policies that fostered a favorable environment for the expansion of online consultation, including the legalization and standardization of online consultation, support from medical insurances for reimbursement of online consultation and policies encouraging offline hospitals' establishment of online hospitals; and
- Policies that cultivated user habit by facilitating "Internet + healthcare" in response to the COVID-19 outbreak.

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For further details of the policies outlined, see “Regulations.”

According to the Frost & Sullivan Report, these policies have resulted in positive changes that are expected to create long-lasting benefits to China’s healthcare industry. First, sales of pharmaceutical products generated by out-of-hospital channels have recorded rapid increase with the proportion distributed online markedly outpaced in growth. Between 2015 and 2019, out-hospital pharmaceutical market expanded at a CAGR of 10.8% with online sales recording a CAGR of 30.4%. Second, more people have begun to use online consultations in China, particularly since the outbreak of COVID-19. For example, the number of online consultation that took place in online hospitals under the administration of the National Health Commission has increased 17 times during the first quarter of 2020 over the same period of 2019, according to the Frost & Sullivan Report.

Overview of the Digital Health and Wellness Market in China

Overview of the health and wellness market in china

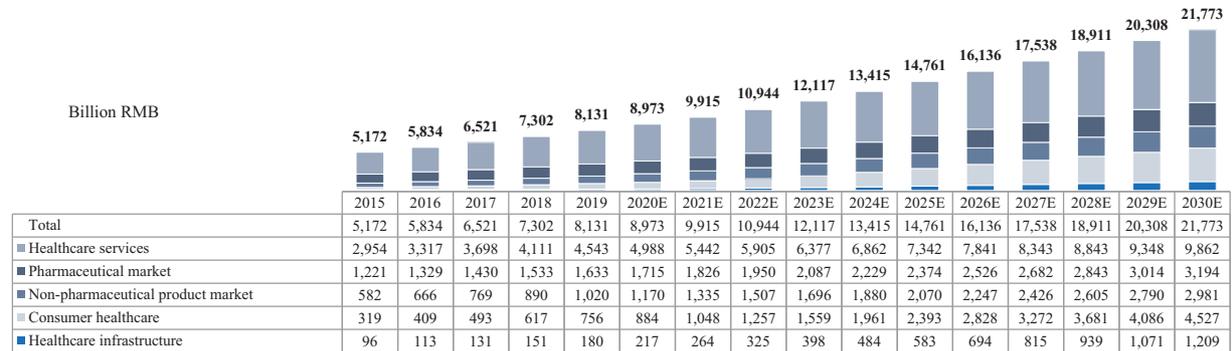
The health and wellness market in China represents a significant component of the healthcare industry, encompassing products and services related to the maintenance, recovery and enhancement of health. It mainly consists of five sub-segments: (i) pharmaceutical market, (ii) non-pharmaceutical product market, (iii) healthcare services, (iv) consumer healthcare, and (v) healthcare infrastructure. Pharmaceutical market refers to the sales of pharmaceutical products, which include OTC and prescription drugs. Non-pharmaceutical product market refers to the combination of medical device market and nutrition product market. Consumer healthcare refers to market-oriented medical services, including aesthetic medicines, dental services, genetic sequencing, physical exams, vaccination and motherhood services. Healthcare services refer to medical or remedial care or service, including provisions of inpatient and outpatient testing and treatment of human diseases or dysfunction as well as the dispensing of drugs or medical devices for treatment. Healthcare infrastructure refers to a set of fundamental facilities and systems for healthcare purposes, such as health systems, disease control systems, and relevant supportive systems and facilities for healthcare service providers, pharmaceutical companies and healthcare product suppliers.

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According to the Frost & Sullivan Report, the market size of the health and wellness industry in China reached RMB8,131 billion in 2019 and is expected to increase to RMB21,773 billion in 2030, at a CAGR of 9.4%. The following diagram sets forth the historical and forecasted market size of the health and wellness market in China from 2015 to 2030.

Breakdown of China Health and Wellness Market, 2015-2030E

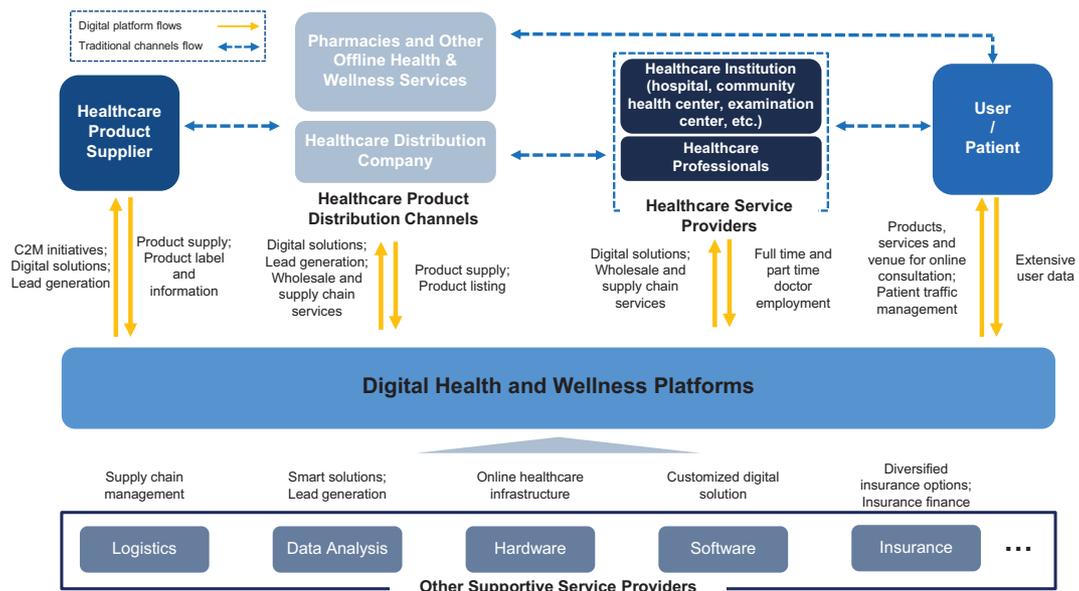
CAGR	Pharmaceutical market	Non-pharmaceutical product market	Healthcare services	Consumer healthcare	Healthcare infrastructure	Total
2015-2019	7.5%	15.1%	11.4%	24.0%	16.8%	12.0%
2019-2024E	6.4%	13.0%	8.6%	21.0%	21.9%	10.5%
2024E-2030E	6.2%	8.0%	6.2%	15.0%	16.5%	8.4%



Source: Frost & Sullivan Report

Overview of the Digital Health and Wellness Market in China

The advancement and availability of digital technology, such as big data, cloud storage and artificial intelligence, have qualitatively transformed the way healthcare products and services are provided. The digital health and wellness market mainly consists of online retail pharmacy, online consultation, online consumer healthcare, digital healthcare infrastructure and others. The following diagram sets forth the value chain of digital health and wellness market in China. Supported by innovative solutions from logistics to digital insurance, digital health and wellness platforms are able to serve and empower each of the existing stakeholders in the traditional healthcare value chain.



Source: Frost & Sullivan Report

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Currently, the Chinese healthcare industry is still in the early phase of digitalization. In 2019, only 2.4% of China's pharmaceutical products were distributed through out-hospital online retail pharmacy. Similarly, in 2019, online consultation accounted for 6.0% of total consultation volume in terms of outpatient visits in China. Furthermore, the proportion of digitalization in the Chinese health and wellness market represented 3.3% of the total healthcare expenditure in China in 2019.

However, driven by "Internet+healthcare" related policies and the continued advancement of technology, and accelerated by the COVID-19 outbreak, offline participants in the health and wellness market are increasingly focused on their digitalization strategies. For example, the total number of online hospitals increased at a rate of 317.6% from 119 in December 2018 to 497 in April 2020 and in the first quarter of 2020, the number of newly established digital health and wellness companies exceeded 11,000. Moreover, growth of digitalization in one area can trigger the growth in other aspects of health and wellness because of the inherent interconnectedness between healthcare products and services. With the emergence of more online hospitals, demand for online consultation and pharmaceutical products will ensue, which will in turn drive traffic online to further accelerate the rate of digitalization, according to the Frost & Sullivan Report.

Set forth below is a summary of the key drivers of the Chinese digital health and wellness market by major sub-segments, according to the Frost & Sullivan Report.

Online retail pharmacy: According to the Frost & Sullivan Report, online retail pharmacy refers to the sales of pharmaceutical and healthcare products including drugs, medical devices and nutrition products through Internet and other modern information technologies. The categories of online retail pharmacies include direct sales, marketplace and online-to-offline omnichannel initiative. Besides us, main participants include AliHealth, Jianke.com and Ping An Good Doctor.

- *Burgeoning out-hospital retail pharmacy market due to increased prescription outflow.* Prescription outflow continues to be a direct focus of the ongoing supply side reform, which is expected to significantly increase the scale of retail pharmacies both offline and online. It is estimated that up to 87.6% of China's out-patient drug sales can be circulated outside of hospitals and up to 32.5% of this amount can be distributed online, indicating strong market potential for prescription outflow in China, according to the Frost & Sullivan Report.
- *Increased penetration of online retail pharmacy.* Chinese consumers are well versed in online retail platforms. According to the Frost & Sullivan Report, 25.8% of the total retail sales of consumer goods were distributed online in 2019. In contrast, only 7.6% of pharmaceutical products were distributed online as a proportion of out-hospital pharmaceutical product sales and 16.8% of medical devices were distributed online as a proportion of medical device retail sales in 2019. The standardized nature of healthcare products and the recurring demand for chronic disease related purchases are expected to quickly expand the online penetration of such healthcare products. It is expected that 27.5% of pharmaceutical products will be distributed online via out-hospital pharmaceutical product sales channel and 40.9% of medical device will be distributed online via medical device retail sales channel by 2030.
- *Inefficiency of offline pharmacies.* Healthcare consumers continue to demand for access to quality healthcare products at affordable prices; however, traditional offline retail

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pharmacies are highly fragmented, which has weakened their bargaining power in pricing negotiations. At the same time they are prone to inefficiency and relatively high operating costs. The average inventory turnover days of the top 5 offline pharmacies in China in 2019 were 86.1 days, compared with 33.8 days in the United States, according to the Frost & Sullivan Report. As a result, consumers are increasingly drawn to online retail pharmacies while more offline pharmacies are trying to leverage the online traffic by collaborating with online channels to offer omnichannel initiative.

- *Superior user experience of online platforms.* Online retail pharmacies are capable of offering superior experience that allows users to access a wide range of quality products and complementary healthcare services from consultation to prescription renewal. This may better cater to users' needs for quality and convenience, effectively generating trust and stickiness. According to the Frost & Sullivan Report, Chinese consumers approach health and wellness expenditure in a less impulsive way and tend to remain loyal to the platforms and brands that they trust.

Online consultation: According to the Frost & Sullivan Report, online consultation refers to healthcare services conducted through Internet hospitals, including online consultation and chronic disease management. Besides us, main providers of online consultation include AliHealth and Ping An Good Doctor.

- *Unequal distribution of offline medical resources.* China's medical resources are concentrated in large Class III hospitals which only accounted for 8% of the total number of hospitals in China but serviced 52% of the total outpatient visits in 2019. Class III hospitals are concentrated in more affluent cities and provinces. The severe inversion and uneven distribution of medical resources and diagnosis demands have caused poor patient experience. For instance, on average, diagnosis time only accounted for 4.4% (8 minutes) out of the 3 hours people spent on an outpatient visit in 2019, according to the Frost & Sullivan Report. In contrast, online consultation is highly efficient and can offer patients easily accessible quality medical resources regardless of where they are. More importantly, online consultation is expected to become a critical component in achieving a hierarchical diagnosis system in China by effectively channeling the right patients online or offline, as a way to further alleviate the current burden on China's healthcare system.
- *Ever expanding service capabilities and presence.* Through two-way referral with offline medical institutions and the advancement of online medical technology, more and better healthcare services are offered online. Online consultation is expected to expand presence cross the entire consultation chain covering services from preventive care to after care while integrating healthcare resources online and offline.

Online consumer healthcare: According to the Frost & Sullivan Report, online consumer healthcare refers to the market-oriented medical services transacted through the Internet and executed offline, including aesthetic medicines, dental services, genetic sequencing, physical exams and vaccination appointments, and motherhood services. There is a large number of participants focusing on different aspects of online consumer healthcare. Besides us, main participants include Soyoung, Meibei and Gengmei.

- *Rise of preventative care.* As individuals become increasingly focused on personal health and wellbeing especially since the COVID-19 outbreak, demand for services such as

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physical examinations, vaccination appointments, genetic testing and personal diagnosis tools are expected to increase. This is further supported by more accurate early detection and diagnosis of serious diseases, such as cancers, which can effectively lower the patient cost burden.

- *More precise and efficient user targeting.* Leveraging the vast amount of online user traffic and advanced targeting technology, online channels can attract more offline healthcare service providers that seek precise and efficiency in user targeting.
- *Effective new distribution channels.* Online channels have shown efficacy in accessing a wide range of users and provided effective user education compared with traditional offline marketing channels. Online distribution channels can be particularly effective for marketing new and innovative products, such as genetic testing.

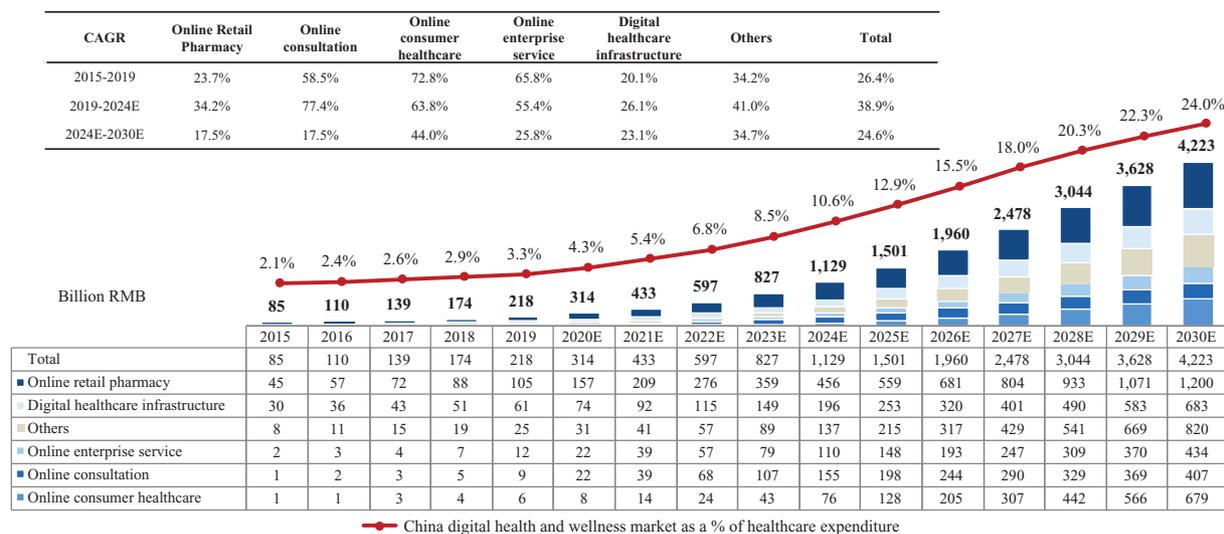
Digital healthcare infrastructure: According to the Frost & Sullivan Report, digital healthcare infrastructure refers to a set of fundamental facilities and systems for healthcare purposes that is based on digital technology, network technology, communication technology, electronic technology and information technology. It is an innovative modern service system that is driven by digitalization for healthcare-related services. Besides us, other providers of digital healthcare infrastructure include AliHealth and WeDoctor.

- *Technology advancement.* Technology advancement significantly changes the traditional healthcare services industry. AI and big data support a hierarchical diagnosis system while IoT and 5G are innovating health management methods in monitoring, prevention, diagnosis and after care.
- *Digital upgrade across the healthcare value chain.* Driven by digital upgrade for higher efficiency, stakeholders including pharmaceutical companies and healthcare institutions have gradually increased their demand for relevant digital infrastructure. Pharmaceutical companies are adopting digitalization to improve their R&D and manufacturing process. Healthcare institutions such as hospitals are actively building online hospitals to enrich out-hospital service offerings for accelerating the transition towards a greater online presence.
- *Digitalization of offline pharmacies.* There is an emerging need for offline pharmacies to upgrade their digitalization strategy as they have historically faced issues such as lack of bargaining power, lack of economies of scale, high operating and procurement costs, high working capital requirements and limited insights into market demand.

As a result, given the transformative qualities of the digital health and wellness market in China, the market size is set to expand substantially, from RMB218 billion in 2019 to RMB1,129 billion and RMB4,223 billion by 2024 and 2030 respectively. The proportion of digitalization in the Chinese health and wellness market is expected to increase rapidly from 3.3% in 2019 to 10.6% and 24.0% of China's total healthcare expenditure in 2024 and 2030 respectively, according to the Frost & Sullivan Report. The below diagram illustrates the size and expected growth of China's digital health and wellness market by sub-segments as well as the digitalization rate, according to the Frost & Sullivan Report.

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Breakdown of China Digital Health and Wellness Market by GMV, 2015-2030E



Source: Frost & Sullivan Report

Competitive Dynamics in the Digital Health and Wellness Market in China

The digital health and wellness market is an aggregation of sub-segments in the healthcare industry that are being transformed by digital technology and are measured in terms of GMV. As this is an emerging market, there is a large number of participants focusing on different aspects of digital health and wellness market and many of such participants are currently exploring various business models and tend to develop within one particular sub-segment. However, owing to strong network of healthcare resources and supply chain capabilities, certain key participants in the digital health and wellness market have developed presence across multiple sub-segments through focusing on a platform model to realize synergy between different business segments, as illustrated below. Such key participants are referred to as online healthcare platform companies.

Company	Listing Status	Business Model	2019 Total Revenue (RMB million)
Our Group	Unlisted	<ul style="list-style-type: none"> • Operating via retail pharmacy and online healthcare services • Retail pharmacy operates through direct sales, online marketplace and omnichannel initiative • Online healthcare service consists of online hospital services and consumer healthcare 	10,842
Company A	Listed	<ul style="list-style-type: none"> • Operating via pharmaceutical e-commerce platform business, pharmaceutical direct business, internet healthcare business, consumer healthcare business and tracking and digital health business • Its pharmaceutical e-commerce platform and pharmaceutical direct sales businesses operates via B2C (direct sales and marketplace), B2B and O2O 	9,596 ⁽¹⁾
Company B	Listed	<ul style="list-style-type: none"> • Operating via online healthcare service, consumer healthcare, pharmaceutical e-commerce and health management and interaction • The pharmaceutical e-commerce business consists of direct sales and marketplace 	5,065

Note:

(1) Fiscal year of Company A ends on March 31. Therefore, its revenue in 2019 refers to its results of operation for the fiscal year ended March 31, 2020.

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Key Entry Barriers in the Digital Health and Wellness Market in China

Superior supply chain capabilities: According to the Frost & Sullivan Report, policies such as centralized procurement of drugs and two-invoice system are expected to reduce the profit margins of upstream suppliers and distributors, driving them to seek for more transparent and cost efficient sales and marketing channels. Online retail pharmacies represents the most competitive solution given their efficiency and low cost, thanks to technology-driven end-to-end supply chain capabilities.

We believe the two-invoice system and centralized procurement of drugs will have a positive impact on the digital health and wellness market and our business. Introduced in 2018, the two-invoice system is a mechanism where only up to two invoices are issued along the chain of pharmaceutical product procurement, with one issued by the pharmaceutical manufacturer and the other issued by the distributor to the medical institutions. The rationale for the two-invoice system is simple and compelling: fewer distribution layers will lead to more transparent, and eventually lower distributor margins, more compliant business conduct, more affordable price, and eventually a consolidation of the distribution landscape. We are continually monitoring the development of the two-invoice system and believe that the two-invoice system will drive pharmaceutical and healthcare product suppliers to seek for sales and marketing channels with highly efficient supply chain capabilities, which will eventually benefit our company.

In addition, according to the Frost & Sullivan Report, China's ongoing centralized drug procurement represents the latest attempt of the national government to contain drug costs by reducing prices, and to accelerate the separation of healthcare services and drug sales, dismantling the abuse of drug sales to support healthcare services. With the completion of stage one of the reform—selection of the drugs and national bidding for suppliers—the reform has shown initial success in driving significant price cuts and reshaping the quality-volume price balance of the drug market, according to the Frost & Sullivan Report. Although it is still early to make final judgments of the results, the procurement reform is expected to re-shape the future of China's pharmaceutical market. Meanwhile, there are 96% of all marketed pharmaceutical products not covered under central procurement, the sales of a large portion of which are likely to increasingly rely on out-hospital and especially online channels. We are continually monitoring the development of the centralized drug procurement system reform and believe that the reform will create significant opportunities for companies with extensive and efficient supply chain network and eventually benefit our company.

A proven business model with clear path to profitability. The digital health and wellness market is a relatively new segment in China's healthcare industry. Many participants in this industry are still exploring a business model to achieve sustainable revenue and profitability. Among the various sub-segments of the digital health and wellness market, online retail pharmacy accounted for 48.0% of the total market in 2019. Building on years of user accumulation and cultivation, online retail pharmacy is likely to continue its strong presence and growth in the foreseeable future. In contrast, the monetization strategy of online consultation market is still being tested by the market. It remains uncertain whether a business model that relies on online consultation can achieve large scale and sustainable growth. Therefore, strong capability in online retail pharmacy is dispositive for a platform to gain greater presence in the digital health and wellness market.

Strong network of healthcare resources. The promotion of a hierarchical diagnosis system and family doctor services have given rise to the establishment of resident health management system (居民健康管理體系). Platforms that cater to such healthcare management needs require substantial amount of resources on the supply side in order to manage the long-term healthcare needs of users, including

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partnership with hospitals, access to quality doctors, and building up a trusting patient relationship. Large-scale players are more likely to succeed in building healthcare management platforms as they have more resources such as network, technology and supply chain services to empower hospitals and connect online and offline practice venues for doctors.

Key Opportunities in the Digital Health and Wellness Market in China

Expanding outflow of prescription drugs. Prescription outflow is a process that enables in-hospital prescription to be fulfilled by out-hospital channels, representing an important emerging trend in the industry. The potential penetration of prescription outflow is expected to be up to 87.6% of out-patient drug sales in China, according to the Frost & Sullivan Report. The pace of prescription outflow is expected to be gradual and take place in the next 5-10 years. Pharmacies situated closed to hospitals and primary-level medical institutions with existing basic medical insurance connections are expected to benefit from this trend in the short term; however, platforms with large number of SKUs, strong supply chain capabilities, and prescription circulation capabilities are expected to become the long-term beneficiaries. The below diagram illustrates that the China pharmaceutical market via out-hospital channels is expected to grow at a faster rate than in-hospital channel with the online channel significantly outpacing the rest, demonstrated by a CAGR of 38.1% from 2019 to 2024 as compared with 13.2% via offline out-hospital channel during the same period of time, according to the Frost & Sullivan Report.

In addition, the growth of prescription outflow has generally been supported by the policy and regulatory environment based on the following reasons, according to the Frost & Sullivan Report:

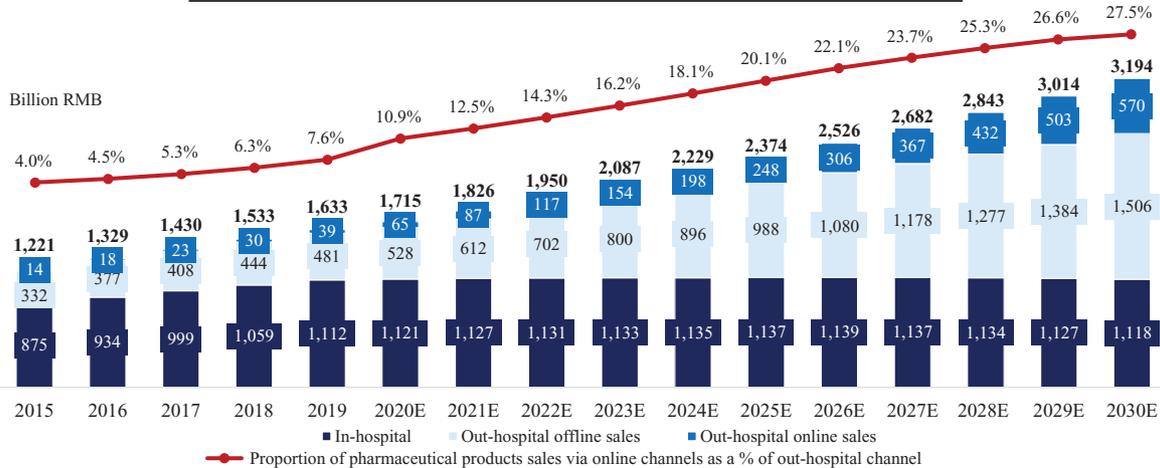
- According to *The Thirteenth Five-Year Plan in Deepening the Reform of the Medical and Health System* (《“十三五”深化醫藥衛生體制改革規劃》), public hospitals shall undergo comprehensive reform and the drug price mark-up in public hospitals is forbidden. Under the influence of this policy, public hospitals are not able to generate profit from pharmaceutical sales, which has reduced the incentive for pharmaceutical sales from public hospitals, leading to decreasing revenue contribution from pharmaceutical sales in public hospitals;
- With more stringent supervision and assessment on revenue contribution from pharmaceutical sales for hospitals, hospitals are more willing for patients to purchase pharmaceutical products via out-hospital channels including online and offline retail pharmacies;
- There are other policies that have guided the reform on the out-hospital circulation of prescription drugs, including *Guiding Opinions on Classification and Management of National Retail Pharmacies (Draft for Public Comments)* (全國零售藥店分類分級管理指導意見 (徵求意見稿)) and *Several Opinions on Further Reforming and Improving the Policies on the Production, Circulation and Use of Pharmaceuticals* (關於進一步改革完善藥品生產流通使用政策的若干意見).

Under the influence of prescription outflow, the proportion of pharmaceutical sales via in-hospital channels is expected to decrease in the future, which also suggests that our Company's business is not susceptible to procurement risks by hospitals.

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China Pharmaceutical Market Breakdown by In-hospital & Out-hospital Channels, 2015-2030E

CAGR	In-hospital	Out-hospital	Out-hospital		Total
			Offline sales	Online sales	
2015-2019	6.2%	10.8%	9.7%	30.4%	7.5%
2019-2024E	0.4%	16.0%	13.2%	38.1%	6.4%
2024E-2030E	-0.2%	11.3%	9.0%	19.3%	6.2%

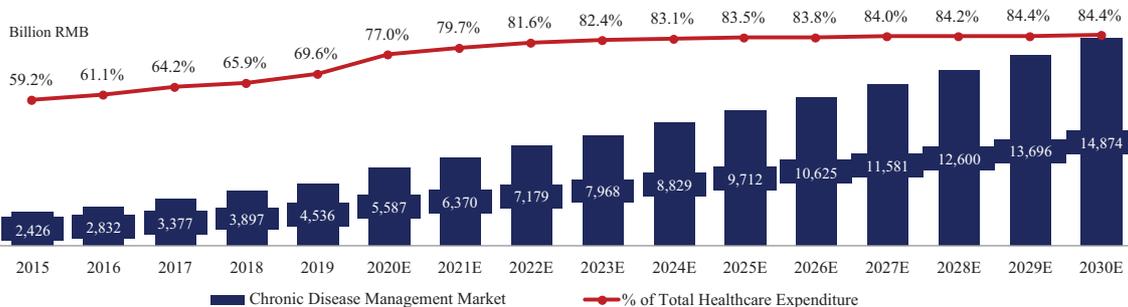


Source: Frost & Sullivan Report

The sizable chronic disease market represents large potential for digitalization. Online consultation in general has a lower rate of fee generation compared with online retail pharmacy, hence tend to rely heavily on traffic and doctors' reputation. However, amongst the various service offerings, chronic disease management is relatively less demanding of the branding effect of doctors. The patients typically need routine follow-ups, repetitive prescription renewal and treatment over a long period of time. Therefore, the doctor-patient interaction is more frequent and patients tend to focus more on the stability and reliability of the service provided compared with services like general consultation. As chronic disease management market in general accounts for a significant portion of China's healthcare expenditure, as illustrated below, there is substantial opportunity for a greater portion of the market to be digitalized. Similarly, healthcare management services, such as family doctors, can also generate recurring revenue as users may need periodic health reviews for disease prevention. Both chronic disease management and healthcare management can hence become feasible ways of monetization while generating further demand for online retail pharmacy. Platforms with full-cycle product and service offerings are expected to benefit directly from the growth of such services.

China Chronic Disease Management Market, 2015-2030E

Period	CAGR
2015-2019	16.9%
2019-2024E	14.2%
2024E-2030E	9.1%

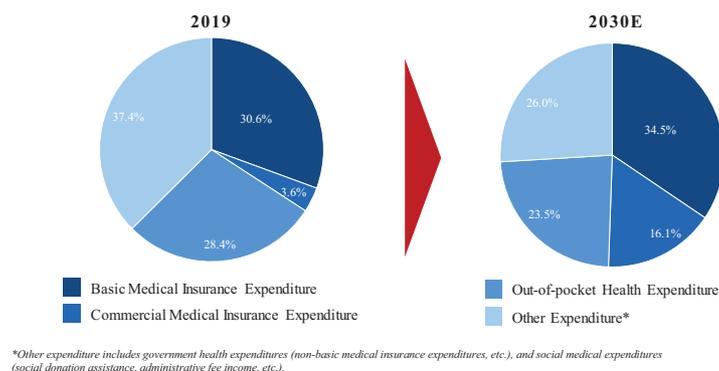


Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Increasingly comprehensive healthcare payment system. It is expected that by 2030, the payment mix of China's healthcare expenditure is likely to become more balanced across basic medical insurance, commercial insurance and out-of-pocket, as illustrated by the diagram below. The implementation of online payment of basic medical insurance projects are conducive to the development of online consultation as it acts as a portal to access offline hospitals and prescription flows and hence increase user base. It is a trend that under the development of online basic medical insurance payment system, more and more pharmaceutical products and online healthcare services will be covered by medical insurance or subject to reimbursement. According to *Guiding Opinions on Promoting "Internet+" Medical Insurance Payment for Medical Services* (關於積極推進“互聯網+”醫療服務醫保支付工作的指導意見), basic medical insurance payment-related policies shall be equally applied to online and offline medical services. Platforms with brand recognition, technical strengths and service network advantages will become the front runners in connecting with basic medical insurance. Commercial insurances have long focused on user experience, therefore platforms with strong service capabilities and dense network are well positioned to develop in-depth cooperation with them. In addition, digital platforms have traditionally attracted a large number of out-of-pocket users. Going forward, such type of users is expected to continue to prioritize platforms with brand recognition, trust and excellent user experience.

Breakdown of China Total Healthcare Expenditure by Payment Type, 2015-2030E



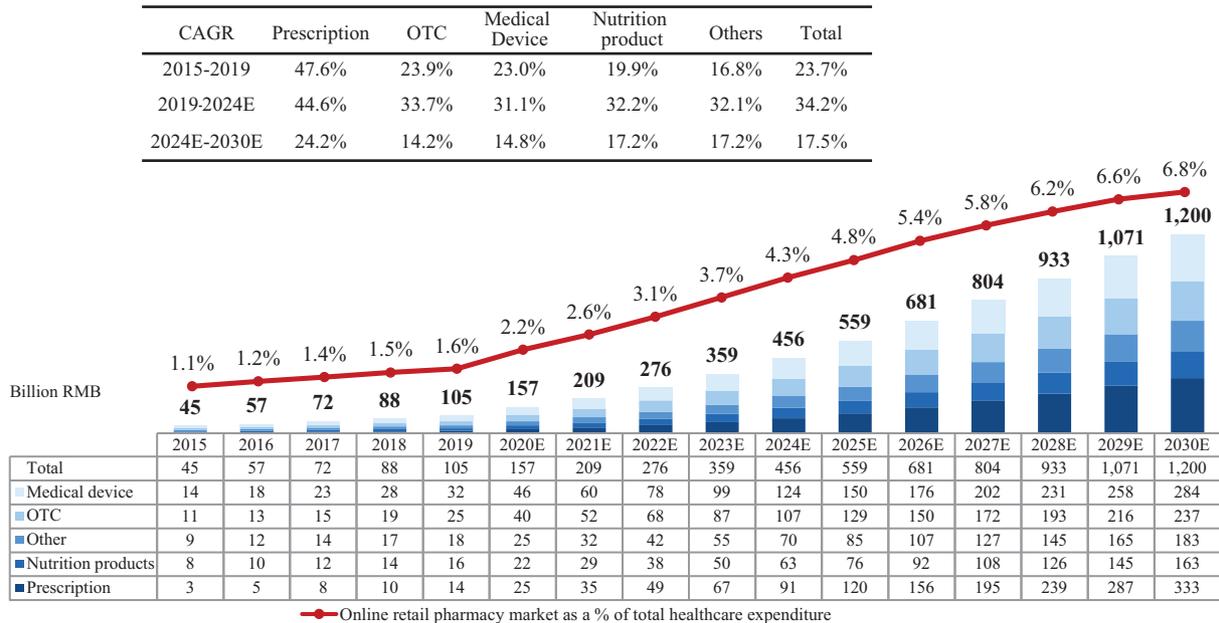
Source: Frost & Sullivan Report

Overview of the Online Retail Pharmacy Industry in China

The rise of the “Internet+healthcare” policy framework and technological transformation has created a booming online retail pharmacy market in China. China's online retail pharmacy market has grown at a CAGR of 23.7% from 2015 to 2019 to reach RMB105 billion in 2019. According to the Frost & Sullivan Report and based on the factors aforementioned, the size of the online retail pharmacy market in China is expected to expand rapidly and reach RMB456 billion in 2024 and RMB1,200 billion in 2030, at a CAGR of 34.2% and 17.5%, respectively. The below diagram sets forth the size, growth and breakdown of online retail pharmacy market.

INDUSTRY OVERVIEW

China Online Retail Pharmacy Market by GMV, 2015-2030E



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, the key trends of the online retail pharmacy market in China are:

- *Integration of online retail pharmacy and healthcare services.* The dual provision of “healthcare product plus healthcare service” is conducive to the sales growth of online retail pharmacy, especially in pharmaceutical products. The purchase of pharmaceutical products and healthcare services are complementary to each other and platforms that can embody both elements are strongly positioned to capture greater demand compared with platforms with more singular business focus.
- *Improving user experience.* Technology-driven digital platforms have empowered consumers with excellent user experience across many industry verticals. Consumers are becoming more demanding of their experience in the healthcare industry as well. Online platforms that can offer price competitiveness, personalization, and convenience can drive higher user stickiness, similar to what has happened in other industries.
- *Consolidation within the supply chain.* Platforms with strong supply chain capabilities are in a good position to consolidate the fragmented offline retail pharmacy market to gain better pricing negotiation power with upstream players or to access the in-hospital market.

INDUSTRY OVERVIEW

Competitive Dynamics in the Online Retail Pharmacy Industry in China

Online retail pharmacy accounted for 48.0% of the digital health and wellness market in 2019 and is expected to remain the largest sub-segment in the next ten years, according to the Frost & Sullivan Report, making this the most significant sub-segment. The following chart illustrates the competitive landscape of China's online retail pharmacy market by major participants' market share in 2019.

<u>Company</u>	<u>Listing Status</u>	<u>Business Model under Online Retail Pharmacy</u>	<u>Market share in terms of revenue in 2019</u>	<u>Ranking</u>
Our Group	Unlisted	Operates through direct sales, online marketplace and omnichannel initiative	29.8%	1
Company A ⁽¹⁾	Listed	Operates through pharmaceutical e-commerce platform and pharmaceutical direct businesses via B2C (direct sales and marketplace), B2B and O2O	27.1%	2
Company C	Unlisted	Operates B2C direct sales of pharmaceutical and healthcare products	6.4%	3

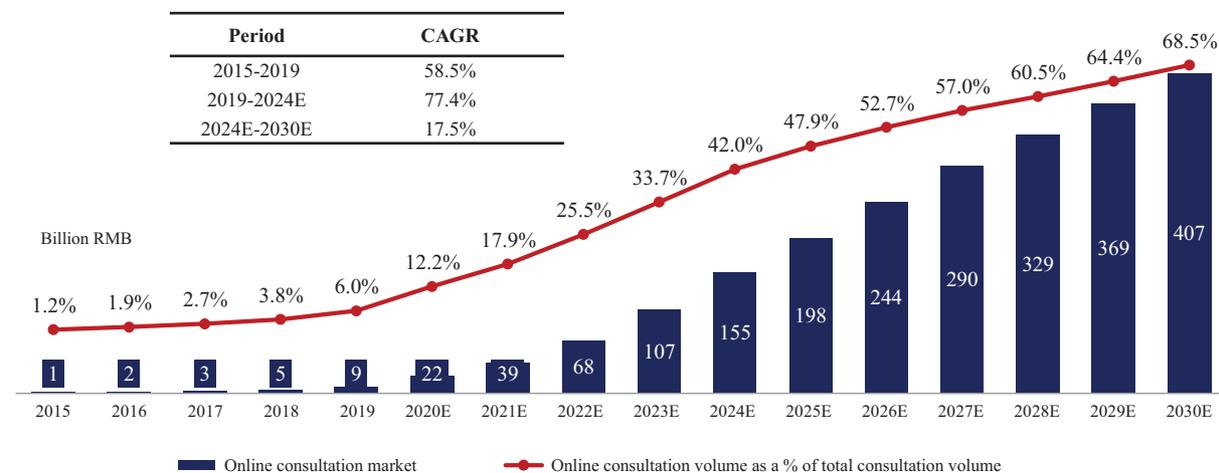
Note:

(1) Fiscal year of Company A ends on March 31. Therefore, its revenue in 2019 refers to its results of operation for the fiscal year ended March 31, 2020.

Overview and Outlook of the Online Consultation Industry in China

Online consultation typically cover consultation and prescription renewal, follow-up visits, hospital appointments and chronic disease management. The outbreak of COVID-19 has cultivated long term consumer habit of using online consultation by not only generating greater health and wellness awareness, but also increasing the acceptance of such services. Combined with a supportive policy environment that is expected to further standardize the services, online consultation will become more efficient and more reliable with better quality. As a result, China's online consultation market is expected to grow significantly at a CAGR of 77.4% between 2019 and 2024 to reach RMB155 billion from RMB9 billion in 2019, and reaching RMB407 billion in 2030, becoming a major way of medical consultation by representing 68.5% of the total consultation volume in China. The below diagram illustrates the size and growth of China's online consultation market.

Online Consultation Market in China, 2015-2030E



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, the key trends of the online consultation market in China are:

- *Effective chronic disease management.* It is expected that the management of chronic disease will increasingly rely on digitalization. Digital diagnosis and treatment services enabled online can be effective tools in monitoring patients' health profiles and manage treatment payment throughout the chronic disease lifecycle, such as diabetes, hypertension and coronary heart diseases.
- *Personalized treatment.* Individuals' health profiles can be better stored and analyzed online to allow more precise matching between patients and possible therapeutic options. As online healthcare services expand further in scale, more data can be collected to make increasingly personalized treatment plan more available to users.
- *Greater participation from medical experts.* Experts, well-known doctors and doctor groups tend to focus on more complicated and serious diseases. However, digital platforms that can attract such key personnel and allow them to invest time to practice online will have significant first-mover advantage to further expand their service offerings.

Source of Information

In connection with the Global Offering, we have engaged Frost & Sullivan to conduct a detailed analysis and prepare an industry report on the markets in which we operate. Frost & Sullivan is an independent global market research and consulting company which was founded in 1961 and is based in the United States. Services provided by Frost & Sullivan include market assessments, competitive benchmarking, and strategic and market planning for a variety of industries. We incurred a total of RMB600,000 in fees and expenses for the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent upon our successful Listing or on the results of the Frost & Sullivan Report. Except for the Frost & Sullivan Report, we did not commission any other industry report in connection with the Global Offering.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of the markets in which we operate for potential investors. Frost & Sullivan prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organizations. Where necessary, Frost & Sullivan contacts companies operating in the industry to gather and synthesize information in relation to the market, prices and other relevant information. Frost & Sullivan believes that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan research may be affected by the accuracy of these assumptions and the choice of these primary and secondary sources.

In preparing the Frost & Sullivan Report, Frost & Sullivan relied on market information which has a variety of data sources, including external information channels and Frost & Sullivan internal database. External information channels consist of both primary and secondary research, including (i) treatment guidelines and expert consensus; (ii) Chinese Center for Drug Evaluation; (iii) ClinicalTrials.gov; (iv) National Medical Products Administration; (v) publicly released literature materials and industry research reports; (vi) annual reports and product development information disclosed by listed companies; and (vii) industry expert interviews.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our healthcare business has operated as a stand-alone business unit of JD Group since February 2014, and we launched our online consultation services in December 2017. Through a series of reorganizations, our Company was incorporated as an exempted company with limited liability in the Cayman Islands on November 30, 2018 as the holding company of our current businesses, which mainly comprise our retail pharmacy business and online healthcare business.

Following the completion of the Spin-off, our businesses will be separate and independent from the businesses of JD Group.

KEY BUSINESS MILESTONES

The following table sets forth our key business development milestones:

<u>Year</u>	<u>Event</u>
2014	Since February, our healthcare business has been operating as a stand-alone business unit of JD Group.
2017	In July and August, we entered into the “Healthy Taizhou” (健康泰州) strategic cooperation agreement with the government of Taizhou, Jiangsu province and “Healthy Suqian” (健康宿遷) strategic cooperation agreement with the government of Suqian, Jiangsu province, respectively. In December, we launched our online consultation services.
2018	In March, Yinchuan JD Online Hospital obtained the Practicing License for Medical Institution, which allowed us to issue prescriptions to the users of our online consultation and prescription renewal service.
2019	In January, our first online medical insurance payment was made on our Group’s platform. In November, we completed the non-redeemable series A preferred share financing with a group of third-party investors. The total amount of financing raised was over US\$900 million. In December, we established our online cardiology center.
2020	In June, we established our online ENT (ear, nose and throat) center and our traditional Chinese medicine center. In August, we established our online stomatology center and launched our family doctor service which offers various family-oriented health management packages. In August, we completed a non-redeemable series B preferred share financing with a group of third-party investors, including an affiliate of Hillhouse Capital. The total amount of financing raised was over US\$900 million.

MAJOR SUBSIDIARIES

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

<u>Name of company</u>	<u>Principal business activities</u>	<u>Date and jurisdiction of establishment</u>
JD Health (HK) Limited	Our indirect subsidiary and a trading company	December 20, 2018, Hong Kong
Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) (“WFOE”)	Our indirect subsidiary (held by JD Health (HK) Limited) and a wholly foreign owned enterprise that primarily engages in procurement and online retail of healthcare products	June 6, 2019, PRC

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of company	Principal business activities	Date and jurisdiction of establishment
Beijing Jingdong Hongjian Jiankang Co., Ltd. (北京京東弘健健康有限公司)	A subsidiary of WFOE which primarily engages in procurement and online retail of healthcare products	July 31, 2019, PRC
Guangzhou Jingdong Hongjian Trade Co., Ltd. (廣州京東弘健貿易有限公司)	A subsidiary of WFOE which primarily engages in online retail of healthcare products	March 26, 2020, PRC
Guangxi Jingdong Tuoxian E-commerce Co., Ltd. (廣西京東拓先電子商務有限公司)	A subsidiary of WFOE which primarily engages in technical services and marketing services	November 20, 2019, PRC
Guanghan Jingdong Hongjian Jiankang Co., Ltd. (廣漢京東弘健健康有限公司)	A subsidiary of WFOE which primarily engages in online retail of healthcare products	September 30, 2019, PRC
Shenyang Jingdong Hongjian Trade Co., Ltd. (瀋陽京東弘健貿易有限公司)	A subsidiary of WFOE which primarily engages in online retail of healthcare products	March 2, 2020, PRC
Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) (“ Onshore Holdco ”)	An affiliated consolidated entity of WFOE and a holding company of other Consolidated Affiliated Entities	June 10, 2019, PRC
Yinchuan JD Online Hospital Co., Ltd. (銀川京東互聯網醫院有限公司) (“ Yinchuan JD Online Hospital ”)	A subsidiary of the Onshore Holdco which primarily engages in online hospital services	June 23, 2017, PRC
Jiangsu Jingdong Hongyuan Information Technology Co., Ltd. (江蘇京東弘元信息技術有限公司) (“ Jiangsu Jingdong Hongyuan ”)	A subsidiary of the Onshore Holdco which plans to engage in online marketplace services	August 2, 2019, PRC
Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司) (“ Jingdong Pharmacy Qingdao ”)	An indirect subsidiary of the Onshore Holdco which primarily engages in online retail of pharmaceutical products	January 22, 2010, PRC
Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司) (“ Jingdong Pharmacy Taizhou ”)	A subsidiary of Jingdong Pharmacy Qingdao which primarily engages in online marketplace and online retail of pharmaceutical products	October 23, 2017, PRC
Jingdong Pharmacy (Huizhou) Co., Ltd. (京東大藥房(惠州)有限公司)	A subsidiary of Jingdong Pharmacy Qingdao which primarily engages in online retail of pharmaceutical products	April 28, 2017, PRC

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on November 30, 2018 with an authorized share capital of US\$50,000 divided into 50,000 share with par value of US\$1.00 each. On the same day, we issued one share of par value US\$1.00 to

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Maricorp Services Ltd., which was subsequently transferred to JD.com. On April 29, 2019, JD.com transferred the share in our Company to JD Jiankang.

On June 13, 2019, we conducted a share subdivision pursuant to which each share in our then issued and unissued share capital was subdivided into 1,000,000 shares with par value of US\$0.000001 each, and subsequently issued 1,073,626,866 ordinary shares with par value of US\$0.000001 each to JD Jiankang on the same day.

Between June 28, 2019 and November 29, 2019, we issued in aggregate 181,500,000 Series A Preference Shares with par value of US\$0.000001 each as a result of the pre-IPO financing, further details of which are set out in the section headed “—2. Principal terms of the Pre-IPO Investments” in this section. Please refer to the section headed “—2. Principal terms of the Pre-IPO Investments” in this section for subsequent shareholding changes in connection with the completion of the relevant pre-IPO investments.

On February 12, 2020, we conducted a share subdivision pursuant to which each share in our then issued and unissued share capital was subdivided into two shares of the corresponding class with par value of US\$0.0000005 each.

On June 9, 2020, our Company issued 9,552,238 Series A Preference Shares with par value of US\$0.0000005 each to Novacare Investment Limited.

On August 21, 2020, we issued 130,319,819 Series B Preference Shares with par value of US\$0.0000005 as a result of an additional round of pre-IPO financing, further details of which are set out in the section headed “—2. Principal terms of the Pre-IPO Investments” in this section. Please refer to the section headed “—2. Principal terms of the Pre-IPO Investments” in this section for subsequent shareholding changes in connection with completion of the relevant pre-IPO investments.

SPIN-OFF

Subsequent to the secondary listing of JD.com, having considered, among other things, that our healthcare business has grown to a sufficient size that justifies a separate listing on the Stock Exchange and the current market conditions are more favorable to companies in the healthcare sector, JD.com decided to submit a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules. The Stock Exchange has confirmed that JD.com may proceed with the Spin-off as proposed. Our Company will comply with the requirements under Practice Note 15 and the applicable requirements of the Listing Rules regarding the Spin-off, save with respect to paragraph 3(f) of Practice Note 15, in respect of which JD.com has applied for, and the Stock Exchange has granted, a waiver from the requirement for us to provide existing shareholders of JD.com with an assured entitlement to apply for Shares pursuant to the Global Offering.

JD.com considers that the Spin-off is in the interests of JD.com and the JD Shareholders taken as a whole for the following reasons:

- the Spin-off would enable investors to better value JD.com with its focus on JD Group’s business;
- the Spin-off could better reflect the value of our Group on its own merits and increase its operational and financial transparency through which investors would be able to appraise and assess the performance and potential of our Group separately and distinctly from those of JD Group;
- our business is expected to undergo relatively rapid business expansion and would be appealing to an investor base that pursues high growth opportunities in the healthcare

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

business, different from the relatively more diverse business model of JD Group's operation;

- with our Company as a separated listed entity, JD.com can fully focus on, and deploy its funds towards, the development of JD Group's business without needing to consider our Group's funding requirements; and
- the value of our Group is expected to be enhanced through the Spin-off, which will in turn benefit JD.com as one of our Controlling Shareholders, given that a listing on the Stock Exchange will:
 - enhance our profile amongst its users, patients, doctors and other business partners, as well as our ability to recruit talents;
 - enable us to directly and independently access both equity and debt capital markets in the future on a stand-alone basis should the need arise, as well as further enhance our ability to secure bank credit facilities;
 - lead to a more direct alignment of our management's responsibilities and accountability with our operating and financial performance. This is expected to result in enhanced management focus, which should in turn lead to improved decision-making processes, faster response time to market changes and increased operational efficiency. Our management will be under heightened scrutiny from the investor community and it will be possible to measure their performance against the stock market performance of our Company. It will also be possible to link management incentives to such performance, thereby increasing management motivation and commitment; and
 - provide clarity of the credit profile of our Group for rating agencies and financial institutions that wish to analyze and lend against the credit of the healthcare business.

CORPORATE REORGANIZATION

In preparation for the Global Offering and in order to streamline our corporate structure, we underwent and continue to undergo the following reorganization (the "**Reorganization**"):

1. Incorporation of the Company

The following companies were incorporated in order to establish the Company and its holding company:

- (a) The Company was incorporated in the Cayman Islands on November 30, 2018 and became a wholly-owned subsidiary of JD Jiankang on April 29, 2019. Upon completion of the Reorganization and the Global Offering, the shareholders of the Company will be JD Jiankang, the Pre-IPO Investors, Novacare Investment Limited, Amazing Start Management Limited and the public shareholders who subscribe for Offer Shares in the Global Offering, excluding the shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.
- (b) JD Jiankang was incorporated in the BVI as a wholly-owned subsidiary of JD.com on April 24, 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

2. Incorporation of the Company's Sub-holding Companies

The following Group companies were incorporated to act as an intermediate holding company and sub-holding companies under the Company to hold its subsidiaries and consolidated affiliated entities:

- (a) JD Health (Cayman), Inc. was incorporated as an exempted company with limited liability in the Cayman Islands on December 5, 2018 with an authorized share capital of US\$50,000 divided into 50,000 shares with par value of US\$1.00 each. On December 5, 2018, one share of JD Health (Cayman), Inc. was issued and allotted to Maricorp Services Ltd. as subscriber's share. On the same day, the subscriber's share was transferred to our Company at par value.
- (b) JD Health (HK) Limited was incorporated as a limited liability company under the laws of Hong Kong on December 20, 2018 with a share capital of HK\$1 divided into one share of HK\$1 each. JD Health (Cayman), Inc. was the sole founding member and the holder of the one share.
- (c) The WFOE was established in the PRC as a wholly-foreign owned enterprise on June 6, 2019 with a registered capital of RMB100 million, which was wholly-owned by JD Health (HK) Limited.

3. Entry into the Contractual Arrangements

We entered into a series of contractual arrangements on June 11, 2019, which were terminated and replaced with a separate series of contractual arrangements on April 3, 2020 (except for the exclusive technology consulting and services agreement dated June 11, 2019), which were terminated and replaced with the current set of Contractual Arrangements on September 17, 2020. Please refer to the section headed "Contractual Arrangements" in this document for further details of the Contractual Arrangements.

4. Incorporation of Major Subsidiaries

Please also refer to the sections headed "—Major Subsidiaries" in this section and "—Corporate Structure" in this section for details relating the incorporation of the Major Subsidiaries and the corporate structure of the Group after the Reorganization.

5. Transfer of the retail pharmacy business into our Group

Retail pharmaceutical business

Prior to the Reorganization, Jingdong Shanyuan (Qingdao) E-commerce Co, Ltd. (京東善元(青島)電子商務有限公司) ("**Jingdong Shanyuan**"), as a holding company, and its subsidiaries (including but not limited to Jingdong Pharmacy Qingdao, Jingdong Pharmacy Taizhou and their subsidiaries) primarily operated our retail pharmaceutical business.

On June 12, 2019, the Onshore Holdco acquired all the shares of Jingdong Shanyuan from Jiangsu Yuanzhou E-commerce Co., Ltd. (江蘇圓周電子商務有限公司) ("**Jiangsu Yuanzhou**"), a consolidated affiliated entity of JD.com, for a consideration of RMB2,000,000, in light of Jingdong Shanyuan's contributed capital of RMB2,000,000. The registration with local SAIC in relation to the acquisition of Jingdong Shanyuan was completed on July 25, 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Retail pharmacy business

Prior to the Reorganization, our retail business of healthcare products (excluding pharmaceutical products) was operated by JD.com and its subsidiaries and consolidated affiliated entities, and is being transferred to our Group by way of business and asset transfer largely through the following steps:

- (a) Our WFOE established several wholly-owned subsidiaries, and applied for those wholly-owned subsidiaries to obtain certain licenses necessary to conduct retail healthcare product business, such as medical device operation license (醫療器械經營許可證) and food operation license (食品經營許可證), in preparation for such wholly-owned subsidiaries to carry on retail healthcare product business prior to the Listing.
- (b) JD Group assigned contracts relating to the retail healthcare product business to our Group, including procurement contracts with suppliers and online platform agreements with third party merchants on our Group's online marketplace. As of the Latest Practicable Date, the vast majority of such contracts have already been assigned to our Group.
- (c) In June 2020, a series of intellectual property transfer agreements were entered into between JD.com (or its subsidiaries and consolidated affiliated entities) and our Group, pursuant to which more than 90 trademarks, domain names, software copyrights and patents are to be transferred to our Group for a total consideration of approximately RMB230,000 taking into account the cost of such intellectual property rights. Given that the transfer of such intellectual property rights requires a lengthy process (including registrations with the relevant governmental bodies), other than the domain names the transfer of which have been completed, it is expected that the remaining intellectually property rights under such intellectual property transfer agreements will be transferred to our Group after the Listing.
- (d) With respect to the employment contracts of employees of our Group, as of the Latest Practicable Date, employment contracts of more than 1,000 employees have been transferred from JD Group to our Group, and the vast majority of the employment contracts of the remaining employees are expected to be transferred to our Group by early 2021.
- (e) Our Group has incorporated JD Health (HK) Limited, a limited liability company under the laws of Hong Kong on December 20, 2018, which is primarily intended for, among others, procuring certain healthcare products from outside of China and selling such products through our online platform to customers in the PRC. See "Relationship with our Controlling Shareholders—Operational independence—Other Transactions—Procurement Services Framework Agreement" and "Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—7. Procurement Services Framework Agreement" for further details.

6. Transfer of the online healthcare services business into our Group

Prior to the Reorganization, Yinchuan JD Online Hospital primarily operated our online healthcare services business. On June 12, 2019, the Onshore Holdco acquired all the shares of Yinchuan JD Online Hospital from Jiangsu Yuanzhou for a nominal consideration of RMB1, and the registration of such acquisition with the local SAIC was completed on July 30, 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

7. Disposal of certain entities

On October 23, 2019, all the shares of Jingdong Pharmacy (Dongguan) Co., Ltd. (京東大藥房(東莞)有限公司), subsequently renamed as Jingyao Pharmacy (Dongguan) Co., Ltd. (京藥大藥房(東莞)有限公司), were transferred from Jingdong Pharmacy Qingdao to a third party, as such entity did not conduct any substantive business operation after its establishment and the revenue of such entity was insignificant.

On July 11, 2019 and August 8, 2019, Jingdong Pharmacy (Wuhan) Co., Ltd. (京東大藥房(武漢)有限公司) and Jingdong Pharmacy (Jinan) Co., Ltd. (京東大藥房(濟南)有限公司) were deregistered, as the two entities did not conduct any substantive business operations after their establishment.

As advised by our PRC Legal Adviser and to the extent completed up to the Latest Practicable Date, the incorporation of the Major Subsidiaries and the transfer of entities and businesses in connection with the Reorganization in the PRC have been duly effected in accordance with all applicable laws and regulations in the PRC.

PRE-IPO INVESTMENTS

1. Overview

On May 9, 2019, our Company and each of the Series A Preference Shareholders (or their respective affiliates), among others, entered into the Series A Share Subscription Agreement (as amended and supplemented from time to time), pursuant to which (after taking into account the share split on February 12, 2020 pursuant to which each share in our then issued and unissued share capital was split into two shares of the corresponding class with par value of US\$0.0000005 each):

- (a) CJD eHealthcare Investment Limited agreed to subscribe for a total of 80,000,000 Series A Preference Shares for a consideration of US\$200 million;
- (b) Triton Bidco Limited agreed to subscribe for a total of 80,000,000 Series A Preference Shares for a consideration of US\$200 million;
- (c) China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥)) agreed to subscribe for a total of 60,000,000 Series A Preference Shares for a consideration of US\$150 million;
- (d) CICC e-Healthcare Investment Limited agreed to subscribe for a total of 60,000,000 Series A Preference Shares for a consideration of US\$150 million;
- (e) Eastar Medical Investment, L.P. agreed to subscribe for a total of 52,000,000 Series A Preference Shares for a consideration of US\$130 million;
- (f) Skycus China Fund, L.P. agreed to subscribe for a total of 16,000,000 Series A Preference Shares for a consideration of US\$40 million;
- (g) Danqing Fund II Investment L.P. (蘇州丹青二期創新醫藥產業投資合夥企業(有限合夥)) agreed to subscribe for a total of 8,000,000 Series A Preference Shares for a consideration of US\$20 million;
- (h) Danqing-JDH Investment L.P. agreed to subscribe for a total of 4,000,000 Series A Preference Shares for a consideration of US\$10 million; and

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (i) Qianshan Health L.P. agreed to subscribe for a total of 3,000,000 Series A Preference Shares for a consideration of US\$7.5 million.

On and around August 17, 2020, our Company and each of the Series B Preference Shareholders entered into the Series B Share Subscription Agreements, pursuant to which:

- (a) SUM XI Holdings Limited agreed to subscribe for a total of 119,209,819 Series B Preference Shares for a consideration of US\$835,791,962;
- (b) CJD eHealthcare Investment Limited agreed to subscribe for a total of 3,780,671 Series B Preference Shares for a consideration of US\$26,506,662;
- (c) Triton Bidco Limited agreed to subscribe for a total of 3,780,671 Series B Preference Shares for a consideration of US\$26,506,662;
- (d) CICC e-Healthcare Investment Limited agreed to subscribe for a total of 2,835,503 Series B Preference Shares for a consideration of US\$19,879,995; and
- (e) Domking Medical Investment L.P. agreed to subscribe for a total of 713,155 Series B Preference Shares for a consideration of US\$5,000,001.

The considerations were determined based on arm's length negotiations between our Company and the Pre-IPO Investors after taking into consideration the timing of the investments and the status of our business and operating entities. The investments by and the allotment of all the Series A Preference Shares to the Series A Preference Shareholders were completed on November 29, 2019, while the investment by and the allotment of all the Series B Preference Shares to the Series B Preference Shareholders were completed on August 21, 2020.

The table below is a summary of the shareholding structure of our Company as at the date of this document and immediately prior to the Global Offering (excluding shares to be issued under the Pre-IPO ESOP):

<u>Shareholders</u>	<u>Shares⁽¹⁾</u>	<u>Shareholding in our Company as at the date of this document and immediately prior to the Global Offering⁽¹⁾</u>
JD Jiankang ⁽²⁾	2,149,253,732	78.29%
SUM XI Holdings Limited	119,209,819	4.34%
Triton Bidco Limited	83,780,671	3.05%
CJD eHealthcare Investment Limited	83,780,671	3.05%
CICC e-Healthcare Investment Limited	62,835,503	2.29%
China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership (國壽成達(上海)健康產業股權投資中心 (有限合夥))	60,000,000	2.19%
Eastar Medical Investment, L.P.	52,000,000	1.89%
Skycus China Fund, L.P.	16,000,000	0.58%
Novacare Investment Limited ⁽³⁾	9,552,238	0.35%
Danqing Fund II Investment L.P. (蘇州丹青二期創新醫藥產業投資合夥企 業(有限合夥))	8,000,000	0.29%
Danqing-JDH Investment L.P.	4,000,000	0.15%
Qianshan Health L.P.	3,000,000	0.11%
Domking Medical Investment L.P.	713,155	0.03%
Amazing Start Management Limited ⁽⁴⁾	93,056,322	3.39%
TOTAL	2,745,182,111	100%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) Under the terms of the Pre-IPO Shareholders' Agreement, all the Preference Shares will automatically be converted to Shares on a 1:1 basis immediately upon the Listing subject to customary adjustments.
- (2) JD Jiankang is wholly-owned by JD.com.
- (3) Novacare Investment Limited is beneficially owned by Lijun Xin as to 93.09% with the remaining interest beneficially owned by 13 other employees of our Group who are not directors or senior management of the Company and is a company incorporated to hold Shares and provide incentives to employees of our Group.
- (4) Amazing Start Management Limited is wholly owned by The Core Trust Company Limited, the trustee holding the shares on trust for the benefit of the participants of the Pre-IPO ESOP. For further details, please refer to the section headed "Statutory and general information—D. Share Incentive Schemes—1. Pre-IPO ESOP" in Appendix IV to this document.

2. Principal terms of the Pre-IPO Investments

The below table summarizes the principal terms of the Pre-IPO Investments:

	Series A Preference Shares Investment	Series B Preference Shares Investment
Cost per share paid by the investors	US\$2.5	US\$7.0111
Date on which investment was fully settled ⁽¹⁾	November 29, 2019	August 21, 2020
Discount to the Offer Price ⁽²⁾	71%	18%
Use of Proceeds from the Pre-IPO Investments	The proceeds are for the general working capital of our Group and for the development and operation of the businesses of the members of our Group. As at the Latest Practicable Date, approximately 5% of the net proceeds from the Pre-IPO Investments by the Pre-IPO Investors were utilized.	
Lock-up	The Shares (converted from Series A Preference Shares) held by the Series A Preference Shareholders, and Novacare Investment Limited ⁽³⁾ , are subject to a lock-up period of 6 months after the Listing and shall not be transferred without the prior written consent of the Company (and in the case of Novacare Investment Limited, without the prior written consent of the Company and the Joint Representatives)	The Shares (converted from Series B Preference Shares) held by the Series B Preference Shareholders are subject to a lock-up period of 6 months after the Listing and shall not be transferred without the prior written consent of the Company
Strategic benefits of the Pre-IPO Investors brought to our Company	At the time of the Pre-IPO Investments, our Directors were of the view that our Company could benefit from the Pre-IPO Investors' commitment to our Company as their investment demonstrates their confidence in the operations of our Group and serves as an endorsement of our Company's performance, strength and prospects.	

Notes:

- (1) The investment by the Series A Preference Shareholders was settled on November 29, 2019, and 9,552,238 Series A Preference Shares were issued to Novacare Investment Limited on June 9, 2020 upon its investment being settled. Novacare Investment Limited is beneficially owned by Lijun Xin as to 93.09% with the remaining interest beneficially owned by 13 other employees of our Group who are not directors or senior management of the Company and was incorporated to hold Shares and provide share-based incentives to employees of our Group.
- (2) Assuming the Offer Price is fixed at HK\$66.69, being the mid-point of the indicative Offer Price range.
- (3) With respect to the lock-up undertaking provided by Novacare Investment Limited, the 1,910,448 Shares (converted from Series A Preference Shares) held by Novacare Investment Limited, representing approximately 20% of the total Shares held by Novacare Investment Limited upon Listing, will not be subject to any lock-up after the expiration of the stabilization period in connection with the Global Offering.

3. Rights of the Pre-IPO Investors

In addition to the terms described above, the Pre-IPO Shareholders' Agreement was entered into between our Company, JD.com, JD Jiankang, Novacare Investment Limited and each of the Pre-IPO Investors relating to, inter alia, the operation and management of our Company. Pursuant to the Pre-IPO Shareholders' Agreement, the Pre-IPO Investors and Novacare Investment Limited were granted certain special rights in relation to our Company, including, among others, customary rights of first refusal to participate in future funding rounds, information rights, and anti-dilution and veto rights (where applicable). The special rights under the Pre-IPO Shareholders' Agreement will terminate upon the Listing in accordance with the terms of the Pre-IPO Shareholders' Agreement. All Preference Shares will convert to Shares upon Listing on a 1:1 basis subject to customary adjustments.

4. Public Float

The Shares held by the Pre-IPO Investors will be counted towards the public float for the purpose of the Listing Rules. To the best knowledge, information and belief of our Directors, all the Pre-IPO Investors are Independent Third Parties of our Group. The Shares held by JD Jiankang, Novacare Investment Limited and Amazing Start Management Limited will not be counted towards the public float for the purposes of the Listing Rules.

5. Information on the Pre-IPO Investors

Hillhouse Capital Management, Ltd. (“**Hillhouse Capital**”) acts as the sole management company of Hillhouse Fund IV, L.P., which owns SUM XI Holdings Limited, an exempted company incorporated under the laws of Cayman Islands. Founded in 2005, Hillhouse Capital is a global firm of investment professionals and operating executives who are focused on building and investing in high quality business franchises that achieve sustainable growth. Independent proprietary research and industry expertise, in conjunction with world-class operating and management capabilities, are key to Hillhouse Capital’s investment approach. Hillhouse Capital partners with exceptional entrepreneurs and management teams to create long-term value, often with a focus on enacting innovation and technological transformation. Hillhouse Capital invests in the healthcare, consumption and retail, TMT, advanced manufacturing, financial and business services sectors in companies across all equity stages. Hillhouse Capital and its group members manage assets on behalf of global institutional clients with long-term vision.

Triton Bidco Limited is an investment holding company incorporated under the laws of the Cayman Islands, and is indirectly wholly-owned by The Baring Asia Private Equity Fund VII, L.P. (“**Fund VII LP**”), The Baring Asia Private Equity Fund VII, L.P.1 (“**Fund VII LP1**”), The Baring Asia Private Equity Fund VII Co-investment, L.P. (“**Fund VII Co-invest**”) and The Baring Asia Private Equity Fund VII SCSP (“**Fund VII SCSP**”, and collectively with Fund VII LP, Fund VII LP1 and Fund VII Co-invest, “**BPEA Fund VII**”). Each of Fund VII LP, Fund VII LP1 and Fund VII Co-invest is controlled by its general partner Baring Private Equity Asia GP VII, L.P. which, in turn, is controlled by its general partner Baring Private Equity Asia GP VII Limited. Baring Private Equity Asia GP VII Limited is wholly-owned by Mr. Jean Eric Salata Rothleder. Mr. Jean Eric Salata Rothleder disclaims beneficial ownership of such entities, except to the extent of his economic interest in such entities. Fund VII SCSP is controlled by its general partner, Baring Private Equity Asia GP VII S.a.r.l., which is in turn wholly-owned by Baring Private Equity Asia GP VII Limited. BPEA Fund VII focuses on mid- and large-cap buyouts across the Asia Pacific region, as well as investing in companies globally that can benefit from further expansion into Asia Pacific. The target sectors for investments include healthcare, consumer, education, IT services & software, business services, financial services, and value-added manufacturing.

CJD eHealthcare Investment Limited is a business company incorporated under the laws of the British Virgin Islands. CJD eHealthcare Investment Limited is owned as to approximately 80.5% by CPEChina Fund III, L.P. (“**CPE Fund III**”) and 14.5% by CPE GLOBAL OPPORTUNITIES FUND, L.P. (“**GOF**”, collectively with CPE Fund III, the “**CPE Funds**”). The general partner of CPE Fund III is CPE Funds III Limited, an exempted company incorporated in the Cayman Islands with limited liability, which is wholly owned by CPE Holdings Limited. CPE Holdings Limited is wholly owned by CPE Holdings International Limited. CPE Holdings International Limited is owned by a number of shareholders that are natural persons none of whom controls CPE Holdings International Limited. The general partner of GOF is CPE GOF GP Limited, an exempted company incorporated in the Cayman

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Islands with limited liability, which is wholly owned by CPE Management International Limited. CPE Management International Limited is wholly owned by CPE Management International II Limited. CPE Management International II Limited is owned by a number of shareholders that are natural persons none of whom controls CPE Management International II Limited.

CICC e-Healthcare Investment Limited is a limited company incorporated in the Cayman Islands. CICC e-Healthcare Investment Limited is a special purpose vehicle, as to approximately 66.7% controlled by CICC Kangrui I (Ningbo) Equity Investment Limited Partners (Limited Partnership) and approximately 33.3% controlled by CICC Healthcare Investment Fund, L.P.. CICC Kangrui I (Ningbo) Equity Investment Limited Partners (Limited Partnership) is a private equity fund with more than RMB2.6 billion capital commitment and is controlled by its general partner, CICC Kangzhi (Ningbo) Equity Investment Management Limited which is controlled by China International Capital Corporation Limited. CICC Healthcare Investment Fund, L.P. is a private equity fund with more than US\$200 million capital commitment and is controlled by its general partner, CICC Healthcare Investment Management Limited, which is controlled by China International Capital Corporation Limited. Both CICC Kangrui I (Ningbo) Equity Investment limited Partners (Limited Partnership) and CICC Healthcare Investment Fund, L.P. focus on investment in healthcare industry which include medical service, equipment, biotech and other related businesses.

China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥)) is a private equity fund incorporated under the laws of the PRC. China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥)) is controlled by its general partner, China Life Chengda (Shanghai) Healthcare Private Equity Investment Management Co., Ltd., a limited liability company indirectly owned by China Life Insurance (Group) Company. China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥)) is the first private equity fund backed by an insurance company approved by China Insurance Regulatory Commission, with total assets under management of RMB12 billion. Leveraging the strong support and resource of China Life Insurance (Group) Company, it aims to become the leading healthcare investment platform.

Eastar Medical Investment, L.P. is a private equity fund registered in the Cayman Islands with more than US\$136 million in assets under management. Eastar Medical Investment L.P. focuses on investment opportunities in healthcare sector. Eastar Medical Investment, L.P. is controlled by its general partner, Eastar Capital Management Ltd, a Cayman Islands exempted company. Eastar Capital Management Ltd is controlled by Shilin SHI.

Domking Medical Investment, L.P. is an exempted limited partnership established in the Cayman Islands with more than US\$5 million in assets under management. Domking Medical Investment, L.P. focuses on investment opportunities in healthcare sector. Domking Medical Investment, L.P. is controlled by its general partner, Eastar Capital Management Ltd, a Cayman Islands exempted company. Eastar Capital Management Ltd is controlled by Shilin SHI.

Skycus China Fund, L.P. is a limited partnership established in the Cayman Islands with more than US\$500 million in assets under management. Skycus China Fund, L.P. is managed by its general partner, Skycus Asset Management Limited. No ultimate beneficial owner of any limited partner or general partner holds more than 30% equity of Skycus China Fund, L.P.. Skycus China Fund, L.P. focuses on investment opportunities being created in emerging industries driven by innovations, and

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traditional industries being transformed and upgraded. Skycus China Fund, L.P. intends to primarily invest in strategic emerging industries (including TMT, culture, sports and healthcare industries), covering growth-stage and mature-stage portfolios, and in leading enterprises with a vision to collectively lead or participate in depth in the integration and expansion of industry value chain.

Danqing Fund II Investment L.P. (蘇州丹青二期創新醫藥產業投資合夥企業(有限合夥)) is a private equity fund registered under the laws of PRC with more than RMB3 billion in assets under management. It is dedicated to exploring investment opportunities in healthcare industry including, among others, pharmaceutical/ biotech, IVD and medical services. Danqing Fund II Investment L.P. is controlled by Ningbo Meishan Bonded Area Qiyu Investment and Management L.P., its general partner. Ningbo Meishan Bonded Area Qiyu Investment and Management L.P. is controlled by Ningbo Meishan Bonded Area Shiyu Investment and Management Co., Ltd., its general partner. Ningbo Meishan Bonded Area Shiyu Investment and Management Co., Ltd. is wholly owned by Shenzhen Shiyu Investment and Management Co., Ltd., a private fund management company registered by the Asset Management Association of China.

Danqing-JDH Investment L.P. is a private equity fund registered in the Cayman Islands with US\$10 million in assets under management. Danqing-JDH Investment L.P. is a single-project investment fund and all of its funds have been invested in our Company. Danqing-JDH Investment L.P. is controlled by Shiyu Investment Ltd., its general partner registered in the Cayman Islands. Shiyu Investment Ltd. is wholly owned by Shiyu Holding Ltd., an investment holding vehicle incorporated in the BVI. Given that the majority shareholder of Shiyu Investment Ltd. and one of the joint actual controllers of Shenzhen Shiyu Investment and Management Co., Ltd. is the same person, Danqing Fund II Investment L.P. (蘇州丹青二期創新醫藥產業投資合夥企業(有限合夥)) and Danqing-JDH Investment L.P. are connected persons of each other under the Listing Rules.

Qianshan Health L.P. is a fund with over US\$8 million in assets under management and managed by its general partner, Qianshan Capital (Cayman) Fund Management Co., Ltd., a Cayman limited company. Qianshan Capital (Cayman) Fund Management Co., Ltd., focuses on venture capital investments in technology, media, and logistics industry.

6. Compliance with Interim Guidance

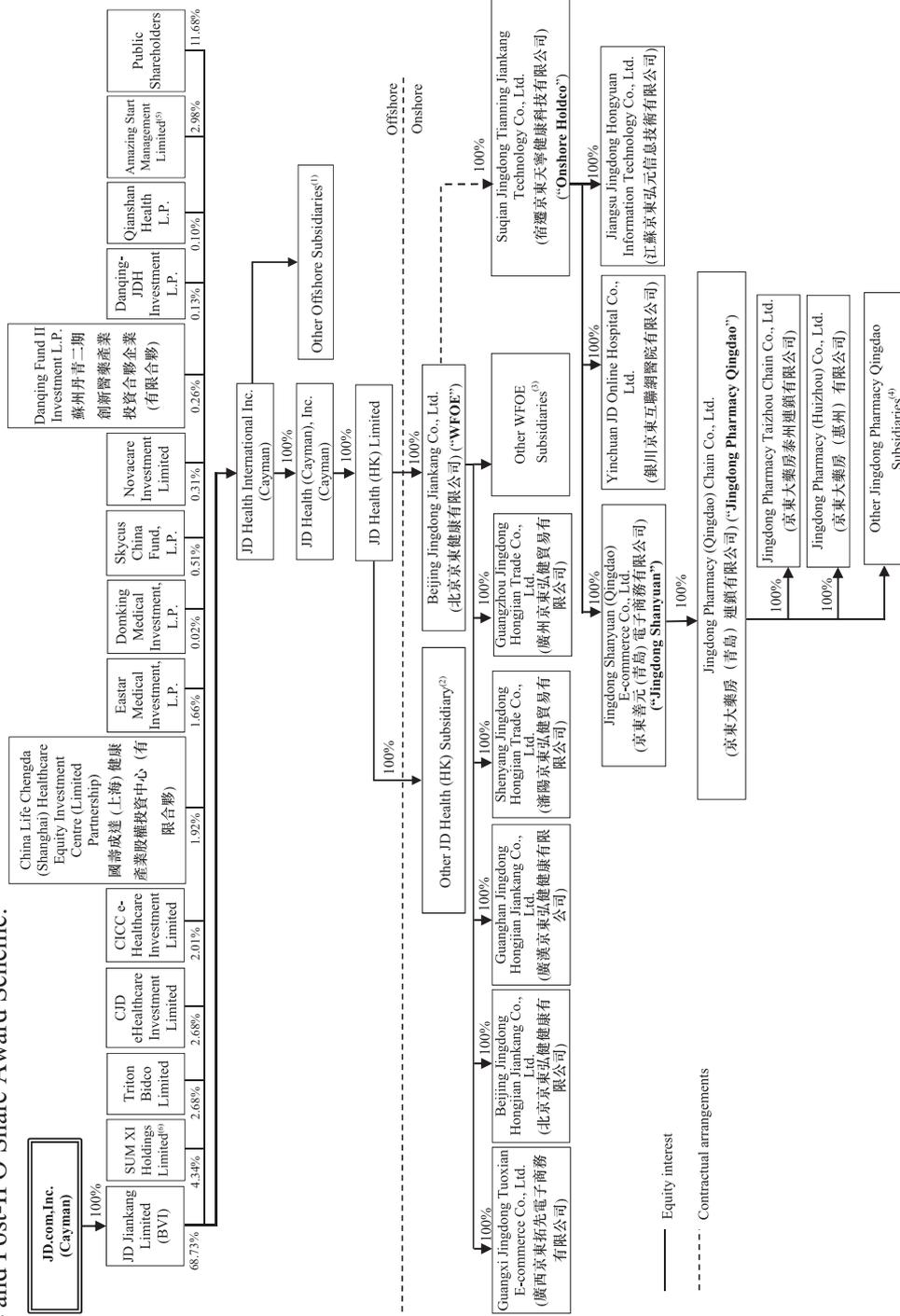
On the basis that (i) the consideration for the Pre-IPO Investments was settled more than 28 clear days before the date of our first submission of the listing application to the Stock Exchange in relation to the Listing and (ii) the special rights granted to the Pre-IPO Investors and Novacare Investment Limited will terminate upon the Listing, the Joint Sponsors have confirmed that the Pre-IPO Investments are in compliance with the Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017, the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

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- (b) Carever Healthcare Group Corporation, incorporated in the Cayman Islands;
- (c) Hongci Healthcare Group Corporation, incorporated in the Cayman Islands;
- (d) Hongci Healthcare HK Limited, incorporated in Hong Kong; and
- (e) Seven other dormant companies incorporated in the BVI, Cayman and Hong Kong.
- (2) Other JD Health (HK) Subsidiary means Sanya Jingdong Dibao Jianshang Co., Ltd. (三亞京東迪保健康有限公司).
- (3) Other WFOE Subsidiaries include the following direct and indirect wholly-owned subsidiaries of the WFOE, save for Jingdong Yiyao (Tianjin) Co., Ltd. (京東醫藥(天津)有限公司), all incorporated in the PRC:
- (a) Jingdong Yiyao (Beijing) Co., Ltd. (京東醫藥(北京)有限公司);
 - (b) Beijing Jingdong Hongyuan Information Technology Co., Ltd. (北京京東弘元信息技術有限公司);
 - (c) Suqian Jingdong Chengxian Information Technology Co., Ltd. (宿遷京東丞健信息技術有限公司);
 - (d) Beijing Jingdong Tuoxian Technology Co., Ltd. (北京京東拓先科技有限公司);
 - (e) Taicang Jingdong Jianshang Co., Ltd. (太倉京東健康有限公司);
 - (f) Dezhou Jingdong Hongjian Trade Co., Ltd. (德州京東弘健貿易有限公司);
 - (g) Xi'an Jingdong Hongjian Trade Co., Ltd. (西安京東弘健貿易有限公司);
 - (h) Wuhan Jingdong Hongjian Trade Co., Ltd. (武漢京東弘健貿易有限公司);
 - (i) Jingdong Yiyao (Tianjin) Co., Ltd. (京東醫藥(天津)有限公司), 70% of which is indirectly held by the WFOE and the remaining 30% is held by an Independent Third Party (not taking into account his 30% shareholding in Jingdong Yiyao (Tianjin) Co., Ltd. (京東醫藥(天津)有限公司)); and
 - (j) Taizhou Jingdong Medical Co., Ltd. (泰州市京東醫藥有限責任公司).
- (4) Other Jingdong Pharmacy Qingdao Subsidiaries include the following direct and indirect wholly-owned subsidiaries of Jingdong Pharmacy Qingdao, all incorporated in the PRC:
- (a) Jingdong Pharmacy (Shenyang) Co., Ltd. (京東大藥房(瀋陽)有限公司);
 - (b) Jingdong Yuanjian Pharmacy (Fujian) Co., Ltd. (京東元健大藥房(福建)有限公司);
 - (c) Jingdong Pharmacy Chain (Shandong) Co., Ltd. (京東大藥房連鎖(山東)有限公司);
 - (d) Taizhou Tai Jingdong Pharmacy Co., Ltd. (泰州市泰京東大藥房有限公司);
 - (e) Jingdong Weijin Pharmacy (Tianjin) Co., Ltd. (京東衛津大藥房(天津)有限公司);
 - (f) Jingdong Duhui Pharmacy (Tianjin) Co., Ltd. (京東都會大藥房(天津)有限公司);
 - (g) Jingdong Pharmacy (Fuzhou) Co., Ltd. (京東大藥房(撫州)有限公司);
 - (h) Jingdong Pharmacy (Tianjin) Co., Ltd. (京東大藥房(天津)有限公司);
 - (i) Jingdong Pharmacy (Guangzhou) Co., Ltd. (京東大藥房(廣州)有限公司);
 - (j) Beijing Jingdong Kechuang Pharmacy Co., Ltd. (北京京東科創大藥房有限公司);
 - (k) Jingdong Pharmacy Shanxi Co., Ltd. (京東大藥房陝西有限公司);
 - (l) Jingdong Pharmacy Chongqing Co., Ltd. (京東大藥房重慶有限公司);
 - (m) Luohe Jingdong Pharmacy Co., Ltd. (漯河京東大藥房有限公司);
 - (n) Jingdong Qingji Pharmacy (Tianjin) Co., Ltd. (京東青吉大藥房(天津)有限公司);
 - (o) Jingdong Funan Pharmacy (Guangzhou) Co., Ltd. (京東富南大藥房(廣州)有限公司);
 - (p) Jingdong Pharmacy (Zhejiang) Co., Ltd. (京東大藥房(浙江)有限公司);
 - (q) Sichuan Jingdong Pharmacy Co., Ltd. (四川京東大藥房有限公司);
 - (r) Jinan Kangxi Zhihui Yaofang Co., Ltd. (濟南市康熙智惠藥房有限公司);
 - (s) Longgang Binhai Pharmacy Co., Ltd. (龍港市濱海大藥房有限公司);
 - (t) Jingdong Pharmacy (Beijing) Co., Ltd. (京東大藥房(北京)有限公司);
 - (u) Guangxi Jingdong Pharmacy Co., Ltd. (廣西京東大藥房有限公司); and
 - (v) Jingdong Pharmacy (Wuxi) Co., Ltd. (京東大藥房(無錫)有限公司).
- (5) Amazing Start Management Limited is wholly owned by The Core Trust Company Limited, the trustee holding the shares on trust for the benefit of the participants of the Pre-IPO ESOP. For further details, please refer to the section headed "Statutory and general information—D. Share Incentive Schemes—I. Pre-IPO ESOP" in Appendix IV to this document.

Corporate structure immediately following the Global Offering

The following chart depicts the shareholding and beneficial ownership structure of our Group immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme:



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

(6) Shares held by SUM XI Holdings Limited (and its affiliates) immediately upon completion of the Global Offering include the Shares to be subscribed for by SUM XI Holdings Limited (through its affiliate) as a cornerstone investor in the Global Offering (assuming full exercise of its anti-dilution right). For more details, please see the section headed "Cornerstone Investors".

SAFE REGISTRATION

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

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

As advised by our PRC Legal Adviser, Mr. Richard Qiangdong Liu (劉強東) completed the required registration with the local SAFE branch on July 2, 2014.

Our Mission

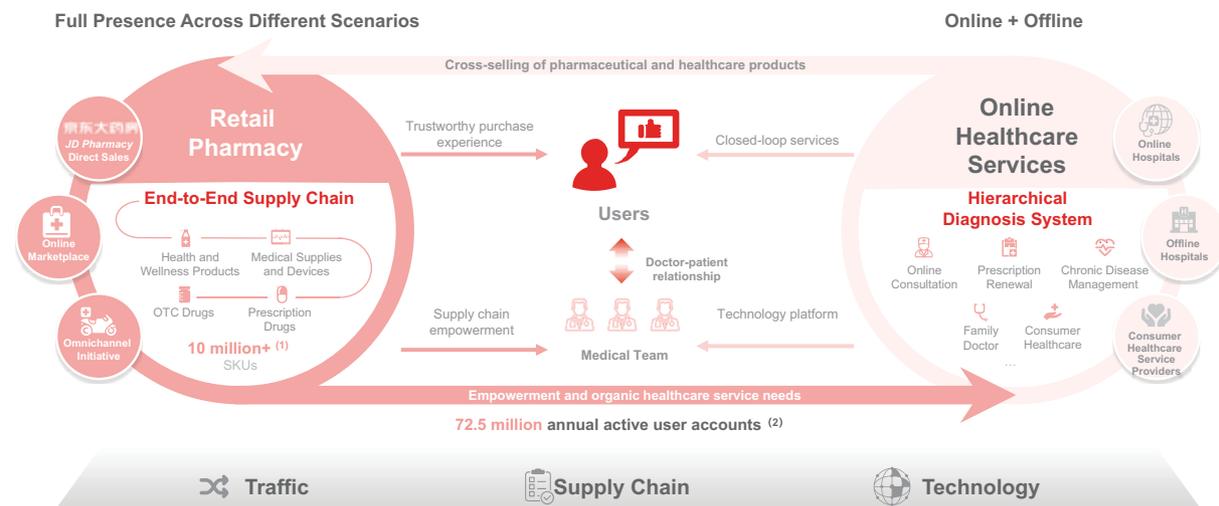
Our mission is to become the go-to health management platform for everyone in China.

Health is essential to each individual’s well-being and quality of life. Demand for better healthcare in China is rapidly rising, driven by an aging population, increasing disposable income, the rising prevalence of chronic diseases and growing health awareness. The Chinese healthcare industry still faces many challenges, such as industry inefficiency and uneven access to healthcare resources. We believe the advancement of technology and a progressive regulatory environment are creating an unprecedented opportunity for a paradigm shift in China’s healthcare industry.

Inheriting JD Group’s core value propositions, we are dedicated to creating a complete and comprehensive “Internet + healthcare” ecosystem. We provide a wide assortment of high-quality pharmaceutical and healthcare products that cater to all aspects of users’ diverse healthcare needs. Our strong fulfillment capabilities allow us to deliver our products timely and safely. We also offer holistic healthcare services to satisfy users’ needs across all aspects of the healthcare products and services sector. We are pioneering the digitalization and transformation of the healthcare industry and strive to empower all of its participants through our continual investment in supply chain and technologies.

Through our relentless efforts, we believe we can provide easily accessible, convenient, high-quality yet affordable healthcare products and services, becoming the most reliable health management platform for everyone in China.

Our Business



(1) As of June 30, 2020

(2) For the twelve months ended June 30, 2020

According to the Frost & Sullivan Report, we are the largest online healthcare platform by revenue in China in 2019, recording a total revenue of RMB10.8 billion. We are also the largest online retail pharmacy by revenue in China in 2019 with a market share of 29.8%, according to the Frost & Sullivan Report. Our technology-driven platform is centered on the supply chain of pharmaceutical and healthcare products and strengthened by healthcare services, encompassing a user’s full life span for all healthcare needs. Through our end-to-end supply chain and online-plus-offline approach, we believe that we can redefine the way users manage personal health.

Retail pharmacy

We are one of the first movers in transforming the supply chain of pharmaceutical and healthcare products in China. We allow users to purchase pharmaceutical and healthcare products anytime and anywhere, and provide them with an integrated one-stop shopping experience, combining direct sales, online marketplace and omnichannel initiative. At the same time, we have achieved an immense scale with a wide product selection while maintaining stringent quality control and competitive pricing, thus gaining users' trust.

Our retail pharmacy is the largest online retail pharmacy by revenue in China in 2019, according to the Frost & Sullivan Report. Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our direct sales business operates mainly through *JD Pharmacy* (“京東大藥房”). We have established a supply chain network with industry-leading pharmaceutical companies and healthcare product suppliers. In addition, we partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses and over 230 other warehouses as of June 30, 2020. Our online marketplace leverages our brand recognition, large and growing user base, and proprietary technology platform, and offers more diversified pharmaceutical and healthcare products that supplement those of *JD Pharmacy*. As of June 30, 2020, there were over 9,000 third-party merchants on our online marketplace. Our omnichannel initiative meets users' needs for urgent medication and offers same-day, next-day and 30-minute, 24/7 on-demand delivery services. As of June 30, 2020, our omnichannel initiative covered over 200 cities in China. By building a complete online-plus-offline model, with strong presence in retail channels and partnerships with hospitals, we are able to satisfy diverse user demands, covering a range of healthcare scenarios from acute and urgent diseases to chronic conditions. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. In 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, revenue from our retail pharmacy business accounted for a majority of our total revenue, of which (i) sales of pharmaceutical and healthcare products accounted for 88.4%, 88.8%, 87.0%, 87.5% and 87.6% of our total revenue, respectively and (ii) the marketplace service revenue accounted for 7.9%, 7.4%, 7.3%, 7.3% and 6.8% of our total revenue, respectively.

Online healthcare services

We provide comprehensive online healthcare services, such as online consultation and prescription renewal, chronic disease management, family doctor and consumer healthcare. These services are offered on a 24/7 basis, providing a convenient and trustworthy user experience. We have assembled a team of in-house doctors and external medical professionals across departments and specialties and partnered with numerous third-party hospitals and healthcare institutions. In addition, we are developing our consumer healthcare services. By collaborating with offline consumer healthcare institutions, our platform allows users to make appointments and pay for services such as general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. During the COVID-19 pandemic, we were the first company in China to offer online appointments for COVID-19 nucleic acid testing service. By establishing a hierarchical diagnosis system, we engage with doctors, especially general practitioners, to move consultations for minor and chronic diseases, follow-up visits and health management online, while referring patients with serious and critical diseases to offline medical institutions. As a result, we provide users with high-quality healthcare services, while optimizing the allocation of medical resources and improving the service capabilities of

primary care institutions. For each period of the Track Record Period, revenue from our online healthcare services accounted for an insignificant portion of our total revenue.

Synergistic dual engines of retail pharmacy and online healthcare services

Our retail pharmacy business and online healthcare services are synergistically integrated to create a closed-loop business model, which allows us to enhance our brand image and better serve our users. Users buying our retail pharmacy products provide organic traffic for our online healthcare services, while users of our online healthcare services are potential buyers for our retail pharmacy sales and other consumer healthcare services. Attracted by our well-recognized brand, trustworthy product quality and compelling user experience, users of our retail pharmacy business are more inclined to choose our healthcare services, such as our online consultation and prescription renewal service. Similarly, our healthcare services offer a superior user experience, which in turn enhances our ability to cross-sell more products through our retail pharmacy business and attract users to use more and higher value health management services, such as chronic disease management, family doctor service and consumer healthcare services on our platform.

Technology-driven platform empowering the healthcare industry

Leveraging our supply chain and technology capabilities, we also provide digitalized solutions to other participants in the healthcare value chain.

We actively apply next-generation technologies, including AI, and develop various applications, such as smart consultation assistant, smart prescription verification assistant and smart medical devices. By integrating these applications with our cloud-based technology infrastructure, we provide offline hospitals with holistic solutions covering every aspect of their services. Our partnership with hospitals is vital to our closed-loop business model, helping us consolidate medical resources and attract users.

We further open up our online hospital infrastructure, supply chain and technology capabilities to provide one-stop solutions for individual hospitals and integrated healthcare systems. We help these hospitals and healthcare systems establish digitalized operating systems and improve operational workflows. By integrating these healthcare institutions digitally with our platform, we provide a seamless online-plus-offline healthcare service experience for users across testing, diagnosis, treatment, medication and aftercare.

In addition, leveraging big data capabilities, we provide customer-to-manufacturer (C2M) solutions to pharmaceutical companies and healthcare product suppliers to help them with product research and development. We have also developed “Healthy City” solutions for multiple local governments, exporting our unique value in areas such as primary healthcare, resident health records and medical insurance payment.

Our Financial Performance

We have experienced significant growth during the Track Record Period. We generate revenue primarily from sales of pharmaceutical and healthcare products through our direct sales business, and to a lesser extent, from commissions and platform usage fees from third-party merchants and digital marketing service fees from suppliers and third-party merchants, among others. Our total revenue increased from RMB5.6 billion in 2017 to RMB8.2 billion in 2018 and further to RMB10.8 billion in

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2019. Our total revenue increased from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020.

In 2017, 2018 and 2019, we recorded a profit of RMB178.5 million, a profit of RMB214.9 million and a loss of RMB971.8 million, respectively. For the six months ended June 30, 2019 and June 30, 2020, we recorded a profit of RMB236.3 million and a loss of RMB5.4 billion, respectively. The loss recorded in 2019 and for the six months ended June 30, 2020 was primarily attributable to an increase in the fair value of Series A Preference Shares in 2019 and for the six months ended June 30, 2020 as a result of an increase in our equity value.

Excluding the impact of fair value changes of convertible preferred shares and a few other non-recurring items, we had (i) a non-IFRS profit of RMB209.0 million in 2017, RMB248.4 million in 2018 and RMB344.1 million in 2019; and (ii) a non-IFRS profit of RMB254.0 million for the six months ended June 30, 2019 and RMB370.8 million for the six months ended June 30, 2020. See “Financial Information—Non-IFRS Measure: Non-IFRS Profit For the Year/Period” for more details on this non-IFRS measure.

Our Value Propositions

We believe that we offer compelling value propositions for participants in the healthcare value chain. Leveraging our extensive user reach, strong supply chain capabilities and industry-leading technologies, we connect pharmaceutical companies and healthcare product suppliers, distributors and users. We integrate offline hospitals and our online healthcare platform, connecting patients and doctors, to create a seamless experience. Our platform improves the accessibility of affordable, high-quality healthcare products and services in China, especially for those who live in areas with limited healthcare resources. We have streamlined the distribution channels and improved efficiency and allocation of healthcare resources across the country. We believe that the “Internet + healthcare” ecosystem we build will help to better provide healthcare for everyone, transform the healthcare industry, and create immense value for society.

Value propositions to users

- *High-quality, affordable and reliable products.* We offer our users easily accessible and high-quality pharmaceutical and healthcare products at affordable prices and with flexible delivery options, giving them convenient and trustworthy purchase experiences.
- *Comprehensive online healthcare services.* We offer holistic one-stop healthcare services including online consultation and prescription renewal, family doctor and other health management services on a 24/7 basis. We also list on our platform consumer healthcare services provided by third parties, such as general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests.
- *Access to top quality medical resources.* By partnering with top medical experts, we establish specialist medical centers and provide users with access to scarce and high-quality medical resources. Our users can use our online consultation and prescription renewal service provided by experts or access expert services through referral and collective consultation anytime and anywhere.
- *Seamless online and offline diagnosis and treatment experience.* By partnering with offline medical institutions, we are able to establish a hierarchical diagnosis system and

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provide users with tailor-made medical services covering online consultation and prescription renewal, offline hospital visits and exams and online follow-up visits. By integrating online and offline healthcare services, we are able to increase the efficiency and accuracy of medical consultation and improve results of follow-ups and aftercare.

Value propositions to pharmaceutical companies, healthcare product suppliers and pharmacies

- *Extensive user reach.* Our large active user base provides extensive user reach and better sales and user management for pharmaceutical companies and healthcare product suppliers and pharmacies.
- *Efficient sales and marketing.* We provide manufacturers and distributors with comprehensive marketing solutions to help them reach targeted audiences, such as doctors, users or pharmacies, attract and retain users, enhance brand recognition and improve their returns.
- *C2M initiatives.* By leveraging our data analytics capabilities, we provide insights and recommendations to pharmaceutical companies and healthcare product suppliers so they can produce tailor-made products to enhance user satisfaction.

Value propositions to hospitals and doctors

- *To hospitals.* We offer offline hospitals multiple modular smart solutions that suit their various needs. We are able to provide customized digital solutions for different practices, such as western medicine and traditional Chinese medicine, and institutions such as integrated healthcare systems and public online hospitals. Our solutions can help these hospitals and healthcare institutions save costs, improve operational efficiency and extend the scope and capabilities of their services.
- *To doctors.* We empower doctors with effective tools and resources for patient management and assist them with academic and clinical research. In addition to the attractive remuneration we provide to our doctors, our platform also assists them to further enhance their professional expertise and build their reputation and branding for sustainable long-term career development.

Our Strengths

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

Unparalleled market leadership and economies of scale in retail pharmacy

We are the largest online healthcare platform and the largest online retail pharmacy by revenue in China in 2019, according to the Frost & Sullivan Report. Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our direct sales business operates mainly through *JD Pharmacy* (“京東大藥房”). We have established a supply chain network with industry-leading pharmaceutical companies and healthcare product manufacturers as our suppliers. In addition, we partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses and over 230 other warehouses as of June 30, 2020. Our online marketplace creates synergies with *JD Pharmacy* by satisfying users’ diverse needs and

complementing *JD Pharmacy's* product offerings and strategic advantages, further expanding the product selection and user reach of our platform. As of June 30, 2020, there were over 9,000 third-party merchants on our online marketplace. As of the same date, there were more than 10 million SKUs on our platform and our omnichannel initiative covered more than 200 cities in China.

Through our direct sales, online marketplace and omnichannel initiative, we have built a full presence across different scenarios in retail pharmacy. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively.

Our end-to-end supply chain capabilities are an integral part of our retail pharmacy business, allowing us to connect upstream manufacturers, mid-stream distributors, and downstream pharmacies. We leverage our immense scale to achieve competitive procurement and pricing power, and efficient warehousing and fulfillment. Due to our strengths in the pharmaceutical and healthcare product distribution across China, we are widely recognized by renowned pharmaceutical companies and healthcare product suppliers, making us their preferred distribution and marketing partner.

Fast-growing online healthcare services

We are continuously developing our online healthcare services. In the first half of 2020, we had an average of approximately 90,000 daily online consultations, almost six times of that in the first half of 2019. In order to provide users with holistic healthcare services under various scenarios including testing, diagnosis, treatment, medication and aftercare, we have established our online hospital, cooperated with offline hospitals and built a medical team of 68,720 in-house and external doctors as of September 20, 2020. Our online healthcare services platform connects hospitals, doctors and other healthcare professionals such as pharmacists and nutritionists with our users to provide them with comprehensive services. Leveraging our technology and supply chain capabilities, we are dedicated to empowering hospitals, healthcare institutions, doctors and other healthcare professionals. As a result, we are able to improve the operational efficiency of offline hospitals and healthcare institutions that cooperate with us, and enhance professional expertise of and offer attractive incentive packages to doctors and other healthcare professionals on our platform.

In addition, we partner with leading medical experts to build and cultivate medical professionalism on our platform and help them enhance their brand recognition. As of September 20, 2020, we have established 16 specialist medical centers, including our online cardiology center, led by Professor Dayi Hu (胡大一), and ENT (ear, nose and throat) center, led by Academician Demin Han (韩德民). The high-quality medical professionals on our platform improve service quality and promote cross-selling, increasing user satisfaction and stickiness.

Superior user experience

User experience is center to our ecosystem. By offering them a seamlessly integrated online and offline platform with a wide range of healthcare products and services, we have become a trusted partner and the go-to platform for users' diverse healthcare needs. Users can use our platform on a 24/7 basis and enjoy our holistic, seamless, one-stop and all-scenario health management experience anytime and anywhere. They can access a wide selection of high-quality products at competitive prices with flexible delivery options and choose to receive professional advice when they purchase pharmaceutical and healthcare products. Our online healthcare services further guide our users to the

relevant pharmaceutical, nutrition or dietary supplement products and consumer healthcare services for preventive care, aftercare and wellness management.

Our platform also enhances the accessibility of scarce and high-quality medical resources by connecting and combining online and offline healthcare services. Our users can conveniently consult with experts in a particular field online without traveling long distances to cities with better medical resources. By integrating online and offline healthcare services, we are able to optimize the allocation of medical resources and satisfy users' diverse needs.

Closed-loop business model integrating retail pharmacy and online healthcare services

Our retail pharmacy business and online healthcare services create a self-reinforcing network to fully serve our users' healthcare needs as a one-stop health management platform. Our online healthcare services are highly synergistic with our retail pharmacy business, creating abundant cross-selling opportunities. Users buying our retail pharmacy products provide quality traffic for our online healthcare services, while users of our online healthcare services are potential buyers for our retail pharmacy and other consumer healthcare services. With our well-recognized brand, trustworthy product quality and compelling user experience, our retail pharmacy business allows us to enhance user stickiness and promote our healthcare services. Similarly, our healthcare services generate organic demand for retail pharmacy products. Leveraging our integrated business model and superior user experience, we can capture such demand to realize additional sales for our retail pharmacy business and attract users to more and higher-value healthcare services on our platform, such as chronic disease management, family doctor and consumer healthcare. Through this virtuous cycle, we effectively enhance our brand awareness, lower user acquisition costs and increase purchase frequency.

Cutting-edge technologies empowering the healthcare value chain

We are a technology-driven company and place the utmost focus on continuous improvement of our technological capabilities. In 2017, 2018, 2019 and for the six months ended June 30, 2020, we spent RMB122.7 million, RMB218.3 million, RMB338.2 million and RMB278.2 million on research and development, respectively. Leveraging our strengths in supply chain and technology capabilities, we have developed and operated our platform to empower participants in the healthcare value chain by improving efficiency and optimizing the allocation of healthcare resources.

We provide doctors with a consultation and chronic disease management platform, which allows them to reach a broader user base, establish long-term doctor-patient relationships and build their personal branding. We also help doctors make more accurate and efficient diagnoses by using various AI-driven applications designed to streamline pre-consultation, prescription renewal and drug use management.

We provide smart solutions to offline hospitals to help them develop and build online systems that integrate the whole process of medical services, including appointments, consultation and medical insurance coverage. Our integrated online system utilizes AI-based technologies to achieve process automation, which improves operating efficiency of offline hospitals. In addition, leveraging our and JD Group's leading cloud-based technologies, we also provide technology empowerment in the form of infrastructure as a service (IaaS), platform as a service (PaaS) and software as a service (SaaS), addressing efficiency improvement and patient management needs for hospitals.

We leverage our advantages in big data analytics to provide relevant content to users on our platform. We also integrate our services with smart devices to provide our users with an integrated health management experience. In addition, we have initiated C2M projects to help upstream pharmaceutical companies and healthcare product suppliers to customize products based on users' feedbacks on our platform, providing them with sales channels and efficient marketing solutions for their customized products.

Strong synergies with JD Group

We enjoy significant synergies with JD Group. We carry out cooperation with JD Group in many areas, such as fulfillment, technology, customer service and marketing. The close cooperation allows us to strengthen our respective leading positions. Our strong relationship with JD Group allows us to access over 400 million active user accounts as of June 30, 2020. We leverage JD Group's talent and core technologies to gain actionable insights into user behavior and needs and enhance our digital empowerment capabilities. In addition, we leverage JD Group's strong customer service capabilities to enhance our user experience. Furthermore, we utilize JD Group's supply chain management capabilities and nationwide fulfillment network and partner with other logistics service providers to facilitate our delivery services.

Visionary and experienced management team

Our management team is composed of executives with extensive experience in both internet and healthcare industries, many of whom are pioneers in the fast-growing "Internet + healthcare" sector. They are dedicated to delivering better healthcare services to users and leading the industry transformation with their clear vision and passion for the industry. Our management has nurtured a corporate culture of integrity, passion, customer-focus, teamwork, learning and efficiency. These values, along with our market leadership position and our employee training, career development and incentive programs, have contributed greatly to motivating and retaining our talented employees.

Our Strategies

We strive to achieve our long-term goal of helping optimize healthcare resources allocation and accelerate industry transformation. To achieve this goal, we intend to pursue the following strategies:

Further expand our user base and enhance user engagement

We plan to further promote our brand to attract new users and expand our user base. We will further integrate online and offline services to reach, serve and retain more users. We plan to continue to broaden and deepen our product and service offerings, optimize our service process and enhance overall service quality to improve user experiences. We also plan to further strengthen our supply chain capabilities and enhance our value propositions to our users. We intend to leverage our insights into user demand and preferences to develop data-driven personalized healthcare product and service offerings, in order to enhance user engagement with our platform on an ongoing basis.

Reinforce our supply chain capabilities in pharmaceutical and healthcare products

We plan to continue to build our supply chain capabilities and expand our pharmaceutical and healthcare product offerings to target more scenarios, from common and chronic diseases to acute and serious diseases, and cater to all aspects of users' healthcare needs. We plan to further enhance our

strengths in our omnichannel initiative to meet users' evolving demands. We also plan to experiment with the retail distribution channel in hospitals. We will continue to deepen our cooperation with JD Group to strengthen our fulfillment capabilities across China. In addition to continuing to utilize JD Group's supply chain management capabilities, we plan to continue to invest in and improve our specialized supply chain management to enhance service capability and operational efficiency.

Grow our online healthcare services

We intend to further expand our online healthcare service offerings by providing diversified healthcare solutions, such as our chronic disease management service and family doctor service. We plan to introduce and cross-sell high-quality personalized healthcare services to users when they purchase pharmaceutical and healthcare products on our platform and provide users with a superior user experience throughout the full cycle of services. Meanwhile, we also aim to provide users with opportunities to access and utilize more consumer healthcare services through our platform.

We plan to strengthen our online hospital services and expand our medical center initiative to cover more therapeutic areas by establishing more specialized departments and attracting top medical experts and specialists. As we continue to enlarge our in-house and external medical teams, we aim to satisfy the full array of demands from users. We plan to further integrate our online hospital service with our other service offerings and offline hospital network to expand our user base, offer more services and provide a comprehensive online-plus-offline user experience, enhancing and driving more synergies through our closed-loop business model.

Enhance our technology empowerment solutions and continue to innovate

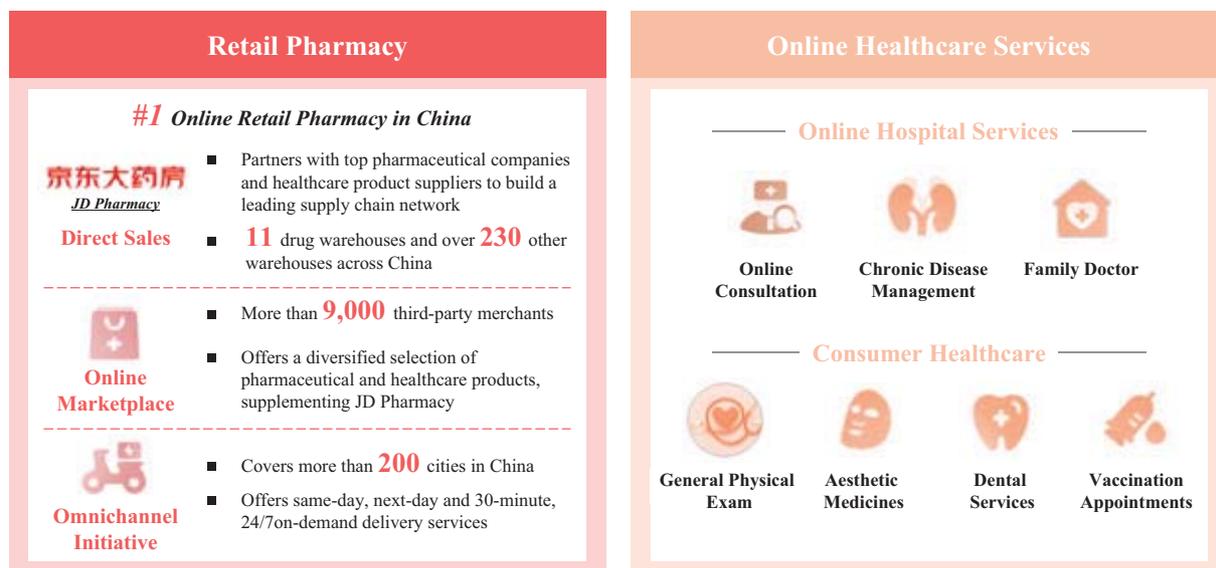
We plan to continue building an integrated online and offline hierarchical diagnosis system. By moving minor or common diseases consultation and follow-up visits online while referring serious and critical diseases offline to specialists, we are able to optimize the allocation of medical resources and enhance efficiency in the healthcare industry. We intend to continue to improve our smart solutions for offline hospitals and medical institutions to cater to their specific needs and a wider range of medical scenarios and to transform hospital experiences for both users and medical professionals. We plan to provide offline hospitals with holistic digitalized solutions, such as software, IoT systems and integrated platform solutions to improve daily operational efficiency, including patient monitoring and management.

We plan to continue to develop digital infrastructures and AI-powered solutions for other participants in the healthcare value chain, enabling such participants to provide quality products and services supported by reliable, responsive and scalable infrastructures and applications. We also plan to further strengthen our partnerships with pharmaceutical companies and healthcare product suppliers, and continue to leverage our strong data analytics capabilities to advance our C2M initiatives to provide our partners with insights on user needs, so that they can customize and refine products to meet users' diverse and evolving needs. Meanwhile, we plan to continue to explore additional opportunities to empower upstream players in the healthcare value chain, such as digitalizing their transactions with downstream pharmacies on our platform.

We plan to further enhance our technologies and data analytics capabilities and create more applications backed by AI and other advanced technologies for our online hospital services. We also plan to develop more precise targeted services for our users to further enhance user experience and

efficiency. In addition, we aim to continue to attract and cultivate more talent in the areas of software engineering, data science, AI and other technological frontiers.

Our Business Model



Our business primarily consists of retail pharmacy business and online healthcare services, connecting users, pharmacies, pharmaceutical companies and healthcare product suppliers, hospitals, medical professionals, and other healthcare participants and aiming to improve the efficiency and transparency of the healthcare value chain.

Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our online healthcare services consist of online hospital services and consumer healthcare. Our online hospital services primarily include online consultation and prescription renewal, chronic disease management and family doctor service. Our consumer healthcare service allows users to make appointments and pay for offline consumer healthcare services, such as general physical exams, aesthetic medicines, dental services, vaccination appointments and genetic tests.

Leveraging our technology infrastructure and capabilities, we provide digitalized smart healthcare solutions to hospitals by helping them build their own online hospital system and internal digital infrastructures. In addition, we are experimenting with an online drugs wholesale platform, aiming to connect upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies. During each period of the Track Record Period, revenue from our online drugs wholesale platform represented an immaterial portion of our total revenue.

Our retail pharmacy business and online healthcare services complement each other to create a synergistic closed-loop business model in the healthcare value chain. Our retail pharmacy business directs its user base to our healthcare services for online consultation and prescription renewal. Through offerings such as chronic disease management and family doctor service, as well as high-quality service and brand recognition, our online healthcare services redirect their user traffic back to our retail pharmacy business for purchase of other healthcare products such as supplements and medical devices. The two businesses reinforce each other, forming a virtuous cycle and symbiotic ecosystem.

Retail Pharmacy

Our retail pharmacy business is an integral part of our closed-loop business model and is the largest online retail pharmacy by revenue in China in 2019, according to the Frost & Sullivan Report. The following screenshots illustrate the interface of our retail pharmacy platform.



Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our direct sales business operates mainly through *JD Pharmacy* (“京東大藥房”). We have established a supply chain network with industry-leading pharmaceutical companies and healthcare product suppliers. In addition, we partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses and over 230 other warehouses as of June 30, 2020. Our online marketplace leverages our brand recognition, large and growing user base, and proprietary technology platform, and offers more diversified pharmaceutical and healthcare products and supplements those of *JD Pharmacy*. As of June 30, 2020, there were over 9,000 third-party merchants on our online marketplace.

Growth in the number of our active user accounts is a key driver of the revenue growth of our retail pharmacy business. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. Growth in annual active user accounts was primarily driven by our success in attracting new active user accounts, as we continually grow our brand awareness and cultivate user habit. We have a growing and loyal user base. Over the years, our users have shown loyalty to us through their increased activity levels. We expect our retail pharmacy business to continue to grow in the foreseeable future as we attract more users to our platform.

The main users of our retail pharmacy business are individuals seeking pharmaceutical and healthcare products. The main products that we offer can be divided into the following categories:

- *Pharmaceutical products.* We offer a comprehensive selection of all the common over-the-counter (OTC) (such as cough, cold, allergy and pain relief medications) and

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prescription drugs. We believe that this market is expected to continue growing due to an aging population, the rise of chronic diseases in China and the growing demand of consumers for more convenient and higher quality drugs offerings. We also believe that the current shift in policy that encourages pharmacies to fulfill certain prescriptions for chronic disease will continue in the future, and will further contribute to the growth of the prescription drugs market.

- *Medical supplies and devices.* We offer a comprehensive selection of general purpose medical supplies and devices, including contact lenses, adult products, family planning products, as well as medical devices for home healthcare, aftercare and health monitoring. We expect this market to continue growing due to the aging Chinese population and the increasing market acceptance of portable medical devices.
- *Health and wellness products.* We display health and wellness products including a variety of dietary products, immunization boost products, supplements, herbs, homeopathy and traditional Chinese health products (such as Chinese food medicine and traditional wellness supplements). We believe that increasing interest in health and wellness products to improve physical and mental well-being has contributed to growth in this category. Outbreaks of COVID-19 have further shifted the population's mindset and raised health awareness in China.

Product revenues, which are generated by sales of pharmaceutical and healthcare products through our direct sales business, accounted for a significant portion of our total revenues. In addition, we earn commissions and platform usage fees from third-party merchants for sales made through our online marketplace. We also earn service fees from our suppliers and third-party merchants for digital marketing services that we provide upon their request. Our digital marketing services are provided to advertisers, primarily consisting of third-party merchants on our and JD Group's various website channels and third-party marketing affiliates' websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which advertisers are charged based on display per thousand impressions or per effective click on their products or service listings. Our third-party merchants, when joining our marketplace, have the options to open an advertising account through which they could elect to advertise their products on our or JD Group's platform, as well as third-party platforms. For each of the three years ended December 31, 2017, 2018 and 2019, and for the six months ended June 30, 2020, more than 50% of our third-party merchants used our advertising services. When the online marketing services are rendered using our resources and/or platforms, we act as the principal and recognize the gross amounts of services provided because (i) we own and control the digital marketing resources and can determine the transfer of the services to the customers; (ii) we have full discretion in determining the pricing for digital marketing services delivery; and (iii) we retain the inventory risks that the digital marketing resources are not sold out. When the online marketing services are rendered using JD Group's resources and/or platforms or using resources outside both our Group and JD Group's platforms, we act as the agent and recognize the revenue for the shared marketing services fees from JD Group since we do not satisfy the criteria mentioned above. See "Connected Transactions—6. Marketing Services Framework Agreement" for more details on the marketing services fee sharing arrangement between our Group and JD Group.

Direct sales

Under our direct sales model, we primarily generate revenues from product sales, purchasing pharmaceutical and healthcare products from suppliers and selling them directly to users. Our direct sales business operates mainly through *JD Pharmacy*, which can be accessed through the websites and mobile apps that we operate. In addition, we directly operate a number of offline pharmacies through our direct sales model. As of June 30, 2020, we had 23 offline pharmacies in 13 cities in China. During each period of the Track Record Period, revenue from our offline pharmacies represented an immaterial portion of our total revenue.

Under the direct sales model, we sell products directly from our inventory. We manage our inventories and adjust inventory level based on fluctuation in supply and prices, seasonality, product popularity and shelf life. We partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses to store our OTC and prescription drugs inventory and over 230 other warehouses to store non-drug products. We also partner with JD Group and other third-party express delivery companies for the delivery of our products. See “—User Experience—Fulfillment” for a more detailed description of our fulfillment capabilities.

In addition, we have established a supply chain network with industry-leading pharmaceutical companies and healthcare product suppliers. Leveraging our large volumes of procurement and industry renowned brand image, we mostly negotiate directly with pharmaceutical companies and healthcare product suppliers to maintain competitive pricing. For more details on our selection of suppliers and our collaboration with our suppliers, see “—Merchandise sourcing.”

Online marketplace

We introduced our online marketplace to leverage our brand recognition, large and growing user base, and proprietary technology platform. Our online marketplace allows chain and independent pharmacies and manufacturers and suppliers of pharmaceutical and healthcare products to sell pharmaceutical and healthcare products through our platform. As of June 30, 2020, there were over 9,000 third-party merchants on our online marketplace.

Our online marketplace boosts our user base through an expansion of product selection and third-party merchants’ brand recognition. We aim to offer purchasers on our online marketplace the same high-quality user experience regardless of the source of the products they choose.

We attract a diverse range of pharmacies from local stores to leading national chains. Some pharmaceutical brands also host their flagship online stores on our platform. We have put in place a rigorous selection process for third-party merchants that wish to participate in our online marketplace. They must obtain and possess the relevant licenses and certificates for their business. We also assess third-party merchants’ ability to fulfill online orders and conduct video trainings to improve their customer service capabilities. Once a third-party merchant joins our platform, we monitor its activities regularly, including sales, customer service and user satisfaction. We offer incentives to merchants that perform well and attract a large user stream. Furthermore, we provide transaction processing and billing services on all orders placed on our online marketplace and require third-party merchants to meet our strict standards for product authenticity and reliability.

Our online marketplace offers some long-tail products that we do not offer through *JD Pharmacy*, which supplements the product selections on our platform. See “—Synergies among our

three retail models.” Third-party merchants are usually responsible for their own inventory management, fulfillment and delivery.

We primarily collect commission fees and platform usage fees from third-party merchants according to the terms of our individual contracts with them. The commission fees are generally charged as a percentage of sales, depending on product category, among other things.

Omnichannel initiative

Our omnichannel initiative is a location-based service for on-demand delivery needs of users by leveraging the on-demand intra-city delivery services of our business partners. Under our omnichannel initiative, offline pharmacies join our platform by providing us with access to their inventories, and we manage all steps of their online sales for them, including online listing on our platform and deliveries. When a user uses our omnichannel services, the location-based service on the app we operate will find pharmacies that are near him or her. After the user places an order with the nearest pharmacy on our platform, the pharmacy will receive the order and prepare products, while we manage the fulfillment process for the pharmacy.

As of June 30, 2020, our omnichannel initiative covered more than 200 cities in China. In the future, we hope to introduce more high-quality merchants to further diversify product offerings to our users.

Our omnichannel initiative particularly caters to individuals who have an urgent or special need for certain pharmaceutical and healthcare products. It serves as a complement to our direct sales and online marketplace by offering various express delivery options to fulfill a consumer need that has been underserved by traditional channels, including same-day, next-day and 30-minute, 24/7 on-demand delivery services. We partner with industry-leading on-demand delivery service providers to deliver omnichannel merchants’ products. See “—User Experience—Fulfillment.”

We charge pharmacies that participate in our omnichannel initiative commission fees based on the sales volume fulfilled by us.

Synergies among our three retail models

Our direct sales, online marketplace and omnichannel initiative models work together to create strong synergies that satisfy a user’s need for diverse product selections, competitive pricings and flexible delivery time options. Our direct sales leverages our supply chain and massive scale to realize competitive pricing, superior customer services and efficient order fulfillment. Our online marketplace complements our direct sales in terms of selection of products. The omnichannel initiative offers express delivery that satisfies urgent medical needs.

Both our direct sales and online marketplace offer pharmaceutical and healthcare products, despite sometimes having different SKUs for certain categories. We believe that the product offerings of the two business models complement each other and satisfy all kinds of user needs. We provide third-party merchants with the flexibility to manage their own online store operations on our online marketplace. We constantly monitor the performances of direct sales and online marketplace to ensure that they operate seamlessly and effectively together.

Our omnichannel initiative supplements where our direct sales and online marketplace cannot fulfill consumer needs, especially in urgent needs. This allows us enter into the market traditionally

occupied by offline retail pharmacies. With its nationwide presence, our omnichannel initiative can deliver products faster to our users.

Merchandise sourcing

We select our suppliers and third-party merchants based on qualification, brand, past experience with e-commerce, reliability and volume. We perform background checks on suppliers and third-party merchants as well as the products they provide before we enter into any agreement. We examine their business licenses and the relevant licenses and certificates for their products. We evaluate their brand recognition and make inquiries about the market acceptance of their products among players in the same industry. We also selectively conduct on-site visits to assess and verify their location, scale of business, production capacity, property and equipment, human resources, research and development capabilities, quality control system and fulfillment capability.

We require the majority of our suppliers and third-party merchants to place an upfront deposit with us for quality control purposes. We have also put in place stringent rules governing the operations of suppliers and third-party merchants on our platform to ensure that the pharmaceutical and healthcare products provided on our platform comply with applicable PRC laws and regulations. We also conduct regular reviews on the performance of third-party merchants.

We have established a team dedicated to the management of our suppliers and third-party merchants on our platform with respect to product quality, logistics and after-sales customer services. We monitor on a daily basis data relating to logistics and customer services on our platform, and communicate with the relevant suppliers and third-party merchants when issues arise.

Furthermore, we have initiated a few C2M projects with industry-leading pharmaceutical companies and healthcare product suppliers where we help them customize certain products. Our ability to initiate C2M projects is rooted in our deep understanding of users in the healthcare industry based on big-data analytics and JD Group's strong supply chain capabilities. The C2M model is mutually beneficial to us and upstream participants. It gives us a special competitive edge in the online retail pharmacy market, while upstream pharmaceutical companies and healthcare product suppliers obtain unique insights on launching targeted products. Our vast user base and integrated retail pharmacy business also lower their risks and costs relating to research and development (R&D) activities and sales.

Prescription drugs ordering

We accept prescriptions from licensed healthcare providers and also offer online prescription renewal services. Our in-house doctors and external doctors who have completed their multisite registration can renew existing prescriptions. Users can consult with our doctors about medication information and purchase prescription drugs on our platform. We have a stringent, AI-assisted prescription verification system to manage the risks associated with the sales of prescription drugs, implemented and closely monitored by our in-house and external doctors and pharmacists.

During the Track Record Period, purchase of pharmaceutical and healthcare products or online healthcare services on our platform was generally not covered by the health insurance scheme in China. We believe that over the next few years we will see a clearer pathway for access to the nation's health insurance system as the Chinese government has been exploring the possibilities of integrating the healthcare system with online healthcare platforms.

Online Healthcare Services

In addition to selling pharmaceutical and healthcare products, we also offer convenient access to a wide spectrum of healthcare services on our platform. The online healthcare services is an important extension to our retail pharmacy business and an integral part of our closed-loop business model. We aim to integrate the entire healthcare value chain by cultivating a nationwide network that connects users with comprehensive online and offline healthcare resources. The online healthcare services that we offer primarily include the following:

- *Online hospital services.* Our online hospital services primarily include online consultation and prescription renewal, chronic disease management and family doctor service. These services are provided by our in-house and external medical teams.
- *Consumer healthcare.* We also list a variety of consumer healthcare services, including general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. Users can make appointments and pay for these services on our platform.

According to the Frost & Sullivan Report, there is substantial room for growth in China's online healthcare service market, aided by growing health awareness, further implementation of favorable policies, increasing penetration of online healthcare services and continued technological innovation. Technologies such as big data, cloud storage and AI can substantially improve the quality and efficiency of online healthcare services.

Online hospital services

We are one of the first online platforms to obtain practicing medical licenses in China. Our online hospital services platform connects doctors with patients to achieve a streamlined and affordable experience. It can be accessed through the mobile apps that we operate. The following screenshots illustrate the interface of our online hospital services platform.



When we launched our online hospital services, we mainly targeted to fulfill users' need to purchase prescription drugs online by offering online prescription verification and renewal service. Since then, we have expanded our online hospital services to include consultation and prescription renewal, chronic disease management and family doctor service. Since 2019, we have built a medical team consisting of both in-house and external doctors. In August 2020, we launched our family doctors service. Both our in-house and external doctors provide services similar in nature and scope, namely, online consultation services and prescription renewal services. Our in-house doctors and external doctors may specialize in different disease areas and their respective expertise complements each other to enable us to provide better user experience. For example, depending on the syndromes, required consultation duration and format, a patient may be served by both our in-house doctors and external doctors in a single session or multiple sessions. Our online hospital services platform has now grown to a comprehensive online service platform that seamlessly integrates with our online retail pharmacy business.

Online consultation and prescription renewal

Our online consultation and prescription renewal service encompasses a wide range of conditions and cases, with a focus on common and chronic diseases. For serious or urgent conditions, we generally recommend patients to an offline hospital.

Our online consultation and prescription renewal service is staffed by our in-house doctors and other medical professionals, as well as external doctors and medical experts that join our platform. For details on our medical team, see “—Our medical team.”

We have developed a seamless, multi-step online consultation process to better suit the specific nature of our online hospital services. Patients who use our online consultation and prescription renewal service start by choosing from one of our personalized consultation service offerings, such as express consultation, phone and video consultation, and consultation with a designated doctor. Patients are given specified timeslots, during which they can communicate with their designated doctor freely. The timeslots range from 15 minutes to 48 hours, based on the type of consultation service and the urgency of the consultation needs. Patients then answer a series of AI-assisted screening questions including the reason for the visit, symptoms and medical history. Patients could choose to describe their symptoms via text, picture, phone, video and live chat. A team of medical professionals then recommend a list of doctors to the patients based on the answers to the screening questions and assistance from our smart routing system. Patients can also browse our doctor bank by department and select a doctor of their own choice (with an additional fee). Once a doctor has accepted the consultation request, the patient and the doctor are connected on our platform and can communicate through the method that the patient chooses, such as text, picture, phone, video and live chat. If needed, the patient can describe to the doctor his or her need for prescription renewal. The following screenshots illustrate the interface of our online consultation and prescription renewal service.



Based on a patient’s response, the doctor provides medical recommendations and prescription renewal or advises the patient to conduct examinations at hospitals and upload the results to our system for follow-up consultations. We remain as a point of contact for patients from the beginning of a medical journey to the end, including follow-up exams, prescription and disease management. We also partner with well-known experts in the industry to build and cultivate specialized practices on our

platform and help them enhance their brand recognition. As of September 20, 2020, we have established 16 specialist medical centers with well-known external experts, including our cardiology center, led by Professor Dayi Hu (胡大一), and ENT (ear, nose and throat) center, led by Academician Demin Han (韓德民). Our specialist medical centers are designated online consultation service portals, which can be accessed through websites and mobile apps we operate. Users who have better understanding of their conditions can use these medical centers to directly connect with specialists (who are external doctors we collaborate with) of their desired practice area, without having to go through general physicians on our platform first. Segmenting online consultation services by certain practice areas also better helps specialists build their brand and target patients with specific demands. Pursuant to our arrangements with these external experts, we allow them to set prices for their online consultation sessions. We charge commissions from these external experts who charge patients fees for their online consultation services. The commission amount and calculation methods (as a percentage of the consultation fees or a flat fee) are determined on a case-by-case basis, depending on the specific expert's expertise, experience, practice area and reputation, among others. In addition, we receive the gross consultation fees from patients and remit the net consultation fees on a monthly basis to external doctors after deducting commissions. In the future, we plan to establish more specialized centers to cover most areas of medical care. By establishing a hierarchical diagnosis system, we move consultations for minor and chronic diseases, follow-up visits and health management online, while referring patients with serious and critical diseases to offline medical institutions, hence optimizing the allocation of medical resources.

We have adopted a review system for patients to provide ratings and feedback of their experience in order for us to monitor our medical team's performance and to incentivize our medical professionals to improve their quality of services. Patients can also access their consultation history and communicate with doctors for follow-up or new consultations.

External doctors on our platform can choose to charge patients a standard fee that we suggest or charge their own rates. We charge the doctors commissions based on the fees they charge.

Our online hospital services are integrated with our retail pharmacy business to form a closed-loop business model. Once a patient gets a prescription, he or she can then purchase the products through our retail pharmacy business. In the first half of 2020, we had an average of approximately 90,000 daily online consultations, almost six times of that in the first half of 2019.

Chronic disease management

We provide a chronic disease management platform, which consists of a patient management portal in a mobile app form for doctors and a Weixin portal for patient-doctor communications. Our chronic disease management platform improves treatment efficiency, streamlines patients' user experience and enables doctors to reach a broader patient base. Our chronic disease management platform is a cloud-based system that currently focuses on diabetes and will gradually expand to other chronic diseases in the future. Through this platform, we empower doctors with effective AI-powered treatment, patient management and specialist service tools, allowing them to more efficiently follow up with and manage their patients and providing them with a platform to conduct research through their consistent and convenient communication with their patients. The platform also allows doctors to build their personal branding. Leveraging our supply chain capabilities, the platform integrates with our retail pharmacy business, giving doctors and patients seamless access to our product offerings. We charge patients who use the platform a monthly subscription fee. Doctors can also set higher prices for

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value-added services. Furthermore, we have partnered with local governments and hospitals to build a variety of centers focused on medical data management, medical insurance cooperation and pharmaceutical logistics, utilizing our technology and supply chain.

Family doctor service

We launched our family doctor service in August 2020. It is a packaged service that includes a dedicated family doctor, unlimited specialist consultations, doctor referrals, 24/7 health manager service and other services. Our family doctor service provides families with a team of doctors, including generalists, specialists and external renowned doctors. In addition to consultation services, it also provides health management, chronic disease management and life-cycle service. Our family doctor service is unique in that it provides a holistic, multi-layer health management experience. By allowing family members to manage their health from the same portal, it serves the previously unmet demand for family doctors in China. Our family doctor service is accessible through mobile apps operated by us, and we charge fees based on the package that a family chooses.

Our medical team

Our online hospital services are staffed by our in-house doctors and other medical professionals, as well as external doctors and medical experts that join our platform. Our in-house doctors are on our online hospital platform full-time, providing users with services of fast turnaround times, while external doctors on our platform can respond to users' requests at their convenience, supplementing large numbers of consultation needs that may not be fulfilled by our in-house team.

Our full-time in-house medical professionals are pivotal to our on-demand, real-time online healthcare services. We schedule shifts to match peak and off-peak periods of online consultation over a day. As of June 30, 2020, the licensed doctors in our in-house team had on average over 15 years of experience as medical professionals. All of our in-house doctors are graded as attending doctors and above.

We have put in place a stringent selection process for in-house doctors who wish to participate in our online hospital services, which involves interviews, background checks, written tests and in-role trial evaluations. We generally select doctor candidates who are passionate about the online healthcare industry, possess a customer service mindset and are willing to accept challenging and creative tasks. We require our in-house doctors to maintain relevant professional certifications, including Physician Qualification Certificate, Physician Practice Certificate and Title Certificate.

We provide ongoing training and professional development programs to our in-house doctors and medical assistants. These programs encompass general and specialized medical knowledge, case studies, corporate culture and IT skills, which are designed to enhance their professional knowledge and management skills and improve their performance. We conduct monthly evaluations of our in-house doctors and medical assistants in respect of quality of service, user feedback and efficiency. Compensation for our in-house doctors consists of a base salary and performance-based bonus, which is typically calculated based on monthly evaluations. We have also established a rigorous in-house quality control system.

In addition to our in-house medical team, we host a large number of external doctors on our online hospital services platform to provide consultation services to our users. External doctors can

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register with us to access our broad user base. External doctors registered with us are required to comply with both our specified work scope and quality requirements and the applicable rules and regulations. In particular, external doctors are required to provide evidence of their professional qualifications and can only issue prescriptions on our platform after they have completed multisite practice registration for our verification. We also reserve the right to modify the relevant terms regarding external doctors' scope of service, pricing, and how services are performed when necessary.

We enter into our standard employee contracts with our in-house doctors. We conduct performance evaluation for our in-house doctors quarterly to provide feedback on their performance. Compensation for our in-house doctors typically consists of base salary and a discretionary, performance-based bonus. We generally maintain good employer-employee relationship with our in-house doctors, and we have not experienced any material labor disputes. See “Business—Employees” for more information on our arrangement with our employees.

We and our external doctors enter into service agreements, pursuant to which our external doctors provide users with online consultation services subject to relevant rules and regulations. External doctors represent and warrant to us, among others, that (i) they have provided true and accurate personal information to us; (ii) they have registered with relevant authorities and obtained all necessary licenses and certificates to practice through our platform; (iii) they only use user data obtained through their services within the scopes thereof and agreed to by the users; and (iv) they do not issue new prescriptions but only prescription renewals. In addition, we have the right to deal with and settle medical complaints and claims arising from external doctors' services, for which they may be subject to medical liabilities. We have the right to terminate the service agreement if the external doctor provides us with false personal or professional information, violates the terms thereof, or under any other circumstances that we deem fit. The service agreements typically provide that the external doctors will receive the net consultation fees after we deduct commissions from the gross amount. We also carry and pay for professional liability insurance covering medical malpractice claims for our in-house doctors and external doctors that provide prescription renewal services on our platform. As advised by our PRC Legal Adviser, we may be subject to medical liability in connection with the services provided by our external doctors. We carry professional liability insurance covering medical malpractice claims in amounts that we believe are appropriate to cover the potential liabilities that we may face in relation to the services provided by our external doctors. Our in-house and external doctors shall comply with the Measures for the Administration (《處方管理辦法》), which regulates the administration of prescriptions in particular, regulates that doctors are subject to making prescription recommendations to patients based on treatment standards and drug instructions. See “Regulations—Regulations relating to Healthcare Services—Prescription Management.” In addition, for the standardization of prescription verification in medical institutions, NHC, State Administration of Traditional Chinese Medicine and Logistics Department of the Military Commission of the CPC Central Committee jointly issued the Rules for Prescriptions Verification in Medical Institution (《醫療機構處方審核規範》), which provides for detailed requirements for prescription verification from different perspectives, including but not limited to the validity, standardization and appropriateness of prescription. We have implemented prescription review procedure on our platform complying with such rules among others. See “Business—Corporate Social Responsibility.”

As advised by our PRC Legal Adviser, our in-house and external doctors are permitted to receive monetary and other compensation and benefits from us under current laws and regulations pursuant to the service agreements or employment contracts entered into between them and us. In addition, pursuant to the Drug Administration Law (《藥品管理法》), pharmaceutical companies are

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prohibited from offering any improper compensation or benefit to doctors of medical institutions where the drugs of such pharmaceutical companies are used. Doctors that fail to comply with the abovementioned rule may be subject to license revocation, confiscation of the illegal gains therefrom, and criminal liabilities.

In the first half of 2020, more than 90% of our online consultation sessions were free of charge. For the paid online consultation services provided by the in-house doctors and a majority of the external doctors, we set the consultation fees based on a variety of factors, such as communication methods (text, phone and video, live chat) and timeslot length (30 minutes, 24 hours, 48 hours). In addition, we allow certain renowned external doctors to set consultation fees in their sole discretion for their online consultation sessions, among whom some choose to offer their consultation services free of charge to attract more patients and build their online reputation and others may charge consultation fees as much as thousands of RMB. We charge commissions from external doctors who charge consultation fees for their online consultation services. The commission amount and calculation methods (as a percentage of the consultation fees or a flat fee) are determined on a case-by-case basis, depending on the specific doctor's expertise, experience, practice area and reputation, among others. During the Track Record Period, for the paid online consultation services, we generally charged no more than 20% of the consultation fees per session as the commission. Our in-house doctors are our employees, who get compensated pursuant to their respective employment agreements with our company and typically receive monthly salaries and discretionary, performance-based bonus. Our external doctors get compensated pursuant to their respective service agreements with our company, and they typically receive the net consultation fees after we deduct commissions from the gross amount we receive from patients. We typically settle payments with our external doctors on a monthly basis.

Consumer healthcare

Our consumer healthcare service allows users, both individuals and corporations, to make appointments and pay for consumer healthcare services provided by offline healthcare institutions. With services offered by an extensive network of service providers, we bridge the gap between demand from users and the supply by healthcare institutions. Our consumer healthcare service enables users to enjoy a variety of high-quality and easily accessible healthcare service packages at reasonable prices while lowering user acquisition costs of service providers.

Currently, the consumer healthcare services that we list on our platform include general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. We typically partner with third-party healthcare providers to integrate their services and appointments onto our platform. A user on our platform is able to obtain information about specific services that a healthcare provider offers, read other users' reviews, make an appointment and pay for the services.

We carefully select and manage our partnering consumer healthcare service providers based on several factors, including their reputation, scale of business, service quality and capabilities, as well as their facilities. We require our partners to maintain appropriate licenses, comply with relevant laws and regulations and follow our standard practices, including product offerings, service guidance and pricing. We closely monitor feedback from users on the services provided by the service providers.

Smart Healthcare Solutions and Other New Initiatives

Leveraging our technology infrastructure and capabilities, we provide smart healthcare solutions to hospitals and other medical institutions, as well as our suppliers and pharmacy partners.

We create and offer various applications and solutions designed for different scenarios based on their respective needs, including but not limited to clinical diagnosis and treatment, prescription management system, public health supervision and population health management.

We provide hospitals with holistic smart solutions that improve their daily operational efficiency and help them better serve patients. We help hospitals establish an online hospital system that integrates their services and data, offering a variety of digitalization-based solutions, including (i) online appointment systems, payment systems and patient index systems; (ii) IT infrastructures, such as IoT and data storage solutions; and (iii) integrated platform solutions for medical resource management. Our smart solution partnerships with hospitals provide us with a variety of business opportunities, including medical devices orders, patient referral, and other value-added services. In the future, we seek to provide smart solutions to more hospitals across China, which is an important component of our business strategy.

In addition, we are experimenting with an online drugs wholesale platform, *Yaojingcai* (藥京采), that connects upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies. During each period of the Track Record Period, revenue from our online drugs wholesale platform represented an immaterial portion of our total revenue. We strive to improve the efficiency of the whole healthcare value chain through digitalizing the overall process.

User Experience

In the past several years, we have accumulated a massive targeted user base, and formed a multi-level and full-cycle user management. With superior user experience and effective user management, we effectively improve user engagement and have also obtained user insights from our platform. Meanwhile, with a focus on strengthening professional services, we are committed to enhancing users' trust in us and our brand influence through trustworthy and reliable services and unparalleled user experience. In addition, our strong relationship with JD Group allows us to access over 400 million active user accounts.

Based on JD Group's industry leading technology capabilities and our own experience in the healthcare industry, we are committed to optimizing user experience and achieving user satisfaction for the products and services we provide on our platform. In addition to our relentless focus on providing authentic and high-quality products, we also focus on several aspects, namely, compelling online experience, competitive pricing, superior customer service, timely and reliable fulfillment and delivery, and convenient payment options.

Online experience

We believe that providing a compelling online experience is critical to attracting and retaining users and increasing orders. Our products and services are offered primarily through the content-rich and user-friendly websites and mobile apps operated by us.

The websites and mobile apps that we operate provide easy site navigation, basic and advanced search functions, comprehensive product/service information and a large volume of user reviews and ratings, with a broad selection of pharmaceutical and healthcare products and healthcare services at competitive prices. These features address users' desire to view, understand and compare products and services before purchasing. We have also designed features that specifically cater to users' needs and concerns with regard to pharmaceutical and healthcare products and healthcare services.

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The websites and mobile apps that we operate primarily contain the following information and features:

- *Comprehensive product and service information to support prompt decision-making.* Each product page contains pictures of the product, the price, a pull-down menu to show whether the product is in stock at the user's location, user reviews and ratings, the discount from the suggested retail price, and whether the product will be delivered by us or by a third-party merchant on our online marketplace. Given the nature of pharmaceutical and healthcare products, we also provide the following information to better suit a user's needs:
 - *Full product information.* Each product available on our platform can be viewed in an expanded format where all package information, including ingredients, directions and warnings, can be read next to an enlarged photograph of the product. We also display government approvals for each medical product. Furthermore, we provide an easy way for users to find the information they need to make an informed purchasing decision, including buying guides, reference information and interactive shopping advisors.
 - *Access to our online healthcare service offerings.* The websites and mobile apps that we operate give users access to our online hospital services, so that they can individually communicate with doctors, pharmacists and other medical professionals to better understand the efficacy of drugs and drug alternatives, and accommodate their personal needs.
- *One-stop experience covering both products and services.* Our platform offers users a one-stop experience by integrating pharmaceutical and healthcare products and healthcare services. Users can thus fulfill all of their healthcare needs on our platform anytime and anywhere.
- *Interactive user community.* The websites and mobile apps that we operate contain a large volume of helpful user-generated content. For each product and service, users can provide reviews and ratings that are featured prominently on the product page. We believe that user-generated content is an effective tool for giving users the confidence to order products online that they are not personally familiar with.
- *Smart ordering and tracking process.* We continue to leverage our and JD Group's technology to optimize the ordering process, making the shopping experience more convenient and enjoyable. For example, when users review their shopping carts, not only do we display the special non-drug offers available at the time for the products in the users' shopping carts, but we also combine the existing coupons in our users' accounts with special offers, and calculate the all-in benefits for users to provide them with maximum benefits. Users can log into their accounts to check the status of their orders. For products sold through our direct sales, users can also track their location in real-time on an online map.

Pricing

We offer competitive pricing to attract and retain users. We are making continual efforts to set our prices to be competitive with those on other major online retail platforms and in physical stores in China. We typically negotiate with our suppliers for prices that are comparable to or lower than those

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offered to retailers in other healthcare product sales channels. In addition, to encourage repeat purchases, we provide purchasers with a variety of purchasing options and bundle sales, such as coupon packages and monthly subscriptions (for chronic diseases). We notify our users for products that need regular purchases to direct repeat purchases back to our platform. Furthermore, we continue to enrich our product and service offerings while maintaining attractive prices.

Customer service

Providing satisfactory customer services is a high priority. We leverage JD Group's customer service capabilities and customer service team for the online healthcare business to offer the following services to our customers:

- *24/7 customer service center.* We leverage JD Group's 24/7 customer service centers to handle all kinds of customer queries and complaints regarding our products and services. Users can make queries and file complaints via various channels, such as phone calls, online written instant messaging, our official accounts on Weixin and Weibo, and through email.
- *Returns and exchanges.* Given the special nature of drugs, we generally do not allow users to return or exchange them on our online marketplace, unless the products are defective. We will regard the products as defective when (i) The National Medical Products Administration or other regulatory bodies classify them to be defective; (ii) The National Medical Products Administration or other regulatory agencies announce the decision to recall or halt the sale of the drugs; or (iii) the manufacturers announce the recall or halt of sale of the drugs.

For some non-drug products, we accept unconditional returns or exchanges within 7 days of purchase. In general, defective non-drug products, including dietary supplement, can be returned within 7 days of purchase and can be exchanged within 15 days of purchase. Users should submit an application for return or exchange of the non-drug products. If the application has been accepted, we will either return, exchange or repair the products as along as the application is in compliance with the Laws of the People's Republic of China on Protection of Consumer Rights and Interests, the "Three Guarantees" Policies and the manufacturers' authorized standard for product return or repair. For selected goods, we provide an extended 365 days repair policy to our users. For users with good credit, we provide an "instant refund" service, where we provide refunds as soon as they submit their return requests. If part of the products has gone missing, was broken or suffers performance failure due to logistic reasons, we have implemented a policy of allowing return of products within 7 days of purchase when the user has filed a request within 24 hours after the receipt of the products and such request has been verified.

Fulfillment

JD Group provides us with warehousing, distribution and other supply chain support. Leveraging JD Group's industry leading, nationwide fulfillment infrastructure, we are able to deliver a compelling user experience by fulfilling orders quickly and accurately. We also partner with other logistics service providers.

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For our direct sales business, we separate drugs and non-drugs products in different fulfillment infrastructures, as described below:

- *Drugs.* There are strict regulations placed in China on warehousing and delivery of drugs. As of June 30, 2020, we had partnered with JD Group to utilize 11 drug warehouses in China. These drug warehouses cover the fulfillment needs across China.
- *Non-drug products.* We utilize JD Group's nationwide fulfillment infrastructure to warehouse non-drug products with its over 230 non-drug warehouses.

Orders placed can be delivered with same-day, next-day and 30-minute, 24/7 on-demand delivery options, among others.

Payment

We leverage JD Group's payment services and infrastructure for payments processed on our platform. We offer users various payment methods, including online payment, payment-on-delivery and other payment options.

Technology

Technology is our foundation and a key component of our strengths. We have leveraged JD Group's proprietary supply chain-based technologies and our internally developed proprietary technologies in building our technology infrastructure and better improving our operations and our user experiences. In addition, we leverage a suite of JD Group's technologies, such as JD Cloud and AI, to ensure our technology is industry leading.

In 2017, 2018, 2019 and for the six months ended June 30, 2020, we spent RMB122.7 million, RMB218.3 million, RMB338.2 million and RMB278.2 million on research and development, respectively. Utilizing JD Group's years of experience in AI and big data as well as our expertise in the healthcare industry, we have developed technologies in areas such as smart healthcare solutions and big data health management.

Reliability

In order to achieve system reliability under a large amount of traffic and simultaneous requests, we utilize deployment environment isolation on our system to minimize interference among different systems. We also leverage JD Group's proprietary technologies and middleware, such as JSF, JIMDB, JMQ, Elastic Database Tools and JDOS, to boost system performance and throughput and achieve elastic throughput expansion during bottleneck periods. We also regularly conduct full data-link pressure tests and system safety drills to ensure that our system is well-protected. We have set up safety procedures and warning systems to ensure that we can quickly and timely detect and solve online problems to minimize any data loss.

Scalability

We have established a scalable and expandable technology infrastructure. We extract the different capabilities of our system and have built numerous modules for functions such as transaction, diagnosis, consultation, prescription, patient profiles, and follow-up visits. By optimizing the capabilities of these modules, we can combine them to quickly create infrastructures that suit different

needs for different healthcare scenarios. Most of our modules support multiple different interfaces and service formats, such as API, webpage and SDK, so that we can seamlessly integrate our healthcare service capabilities with different clients' working environments.

In developing our hospital solutions, we strive to provide flexible and customizable options for different hospitals' needs, which distinguishes our services from those of our competitors. To achieve this goal, we have internally developed three types of solutions, IaaS, PaaS and SaaS, for different customization and scenario-based needs. Our IaaS mainly serves to establish hospitals' internal internet system. We work with JD Cloud to provide highly customized hardware and software solutions for hospitals to satisfy their bespoke needs for confidentiality and independence. Our PaaS system is suitable for hospitals that do not require a highly specialized system. We sometimes collaborate with hospitals in the development of their operating systems using our PaaS system. Our SaaS system is our general and standardized system, suitable for doctors and hospitals to participate in our online hospital services.

Smart application

We are dedicated to improving user experience and service efficiency through groundbreaking AI technologies and proprietary core algorithms. Currently, we have deployed AI technologies pre-, during- and post-consultation in our online hospital services. We have utilized AI technologies to assist the automation of our patient classification process; based on millions of real historical symptom descriptions, we use industry-leading multimodal models to put patients into different specialist departments. During the consultation process, we use AI-assisted consultation services to build customized consultation models for different specialist departments. We use AI-enabled smart conversation technology to assist doctors to communicate with patients and collect symptom descriptions and medical histories so that doctors can work more efficiently and focus on key steps, such as diagnosis and prescription verification. After consultation, our AI technologies provide health management services based on multidimensional data collected from IoT, giving both patients and doctors customized disease management advice.

Data Privacy and Protection

We are committed to protecting information and privacy of our users, patients, customers and other participants on our platform. We have developed a company-wide policy on data security to preserve individual personal information and privacy. We strictly comply with laws and regulations and do not distribute or sell our users' personal data for any purpose. We encrypt user data in network transmissions and in backend storage to ensure confidentiality.

Our network configuration is secured at multiple layers to protect our databases from unauthorized access. We use sophisticated security protocols for communications among our mobile app, WAP website and plug-ins. To prevent unauthorized access to our system, we utilize a system of firewalls and maintain a demilitarized zone to separate our external-facing services from our internal systems.

To minimize the risk of data loss, we conduct regular data backup and data recovery tests. Our database can only be accessed by certain designated and authorized personnel after assessment and approval procedures, whose actions are recorded and monitored. We have data disaster recovery procedures in place and are in the process of establishing our active data centers.

Marketing

We believe that the most effective form of marketing is to continually enhance our user experience, as user satisfaction engenders word-of-mouth referrals and additional purchases. Specifically, our sales and marketing strategy is designed to expand our brand recognition, increase user traffic to our platform, build strong user loyalty, drive repeat purchases, and develop incremental revenue opportunities.

Leveraging marketing support from JD Group, we have been able to build a large base of loyal users. Our online marketing campaigns are focused on search engines, frequently visited internet portals, health-related websites, and direct-to-consumer marketing programs through instant messages. We employ a variety of marketing programs and promotions, such as discounted and free shipping promotions. We also regularly participate in promotion events organized by JD Group to attract users to our platform.

The synergy created by our retail pharmacy business and online healthcare services also serves as an important source of user acquisition for each other. Our retail pharmacy business directs its user base to our healthcare services for online consultation and prescription renewal. Through offerings such as chronic disease management and family doctor service, as well as high-quality service and brand recognition, our online healthcare services redirect their user traffic back to our retail pharmacy business for purchase of other healthcare products such as supplements and medical devices. The two businesses reinforce each other, forming a virtuous cycle and symbiotic ecosystem.

Competition

We believe our business model is unique and our services encompass the entire healthcare value chain. We face competition in certain aspects of our business. We compete against other online pharmaceutical retail companies and other online healthcare service providers.

We believe that our ability to compete effectively depends on many factors, including the breadth and depth of our products and service offerings, our pricing competitiveness, user experience on our platform, our ability to form and retain a closed-loop business model, our supply chain capabilities, our technological capabilities, quality control of our product and service offerings, our partnership with third parties, our marketing efforts 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, product managers and risk management personnel. 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. In addition, for our direct sales business, we engage JD Logistics to ship and deliver products to our users; for our omnichannel initiative, we also use third-party logistics service providers. Therefore, we are not subject to significant health, safety or environmental risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. 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 our founding, we have been highly committed to sustainable corporate responsibility projects, both through charitable endeavors and by extending the benefits of our ecosystem to the society at large. For example, in the fight against COVID-19, we have done our utmost to help people and throughout China. Immediately after the announcement of quarantine in Wuhan, we worked with JD Group to put together a task force to lead our epidemic relief efforts, and took swift action to alleviate the financial burdens of third-party merchants on our platform, including lowering commission fees and waiving platform usage fees. Facing a sudden spike in online healthcare services demand, team members of our online hospital services worked around the clock to provide users with a smooth experience. Meanwhile, we took the health and safety of our employees as our top priority. We provided all of our frontline employees with masks and other protective equipment immediately after the outbreak. This reflects our long-held belief that the best approach to corporate social responsibility is through embedding elements of social responsibility in our business model.

In addition, we have adopted stringent internal policies and measures to prevent over-prescription by our doctors. For example, we have put in place a strict internal prescription review system, such that the prescriptions written by our in-house and external doctors are carefully reviewed and cross-checked. We adopt a dual-pharmacist verification system for our online hospital to ensure that doctors' prescriptions comply with the relevant rules and regulations. After receiving prescriptions from doctors, our pharmacists will verify the prescriptions according to the Drug Administration Law (《藥品管理法》). If the pharmacists find any prescription written is in any potential violation of the Drug Administration Law, they will return the prescriptions to the doctors, who must then adjust the prescriptions accordingly to ensure that it complies with the Drug Administration Law. Otherwise our pharmacists have the right to deny further processing of the prescription. In addition, we have set upper limits for prescription drug dosage pursuant to the relevant rules and regulations. Furthermore, we have adopted a review system for patients to provide ratings and feedback of their experience in order for us to monitor our doctors' performance, including the quality of the prescriptions.

Customers

We have a broad base of customers. Our top customers are primarily pharmaceutical companies and healthcare product companies. Based on the assumption that the Reorganization had been completed on or before January 1, 2017, for each of the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, our top five customers accounted for less than 7% of our total revenue, and revenue from our largest customer (which is JD Group) alone accounted for less than 6.5% of our total revenue during each of these periods.

As of the date of this document, JD Group indirectly owned approximately 78.29% of our total issued share capital. To the best of our knowledge, all of the other four largest customers during the Track Record Period were independent third parties as of the Latest Practicable Date. As of the Latest Practicable Date, (i) Mr. Richard Qiangdong Liu, a non-executive Director and chairman of the Board of our Company, held approximately 76.9% of the voting rights in JD Group through shares capable of being exercised on resolutions in general meetings; and (ii) all the other Directors in aggregate held less than 1% of the beneficial ownership in JD Group.

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Except as disclosed above, none of our other 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 during the Track Record Period.

Suppliers

Our top suppliers are primarily pharmaceutical companies and healthcare product companies or their sales agents. Based on the assumption that the Reorganization had been completed on or before January 1, 2017, for each of the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, our top five suppliers accounted for less than 30% of our purchases, and purchases from our largest supplier (JD Group) alone accounted for less than 16% of our total purchases during each of these periods.

As of the date of this document, JD Group indirectly owned approximately 78.29% of our total issued share capital. To the best of our knowledge, all of the other four largest suppliers during the Track Record Period were independent third parties as of the Latest Practicable Date. As of the Latest Practicable Date, (i) Mr. Richard Qiangdong Liu, a non-executive Director and chairman of the Board of our Company, held approximately 76.9% of the voting rights in JD Group through shares capable of being exercised on resolutions in general meetings; and (ii) all the other Directors in aggregate held less than 1% of the beneficial ownership in JD Group.

Except as disclosed above, none of our other 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 during the Track Record Period.

We believe we have sufficient alternative suppliers for pharmaceutical and healthcare 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.

Intellectual Property

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on copyright, trademark and patent law and confidentiality, invention assignment and non-compete agreements with our employees and others to protect our proprietary rights. As of June 30, 2020, we owned 8 computer software copyrights in China relating to operations, and had 44 trademark registrations and 28 trademark applications in China. As of June 30, 2020, we had registered approximately 170 domain names, including, without limitation, yiyaojd.com and jkcsjd.com. Further, as part of the spin-off reorganization, as of June 30, 2020, JD Group was in the process of transferring several intellectual property rights relating to our operations to us, including amongst others, 6 computer software copyrights in China, 3 patents and 18 patent registrations in China.

We have been granted exclusive and non-exclusive rights by JD Group to use in our operations certain copyrighted materials, trademarks and patents that are registered or for which registration applications have been filed in the PRC.

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Intellectual property rights are important to the success of our business. We share with JD Group its comprehensive intellectual property protection policies and related internal control system to ensure our ability to obtain and maintain patents and other intellectual property and proprietary protections for commercially important technologies, inventions and know-how related to our business, defend and enforce our patents, 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 perform searches on related intellectual property rights to make sure our intellectual property rights will not be challenged.
- We file trademarks and patents with the relevant authorities to protect our brand image and technological innovations. We regularly monitor third-party actions to protect our IP and take appropriate measures against any infringement.
- We seek to protect our proprietary technology and processes, in part, by entering into confidentiality agreements with our business partners. We have entered into confidentiality agreements 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.
- Parties who think their IP rights are infringed by products sold on our platform can file claims with JD Group through its online IP protection system, and we will collaborate with JD Group to process these claims.
- We also seek to preserve the integrity and confidentiality of our 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, we had not been subject to any material intellectual property infringement claims.

Employees

The following table sets forth the numbers of full-time staff dedicated to our business and operations categorized by function as of the date indicated:

<u>Function</u>	<u>June 30, 2020</u>	
	<u>Number of Staff⁽¹⁾⁽²⁾</u>	<u>% of Total</u>
Procurement	951	67.4
Sales and Marketing	105	7.4
Research and Development	318	22.6
General and Administrative	37	2.6
Total	<u>1,411</u>	<u>100.0</u>

Notes:

(1) We are responsible for the salaries and benefits of these staff.

(2) The employment contracts of certain employees are in the course of being transferred from JD Group to our company. For further details, please refer to the section headed "History, Reorganization and Corporate Structure—Corporate Reorganization—5. Transfer of the retail pharmacy business into our Group".

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As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including, among other things, pension, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance and housing fund plans through a PRC government-mandated benefit contribution plan. We are required under PRC law to make contributions to employee benefit 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.

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

We typically enter into standard employment agreements and confidentiality agreements or clauses with our senior management and core personnel. These contracts include a standard non-compete covenant that prohibits the employee from competing with us, directly or indirectly, during his or her employment and for two years 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 is located in Yizhuang Economic and Technological Development Zone in Beijing. As of June 30, 2020, we did not own any properties and leased approximately 70 properties in the PRC with an aggregate gross floor area of approximately 33,000 square meters. Our leased properties in the PRC are primarily used for offices, warehouses and offline pharmacies. The relevant lease agreements expire between 2020 and 2026. 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 as we expand our drug fulfillment network and establish more drug fulfillment centers and warehouses.

As of June 30, 2020, 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.

Insurance

We consider our insurance coverage to be adequate as we have in place all the mandatory insurance policies required by Chinese 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 group accident insurance for all employees and supplementary medical insurance for all technology personnel and certain other personnel.

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In relation to our online hospital services, we carry professional liability insurance covering a maximum of RMB50,000,000 in the aggregate over the course of a year, under which no claim had been made as of the Latest Practicable Date. We do not maintain business interruption insurance, nor do we maintain key-man life insurance. We maintain product liability insurance for certain of the products sold under our direct sales model.

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.

During the Track Record Period, 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 product safety, healthcare quality and safety, operational and regulatory risk management.

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 direct sales and by third party merchants, (ii) avoid inappropriate sale of prescription drugs, and (iii) protect our company 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 and third-party merchants based on qualification, brand, past experience with e-commerce, reliability and volume. We perform background checks on suppliers and third-party merchants as well as the products they provide before we enter into any agreement. We examine their business licenses and the relevant licenses and certificates for their products before entering into relationships with them. We evaluate their brand recognition and make inquiries about the market acceptance

of their products among players in the same industry. We also selectively conduct on-site visits to assess and verify their location, scale of business, production capacity, property and equipment, human resources, research and development capabilities, quality control system and fulfillment capability. We require the majority of our suppliers and third-party merchants to place an upfront deposit with us for quality control purposes. We have also put in place stringent rules governing the operations of suppliers and third-party merchants on our platform to ensure that the pharmaceutical and healthcare products provided on our platform comply with applicable PRC laws and regulations. We also conduct regular reviews on the performance of third-party merchants. We have established a team dedicated to the management of our suppliers and third-party merchants on our platform with respect to product quality, logistics and after-sales customer services. We monitor on a daily basis data relating to logistics and customer services on our platform, and communicate with the relevant suppliers and third-party merchants when issues arise. According to our standard agreements with suppliers, we have the right to return any sub-quality products and impose a penalty on the suppliers. Our suppliers are also subject to indemnities if the quality of their products causes any damage to us, our users or third-parties. According to our standard agreements with third-party merchants, we have the right to unilaterally terminate our relationships with third-party merchants that sell smuggled, counterfeit or otherwise sub-quality products. Third-party merchants are also responsible for monetary and reputational damages incurred to us caused by the quality of the products they sell on our platform.

- *Prescription drug management.* We accept prescriptions from licensed healthcare providers and also offer online prescription renewal services. Our in-house doctors and external doctors can renew existing prescriptions only after completing their multisite registration. We have a stringent, AI-assisted prescription verification system to manage the risks associated with the sales of prescription drugs, implemented and closely monitored by our in-house and external doctors and pharmacists. According to the system, pharmacists verifying prescriptions have the authority to deny any renewed prescription that is illegal, irregular or unsuitable. Our system enforces a dual-pharmacist review procedure to make sure that all renewed prescriptions comply with the relevant laws and regulations. No prescription drugs can be sold without our dedicated verification team's sign off.
- *Combating unauthorized or contaminated products.* We require our suppliers to represent that they have obtained the required IP licenses to produce and provide the products that they supply us and indemnify us against any IP infringement litigations relating to the products that they supply us. We also have the right to return any damaged or contaminated products and be compensated if caused by our suppliers. We require third-party merchants to represent in the agreements that we enter with them that all products they sell on our platform are legally authorized and procured. Other measures to prevent, detect and reduce the occurrence of unauthorized or contaminated products that we have implemented include: (i) enabling users, suppliers and third-party merchants to report suspicious transactions on unauthorized products; (ii) requiring the use of suppliers' and third-party merchants' real identities when opening accounts; and (iii) analyzing transaction patterns to identify anomalies.

Healthcare service quality and safety

We value the quality and safety of the healthcare services we provide. We strive to minimize medical risks arising from our operations. We have never received any written notice or penalty for material non-compliance or violation of healthcare service quality and safety laws or regulations.

The skills, competence and attitude of our in-house medical team are essential for the quality of care that our users receive. We continually monitor the risk in relation to services provided by our in-house medical team to ensure that the risk management policies and procedures have been strictly followed, so as to achieve effective and efficient governance, risk and control processes.

We have adopted stringent hiring procedures for in-house doctors, pharmacists and medical assistants, which involve in-person interviews and assessments of technical knowledge. Our in-house medical team receives regular training on relevant safety policies, standards, protocols and procedures and is required to strictly comply with them in all aspects of our operations. We conduct evaluations of our in-house doctors, pharmacists and medical assistants to, in particular, ensure our in-house doctors authorized to issue and renew prescriptions have registered our medical institution in their licenses. For external doctors, 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. We conduct evaluations of our external doctors to ensure the external doctors authorized to issue and renew prescriptions have registered our medical institution in their licenses. In practice, we only give access to the prescription renewal function on our platform to doctors who have the relevant qualifications and licenses, and have registered our medical institution in their licenses (i.e. completed their multisite registrations).

For healthcare institutions to which we refer our users, we consider a variety of factors, such as their reputation, scale of business, service quality and capabilities, as well as their facilities. We typically require healthcare institutions 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 users on the services provided by these healthcare institutions, and take that into consideration when determining our continued cooperation with such healthcare institutions.

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 user data and other related information is critical to our success. Sensitive user information in our business operations is stored in the internet data center established and owned by us. Such information includes, but is not limited to, personal information (such as user name, cell phone number, delivery address, age and gender), consultation record, order record and activity log. We have kept all sensitive user 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, requested by the relevant users or pursuant to conditions as specified under our terms of service with our users.

In general, according to our terms of service and except as required by relevant laws and regulations, by signing up, users acknowledge that they permit and authorize our use of the information

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we were provided with and the information generated in the course of our services. The users 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 user information only pursuant to the authorized scope, primarily in the following way: (i) in our consumer healthcare business, we provide healthcare service providers with user information necessary for their rendering services to our customers, including names and contacts; and (ii) in our online marketplace business, we provide relevant parties with limited user information, such as delivery addresses and contacts for the sole purpose of order fulfillment. To ensure the security of user information, we and our business partners owe a duty of confidentiality to the users with respect to such information.

For online hospital consultation services, in particular, the users agree that their consultation record with our medical team will be anonymized and used by our medical team for academic and community interests purposes, such as helping other similarly situated patients, and that such anonymized information is deemed jointly owned by the relevant user, doctor and us. If a user prefers not to have his or her anonymized information used by our medical team, he or she can revoke consent or retrieve the authorization by deleting his or her account, shutting down the data sharing function or amend the privacy setting. We have adopted robust encryption algorithms and implemented stringent rules for data extraction and transmission to ensure the confidentiality of the users of our online consultation and prescription renewal service. We have implemented relevant internal procedures and controls to ensure that user 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 user data, and intend to institute ethical standards in relation to user 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 member'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, the user information that our employees can access is anonymized. We also hold trainings on data protection for our employees on a regular basis.

Our system keeps a daily log of data extraction and transmission activities and status in authorization in data extraction and transmission for review. We also have a dedicated data security team that is responsible for (i) monitoring suspicious data extraction and transmission activities or violations of our internal rules relating to data protection, (ii) advising on data protection issues identified in the course of monitoring and reporting to company management for attention, and (iii) enhancing our data protection system in accordance with changes in regulatory requirements and technological developments. As and when required by relevant laws and regulations, we intend to consult an external ethics advisor in relation to the protection of user data.

We also have a data back-up system through which data is encrypted and stored on servers in different locations 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 information leakage or loss of user.

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. We have a training center which regularly organizes internal training sessions conducted by senior employees or outside consultants on topics of interest that employees can vote on. The training center schedules regular online and classroom trainings, reviews the content of the trainings, follows up with employees to evaluate the impact of such training and rewards lecturers for positive feedback. 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. First, as part of our risk management and internal control measures, we have adopted a series of internal regulations against corrupt and fraudulent activities, which include measures against receiving bribes and kickbacks, and misappropriation of company assets. 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. Second, we require every department to perform self-check on any violations in key processes and roles on a regular basis, and report to the internal control department any violation or trace of possible risk events. Third, employees and parties outside our Company are encouraged to provide information via phone, email, letters and other means, and we would offer rewards in return for valuable information. Fourth, our internal control department carefully evaluates risk events and conducts investigations when necessary. Fifth, we have implemented clear and strict policies and guidelines that prohibit the acceptance of gifts, hospitality and other offers by interested third parties. Lastly, our internal control department conducts internal control inspections regularly. Employees are required to acknowledge and accept JD.com's Code of Business Conduct and Ethics, which applies to us, that lists in detail relevant policies and regulations, including but not limited to clear definitions of bribery, corruption and interested 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.

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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 Xingyao Chen, Wenyi Huang and Sandy Ran Xu, with Xingyao Chen and Wenyi Huang being our independent non-executive Directors and Sandy Ran Xu being our non-executive Director. Xingyao Chen is the chair of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see the section headed "Directors and Senior Management" in this document.

Licenses, Approvals and Permits

In the opinion of Shihui Partners, our PRC Legal Adviser, we have obtained all material licenses and certificates during the Track Record Period, including but not limited to Practicing License for Medical Institution (醫療機構執業許可證), Pharmaceutical Operation License (藥品經營許可證), Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書), Medical Devices Operation License (醫療器械經營許可證), Food Operation License (食品經營許可證) and Value-Added Telecommunications Business Operating License (增值電信業務經營許可證). In the opinion of Shihui Partners, our PRC Legal Adviser, all of our major subsidiaries complied in all material aspects with relevant laws and regulations during the Track Record Period.

Yinchuan JD Online Hospital obtained the Practicing License for Medical Institution on March 28, 2018 (and renewed on April 23, 2020). This license stipulates that the relevant licensed diagnostic and treatment practices shall be carried out via the internet only. We were not able to issue prescriptions to the users of the online consultation and prescription renewal service without this license.

We renew all such permits and licenses from time to time to comply with the relevant laws and regulations. Our PRC Legal Adviser advised us that there is no material legal impediment to renewing such permits or licenses.

The following table sets forth a list of our material licenses, approvals and certificates.

No.	Entity	Name of the License, Approval, Permit	Expiration Date
1.	Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司)	Food Operation License (食品經營許可證)	December 12, 2024
2.	Yinchuan JD Online Hospital Co., Ltd. (銀川京東互聯網醫院有限公司)	Practicing License for Medical Institution (醫療機構執業許可證)	April 22, 2025

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No.	Entity	Name of the License, Approval, Permit	Expiration Date
3.	Yinchuan JD Online Hospital Co., Ltd. (銀川京東互聯網醫院有限公司)	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	December 24, 2023
4.	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司)	Medical Devices Operation License (醫療器械經營許可證)	July 3, 2021
5.	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司)	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	November 5, 2023
6.	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司)	Pharmaceutical Operation License (藥品經營許可證)	November 24, 2024
7.	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司)	Food Operation License (食品經營許可證)	August 15, 2024
8.	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司)	Value-Added Telecommunications Business Operation License (增值電信業務經營許可證)	September 29, 2025
9.	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司)	Value-Added Telecommunications Business Operating License (增值電信業務經營許可證)	August 2, 2024
10.	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司)	Qualification Certificate for Internet Drug Information Services (互聯網藥品信息服務資格證書)	November 26, 2023
11.	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司)	Pharmaceutical Operation License (藥品經營許可證)	April 8, 2023
12.	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司)	Food Operation License (食品經營許可證)	August 2, 2025
13.	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司)	Medical Devices Operation License (醫療器械經營許可證)	August 2, 2025
14.	Jingdong Pharmacy (Huizhou) Co., Ltd. (京東大藥房(惠州)有限公司)	Medical Devices Operation License (醫療器械經營許可證)	January 22, 2025
15.	Jingdong Pharmacy (Huizhou) Co., Ltd. (京東大藥房(惠州)有限公司)	Pharmaceutical Operation License (藥品經營許可證)	May 23, 2022
16.	Jingdong Pharmacy (Huizhou) Co., Ltd. (京東大藥房(惠州)有限公司)	Food Operation License (食品經營許可證)	November 6, 2022
17.	Beijing Jingdong Hongjian Jiankang Co., Ltd. (北京京東弘健健康有限公司)	Food Operation License (食品經營許可證)	June 7, 2025
18.	Beijing Jingdong Hongjian Jiankang Co., Ltd. (北京京東弘健健康有限公司)	Medical Devices Operation License (醫療器械經營許可證)	May 8, 2025

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No.	Entity	Name of the License, Approval, Permit	Expiration Date
19.	Guangzhou Jingdong Hongjian Trade Co., Ltd. (廣州京東弘健貿易有限公司)	Food Operation License (食品經營許可證)	May 11, 2025
20.	Guangzhou Jingdong Hongjian Trade Co., Ltd. (廣州京東弘健貿易有限公司)	Medical Devices Operation License (醫療器械經營許可證)	May 28, 2025
21.	Jiangsu Jingdong Hongyuan Information Technology Co., Ltd. (江蘇京東弘元信息技術有限公司)	Value-Added Telecommunications Business Operating License (增值電信業務經營許可證)	December 13, 2024
22.	Guanghan Jingdong Hongjian Jiankang Co., Ltd. (廣漢京東弘健健康有限公司)	Medical Devices Operation License (醫療器械經營許可證)	June 22, 2025
23.	Guanghan Jingdong Hongjian Jiankang Co., Ltd. (廣漢京東弘健健康有限公司)	Food Operation License (食品經營許可證)	September 24, 2025
24.	Shenyang Jingdong Hongjian Trade Co., Ltd. (瀋陽京東弘健貿易有限公司)	Medical Devices Operation License (醫療器械經營許可證)	May 13, 2025
25.	Shenyang Jingdong Hongjian Trade Co., Ltd. (瀋陽京東弘健貿易有限公司)	Food Operation License (食品經營許可證)	August 19, 2025

Jingdong Pharmacy Qingdao's Qualification Certificate for Providing Internet Pharmaceutical Dealing Services will expire on November 29, 2020. The administrative approval process to approve new Qualification Certificates for Providing Internet Pharmaceutical Dealing Services was canceled in September 2017. As a result, companies do not currently have an avenue to renew or apply for new Qualification Certificates for Providing Internet Pharmaceutical Dealing Services.

According to a verbal consultation conducted by our PRC Legal Adviser and the PRC legal adviser of the Joint Sponsors with the relevant officer of the second branch in charge of regional inspection of Shangdong Province Medical Products Administration (山東省藥品監督管理局), the officer is of the opinion that although the administrative approval process to approve new Qualification Certificates for Providing Internet Pharmaceutical Dealing Services has been canceled, the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services has not been repealed, and companies that have obtained Qualification Certificates for Providing Internet Pharmaceutical Dealing Services pursuant to the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services are still qualified to provide online pharmaceutical product trading services to individual consumers.

Further, according to the newly revised Drug Administration Law (《藥品管理法》), promulgated in August 2019 and effective in December 2019, the specific measures for online pharmaceutical product trading services under the Drug Administration Law are to be formulated by the National Medical Products Administration (國家藥品監督管理局) in conjunction with the National Health Commission (國家衛生健康委員會) of the PRC and other relevant government departments. As advised by our PRC Legal Adviser, the relevant departments have not yet designated specific measures for the online pharmaceutical product trading services in accordance with the Drug Administration Law.

Based on the above, in the opinion of our PRC Legal Adviser, before the new specific measures for the online pharmaceutical product trading service is promulgated, companies whose Qualification

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Certificates for Providing Internet Pharmaceutical Dealing Services expire after September 2017 will still be qualified to provide online pharmaceutical product trading services to individual consumers even after the expiration. Therefore, Jingdong Pharmacy Qingdao does not need to renew its Qualification Certificate for Providing Internet Pharmaceutical Dealing Services after it expires in order to continue to provide online pharmaceutical product trading services to individual consumers. Once the new specific measures for the online pharmaceutical product trading service is promulgated, we will timely apply for applicable license or permits for online pharmaceutical product trading services according to such measures, if applicable.

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PRC REGULATORY BACKGROUND

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Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the “**Negative List**”) and the Catalog of Industries for Encouraging Foreign Investment (2019 Version) (the “**Encouraging Catalog**”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Negative List and the Encouraging Catalog divides industries into four categories in terms of foreign investment, namely, “encouraged”, “restricted”, “prohibited” and “permitted” (the last category of which includes all industries not listed under the “encouraged”, “restricted” and “prohibited” categories). As advised by our PRC Legal Adviser, a summary of our business/operation that is subject to foreign investment restriction or prohibition in accordance with the Negative List, the Encouraging Catalog and other applicable PRC laws and on certain interviews with governmental authorities is set out below (the “**Relevant Businesses**”):

Categories	Our business/operation
“Restricted”	
Value-added telecommunication services business	<p>The principal business of Jiangsu Jingdong Hongyuan, Jingdong Pharmacy Taizhou and Jingdong Pharmacy Qingdao involves or will involve (as applicable) provision of telecommunication and information services through mobile apps and websites and/or for online data processing and transaction processing services, which falls within the scope of “value-added telecommunication service” under the Telecommunications Regulations (《電信條例》). According to the applicable PRC laws, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting value-added telecom business (excluding e-commerce, domestic multiparty communication services, store-and-forward services and call center services).</p> <p>Jiangsu Jingdong Hongyuan and Jingdong Pharmacy Taizhou each holds a value-added telecommunications business operating license for provision of Internet information services (the “ICP License”) and for online data processing and transaction processing services (the “EDI License”) issued by Jiangsu Province Communication Administration (江蘇省通信管理局), respectively, and Jingdong Pharmacy Qingdao holds the ICP license and intends to apply for the EDI License. Jiangsu Jingdong Hongyuan plans to engage in online marketplace services for third-party healthcare products merchants; Jingdong Pharmacy Taizhou primarily engages in online marketplace services for third-party prescription drugs merchants; Jingdong Pharmacy Qingdao plans to provide online marketplace services for third-party OTC drugs merchants. As confirmed by the PRC Legal Adviser, given that these entities provide or plans to provide online marketplace services for third-party merchants and therefore fall under the scope of value-added telecommunication service businesses, they are required to hold the ICP License and EDI License which are subject to foreign ownership restrictions.</p>
“Prohibited”	
Online Hospital Services Business	<p>As advised by our PRC Legal Adviser, as the PRC Internet healthcare industry is new and evolving, the Negative List lacks clear guidance on the categorization of operation of “online hospital services” in terms of foreign investment restriction. However, according to the Provisional Measures for the Administration of Medical Institutions in the Form of Sino-foreign Equity or Contractual Joint Venture (《中外合資合作醫療機構管理暫行辦法》), operation of “medical institutions” falls within the “restricted category” and foreign investors are not allowed to hold more than 70% equity interests in a “medical institution”. Our Yinchuan JD Online Hospital has a medical institution</p>

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practicing license (“**Medical Institution Practicing License**”) issued by Yinchuan Municipal Bureau of Administrative Services (銀川市審批服務管理局). The license stipulates that the licensed diagnostic and treatment services shall be provided via the Internet. Our PRC Legal Adviser has advised that it remains uncertain whether the foreign investment restrictions applicable to “medical institutions” would apply to our Yinchuan JD Online Hospital.

With respect to the foreign investment restriction in online hospital services, the respective PRC legal advisers of the Company and of the Joint Sponsors conducted verbal consultation with a senior officer of the Health Commission of Yinchuan (銀川市衛生健康委員會). The authority verbally confirmed that (i) there is no applicable rule relating to foreign investments in entities that provide online hospital services available to foreign investors pursuant to which foreign investors can apply to pursue such investments in Yinchuan, and in practice all entities which provide online hospital services in Yinchuan are owned solely by PRC shareholders; and (ii) they will not accept or approve any application from a foreign-invested enterprise for establishing an entity providing online hospital services within its jurisdiction, and therefore any application from us for a Medical Institution Practicing License through a joint venture with a foreign-invested enterprise would be unsuccessful. Our PRC Legal Adviser is of the view that the authority is the regulatory authority of online hospital in Yinchuan city according to related regulations and is the competent authority to give relevant confirmation. As advised by our PRC Legal Adviser, pursuant to the Administrative Measures for Yinchuan Internet Hospitals (Trial Implementation) (《銀川互聯網醫院管理辦法(試行)》), the Health Commission of Yinchuan (銀川市衛生健康委員會) is the regulatory authority of the medical institutions in Yinchuan city. Meanwhile, according to the Measures for the Administration of Internet Diagnosis and Treatment (for Trial Implementation) (《互聯網診療管理辦法(試行)》), the local level health authorities are responsible for the regulation of online hospital operations within its jurisdiction. Therefore, as advised by our PRC Legal Adviser, the interviewed senior officer of the Health Commission of Yinchuan (銀川市衛生健康委員會) is a competent person to provide the above confirmation. PRC legal advisers of the Company and of the Joint Sponsors have also conducted a verbal consultation with an officer of the Medical Administration Bureau of NHC (國家衛健委醫政醫管局), which is a government authority at the national level in the PRC, and who confirmed that (i) the Health Commission of Yinchuan (銀川市衛生健康委員會) is the competent authority to review and decide whether Yinchuan JD Online Hospital can obtain the Medical Institution Practicing License; (ii) the Medical Administration Bureau of NHC (國家衛健委醫政醫管局) will not interfere with the grant of the Medical Institution Practicing License to Yinchuan JD Online Hospital; and (iii) the Health Commission of Yinchuan (銀川市衛生健康委員會) is the competent authority to give above confirmation. Based on the foregoing, our PRC Legal Adviser is of the view that, (i) the Medical Administration Bureau of NHC (國家衛健委醫政醫管局) will not object to the above confirmation from the Health Commission of Yinchuan (銀川市衛生健康委員會), and (ii) in practice, foreign investors would be prohibited from holding equity interests in our Yinchuan JD Online Hospital. As advised by our PRC Legal Adviser, the NHC (國家衛健委) is the highest-ranking supervisory authority of the national medical institutions (including online hospitals) and is a supervisory authority of the local regulatory health commissions, and the Medical Administration Bureau of NHC (國家衛健委醫政醫管局), as the internal department of NHC, is responsible for making regulatory policies of medical institutions. Therefore, as advised by our PRC Legal Adviser, the interviewed

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official of the Medical Administration Bureau of NHC (國家衛健委醫政醫管局) is a competent person to provide the above regulatory confirmation.

For further details of the limitations on foreign ownership in PRC companies conducting the aforementioned business under PRC laws and regulations, please see the section headed “Regulations.”

Qualification requirements

Value-added telecommunication service business

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the “**FITE Regulations**”), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Enterprises engaged in value-added telecom business in the PRC with foreign investors that meet these requirements must obtain approvals from MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s previous telecommunications business licenses issued by the relevant local authorities, satisfactory proof of the Qualification Requirements and a business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Adviser has advised us that as of the Latest Practicable Date, (i) this guidance memorandum has no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. We have taken the following measures to meet the Qualification Requirements:

- For the purposes of establishing and expanding our operations overseas, we are planning to incorporate or acquire one or more offshore entities to be engaged in value-added telecom services outside the PRC.
- We registered a number of domain names in various jurisdictions including jdhealth.hk, and has, through our affiliates, submitted for registration a number of trademarks

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(including “京東健康” and “JDH”) which will (upon their successful registration) be licensed to us for our business operations.

- We are planning to construct an overseas website that will help potential overseas users to better understand our services and businesses.

The respective PRC legal advisers of the Company and of the Joint Sponsors conducted a verbal consultation with the relevant government authority, being the MIIT, during which the senior officer of the Information and Communication Bureau of the MIIT confirmed that (i) there is no set criteria for the Qualification Requirements and that steps such as those taken by us above may be generally deemed to fulfill the Qualification Requirement, however MIIT has discretion to decide whether our Group satisfies the Qualification Requirement according to its substantive examination, and (ii) there are substantial uncertainties as to whether ICP and EDI licenses can be obtained through any Sino-foreign equity joint venture or wholly-owned foreign investment entity even if the Qualification Requirements are fulfilled. Qualification Requirements will not be satisfied if the foreign entity without actual business intends to directly or indirectly acquire equity interests of ICP and EDI licenses holder. Our PRC Legal Adviser has confirmed that the officer of the MIIT consulted has the authority to provide such confirmation. Accordingly, subject to the discretion of the competent authority on whether the Group has fulfilled the Qualification Requirements, our PRC Legal Adviser is of the view that (a) it will not be approved if we intends to directly or indirectly acquire equity interests of our Consolidated Affiliates which are ICP and EDI licenses holders due to lack of relevant experience currently; (b) the above steps taken by us are reasonable and appropriate in relation to the Qualification Requirements as our Company has experience in providing value-added telecommunications services in overseas markets.

Our PRC Legal Adviser, the PRC legal adviser of the Joint Sponsors and the Company conducted a verbal consultation with an officer of the MIIT on October 28, 2020 who confirmed that, in the case of our Company, we are practically unable to obtain ICP and EDI licenses through any Sino-foreign equity joint venture or wholly-owned foreign investment entity even if we meet the Qualification Requirements. As advised by our PRC Legal Adviser, the MIIT is the issuing authority for applications of ICP and EDI licenses by Sino-foreign equity joint ventures and wholly-owned foreign investment entities. The official duties of the interviewed official include the formulation of regulatory policies in, and the regulation of, value-added telecommunication services (including the regulatory policies on applications for ICP and EDI licenses from Sino-foreign equity joint ventures and wholly-owned foreign investment entities) in the PRC. In light of the foregoing, our PRC Legal Adviser is of the view that the interviewed officer of MIIT is a competent person to give the above confirmation.

We will, as applicable and when necessary, disclose the progress of our overseas expansion plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the Listing. We will also make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

Online sales of pharmaceutical products

In addition, Jingdong Pharmacy Qingdao holds a certain number of subsidiaries, which are primarily engaged in online sales of pharmaceutical products to individual consumers through the internet platform of Jingdong Pharmacy Qingdao and related offline services such as warehouse and

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fulfillment services in different regions of China. Given the vast territory of China, it is necessary for Jingdong Pharmacy Qingdao to set up multiple subsidiaries to operate online services and related warehouses and provide other fulfillment services across different regions in China, in order to (i) ensure timely and cost-efficient delivery of the online pharmaceutical products business, and (ii) as advised by PRC Legal Adviser, ensure the compliance of the Group's business activities with the relevant legal requirements and effectively mitigate the risk of unlicensed operations. The revenue from the subsidiaries of Jingdong Pharmacy Qingdao (excluding Jingdong Pharmacy Taizhou which holds the ICP and EDI licenses) accounted for 0.8%, 5.0%, 6.2% and 11.8%, of the total revenue of our Group for each of the three years ended December 31, 2019 and six months ended June 30, 2020, respectively.

In order for our Group to provide online sales of pharmaceutical products (and related offline services such as warehouse and fulfillment services as noted above) in different regions of China through various subsidiaries of Jingdong Pharmacy Qingdao, those subsidiaries must each obtain the Pharmaceutical Operation License (藥品經營許可證). As advised by our PRC Legal Adviser, in order for those subsidiaries to obtain the Pharmaceutical Operation License (藥品經營許可證), an offline business premise must be established to operate sales of pharmaceutical products pursuant to the provisions of the Measures for the Administration of Pharmaceutical Operation License (《藥品經營許可證管理辦法》) and the Administrative Standard of Pharmaceutical Operating Quality (《藥品經營質量管理規範》).

In addition, according to the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (《互聯網藥品交易服務審批暫行規定》), promulgated by CFDA on September 29, 2005 and effective since December 1, 2005, any enterprise engaging in online pharmaceutical product trading services to individual consumers shall obtain the Qualification Certificate for Providing Internet Pharmaceutical Dealing Service (互聯網藥品交易服務資格證書) (“**Qualification Certificate**”). Moreover, pursuant to the Notice on the Implementation of the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (關於貫徹執行<互聯網藥品交易服務審批暫行規定>有關問題的通知) issued by CDFA on October 25, 2005, with respect to an enterprise who has obtained the Qualification Certificate, the subsidiaries and/or branches of such enterprise shall be entitled to engage in online pharmaceutical product trading services to individual consumers on the websites of such enterprise, with no need to file any additional application to the competent governmental authority. However, the administrative approval process to approve new Qualification Certificates have been canceled since September 2017, and the Standing Committee of the National People's Congress promulgated the Drug Administration Law in August 2019 and effective since December 2019. The specific measures for online pharmaceutical product trading services under the Drug Administration Law are to be formulated by the National Medical Products Administration (國家藥品監督管理局) in conjunction with the National Health Commission (國家衛生健康委員會) of the PRC and other relevant government departments. As advised by our PRC Legal Adviser, the relevant departments have not yet designated specific measures for the online pharmaceutical product trading services in accordance with the Drug Administration Law.

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In light of the above and based on a verbal consultation conducted by our PRC Legal Adviser and the PRC legal advisers of the Joint Sponsors with the relevant officer of the second branch in charge of regional inspection of Shandong Province Medical Products Administration (山東省藥品監督管理局):

(i) although the administrative approval process to approve new Qualification Certificates has been canceled, the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services has not been repealed, and the competent governmental authority will still in practice regulate the business of online pharmaceutical product trading services in accordance with the Interim Provisions on the Examination and Approval of Internet Drug Transaction Services;

(ii) wholly-owned subsidiaries of Jingdong Pharmacy Qingdao are entitled to rely on the Qualification Certificate held by Jingdong Pharmacy Qingdao when providing online pharmaceutical product trading services to individual consumers; and

(iii) enterprises not legally wholly-owned by Jingdong Pharmacy Qingdao shall not be entitled to rely on the Qualification Certificate held by Jingdong Pharmacy Qingdao, and shall not engage in online pharmaceutical product trading services to individual consumers.

Therefore, as advised by our PRC Legal Adviser, to maintain Jingdong Pharmacy Qingdao's operation of online pharmaceutical product trading services to individual consumers in compliance with applicable PRC laws and to allow Jingdong Pharmacy Qingdao's wholly-owned subsidiaries to operate online pharmaceutical product trading services by relying on the Qualification Certificate held by Jingdong Pharmacy Qingdao, Jingdong Pharmacy Qingdao's subsidiaries cannot be separated from Jingdong Pharmacy Qingdao which holds an ICP License and is subject to foreign ownership restrictions. As advised by our PRC Legal Adviser, Shandong Province Medical Products Administration (山東省藥品監督管理局) is the regulatory authority of pharmaceutical enterprises (including enterprises engaged in online drug sales) in Shandong province and is also the issuing authority of Qualification Certificate held by the Jingdong Pharmacy Qingdao. The second branch in charge of regional inspection of Shandong Province Medical Products Administration, as the internal department of Shandong Province Medical Products Administration, is responsible for the supervision of pharmaceutical enterprises in Qingdao and several other cities. In light of the foregoing, our PRC Legal Adviser is of the view that the interviewed officer of the second branch in charge of regional inspection of Shandong Province Medical Products Administration is a competent person to provide the above confirmation. We undertake that, in the event that (and to the extent permitted under applicable PRC laws and regulations) new regulations or measures relating to online pharmaceutical product trading services to individual consumers are promulgated in the PRC, and pursuant to which the WFOE or its wholly owned subsidiaries have formally obtained approval or relevant qualifications to engage in such businesses, such subsidiaries will be transferred from the Contractual Arrangements to the WFOE (or its wholly owned subsidiaries). We will periodically consult our PRC legal advisers and the relevant government authorities with respect to the status of any applicable new regulations relating to online pharmaceutical product trading services.

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Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations as outlined above, we do not directly own any equity interests in our Consolidated Affiliated Entities. The Onshore Holdco is held by

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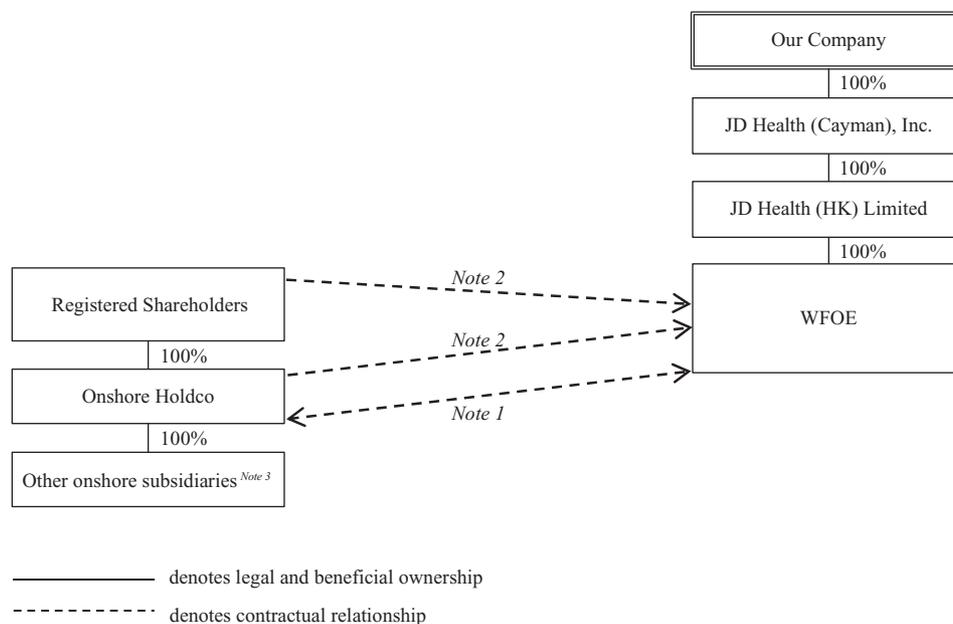
Richard Qiangdong Liu (劉強東) as to 45%, Yayun Li (李姪雲) as to 30% and Pang Zhang (張雱) as to 25%.

In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOE, on the one hand, and the Onshore Holdco (which holds the remaining Consolidated Affiliated Entities) and its shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of the Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the Reorganization, in replacement of certain of the previous contractual arrangements (which were entered into on June 11, 2019 and April 3, 2020), the Contractual Arrangements currently in effect were entered into on September 17, 2020, whereby the WFOE have acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. The revenue contribution of all the Consolidated Affiliated Entities to our Group, taking into account all of their respective businesses with or without foreign investment restrictions under PRC laws, amounted to approximately 18.5%, 21.7%, 23.1% and 25% for the three years ended December 31, 2019 and six months ended June 30, 2020, respectively. Based on the above, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOE and our Consolidated Affiliated Entities; (ii) by entering into the Exclusive Business Cooperation Agreement with the WFOE, which is our subsidiary incorporated in PRC, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

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Notes:

- The WFOE provides business support, technical and consulting services in exchange for service fees from the Onshore Holdco. Please refer to “— Our Contractual Arrangements—Exclusive Business Cooperation Agreement”.
- The Registered Shareholders executed the exclusive option agreement in favor of the WFOE, for the acquisition of all or part of the equity interests in and all or part of the assets in the Onshore Holdco. See section headed “—Our Contractual Arrangements—Exclusive Option Agreement”.
The Registered Shareholders executed shareholders’ rights entrustment agreement and the powers of attorney in favor of the WFOE, for the exercise of all shareholders’ rights in the Onshore Holdco. See section headed “—Our Contractual Arrangements—Shareholders’ Rights Entrustment Agreement and Powers of Attorney”.
The Registered Shareholders granted security interests in favor of the WFOE, over the entire equity interests in the Onshore Holdco. See section headed “—Our Contractual Arrangements—Share Pledge Agreement”.
- Onshore Holdco holds, among others, 100% of the equity interests of Yinchuan JD Online Hospital and Jiangsu Jingdong Hongyuan. Onshore Holdco also holds 100% of the equity interest of Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd. (京東善元(青島)電子商務有限公司), which holds 100% of the equity interest of Jingdong Pharmacy Qingdao. Jingdong Pharmacy Qingdao holds, among others, 100% of the equity interests of Jingdong Pharmacy Taizhou.

Circumstances under which we will unwind the Contractual Arrangements

Our Group will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of our online retail pharmacy business and online hospital services to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if the relevant government authority grants ICP License, EDI License and the Medical Institution Practicing License for online hospital services, as applicable, to sino-foreign equity joint ventures or wholly-owned foreign investment entities under relevant PRC laws and regulations.

Summary of the agreements under the Contractual Arrangements and other key terms thereunder

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

Exclusive Business Cooperation Agreement

The Onshore Holdco entered into an exclusive business cooperation agreement with the WFOE on September 17, 2020 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which the

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Onshore Holdco agrees to engage WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment leasing, market consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to the WFOE's adjustment, are equal to all of the net profit of Consolidated Affiliated Entities. The WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Consolidated Affiliated Entities from previous financial periods, which will be wired to the designated account of the WFOE upon issuance of payment notification by the WFOE. The WFOE enjoys all the economic benefits derived from the businesses of Consolidated Affiliated Entities and bears the relevant portion of the business risks of the Onshore Holdco. If the Onshore Holdco runs into financial deficit or suffers severe operation difficulties, the WFOE will provide financial support to the Onshore Holdco.

Intellectual property rights are developed during the normal course of business of the Onshore Holdco and its subsidiaries. Pursuant to the Exclusive Business Cooperation Agreement, the WFOE will have the exclusive and proprietary rights to all intellectual properties developed by the Onshore Holdco and its subsidiaries, given that the WFOE provides consultation services to the Onshore Holdco and its subsidiaries during the term of the Exclusive Cooperation Agreement. Part of the economic benefits generated by the Onshore Holdco and its subsidiaries will be intellectual properties developed or created during the normal business operation of the Onshore Holdco and its subsidiaries. Though we do not intend to transfer any existing intellectual property rights held by the Onshore Holdco to the WFOE, the Onshore Holdco is required under the Contractual Arrangements to obtain the WFOE's prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party.

Unless otherwise terminated early by the WFOE, the Exclusive Business Cooperation Agreement will remain effective unless terminated in the event that (a) the entire equity interests held by the Registered Shareholders in the Onshore Holdco or the entire assets of the Onshore Holdco have been transferred to the WFOE; (b) in accordance with the other provisions of the Exclusive Business Cooperation Agreement.

Exclusive Option Agreement

The Onshore Holdco and the Registered Shareholders entered into an exclusive option agreement with the WFOE dated September 17, 2020 (the "**Exclusive Option Agreement**"), pursuant to which the WFOE (or our Company or any subsidiary of our Company, the "designee") is granted an irrevocable and exclusive right to purchase all of the equity interest in and/or assets of the Onshore Holdco for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Registered Shareholders and/ or the Onshore Holdco shall return any amount of purchase price they have received to the WFOE or its designee. At the WFOE's request, the Registered Shareholders will promptly and unconditionally transfer their respective equity interests in and/or the relevant assets of the Onshore Holdco to the WFOE (or its designee) after the WFOE exercises its purchase right. Unless otherwise terminated early by the WFOE through written notice, the Exclusive Option Agreement will remain effective until when all the purchased equity interests are transferred to the WFOE and/or the designee and the WFOE and

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its subsidiaries have the right to legally conduct the business of the Onshore Holdco according to the PRC law.

In order to prevent the flow of the relevant assets and value of the Onshore Holdco and its subsidiaries to the Registered Shareholders, during the term of the Exclusive Option Agreement, the Onshore Holdco is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of the WFOE. In addition, the Registered Shareholders are not allowed to request for any distributions, gains or other form of profits sharing and should forgo such distributions, gains or any other form of profits sharing within the scope permitted by the PRC law. In the event that the Registered Shareholders receive any distribution from the Onshore Holdco and/or its subsidiaries and subject to the PRC laws, the Registered Shareholders must immediately pay or transfer such distribution to the WFOE (or its designee). If the WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of the Onshore Holdco acquired would be transferred to the WFOE and the benefits of equity ownership and/or assets, as applicable, would flow to us and our Shareholders.

As provided in the Exclusive Option Agreement, without the prior written consent of the WFOE, the Onshore Holdco shall not, and shall procure its subsidiaries not to, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets for a value more than RMB1 million; (ii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business and any contracts entered into with any members of our Group; (iii) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party create any pledge or other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of the Onshore Holdco or not disclosed and consented to by the WFOE; (v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. The Exclusive Option Agreement provides that the Registered Shareholders and the Onshore Holdco shall procure the subsidiaries of the Onshore Holdco to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and us in the event of any loss suffered from the Onshore Holdco and/or its subsidiaries can be limited to a certain extent.

Loan Agreement

Pursuant to the loan agreement dated September 17, 2020 between the WFOE and the Registered Shareholders (the “**Loan Agreement**”), the WFOE made loans in an aggregate amount of RMB1 million to the Registered Shareholders solely for the capitalization of the Onshore Holdco. Pursuant to the Loan Agreement, the Registered Shareholders can only repay the loans by the sale of all their equity interest in the Onshore Holdco to the WFOE or its designated person. The Registered Shareholders must sell all of their equity interests in the Onshore Holdco to the WFOE or its designated person and pay all of the proceeds from sale of such equity interests or the maximum amount permitted under PRC law to the WFOE. In the event that Registered Shareholders sell their equity interests to the WFOE or its designated person with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to the WFOE as the loan interest. The maturity date of the loans is on the tenth anniversary of the date when the Registered Shareholders received the loans and paid the

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amount as capital contribution to the Onshore Holdco. The term of the loans will be extended automatically for an additional 10 years, unless the WFOE objects, for an unlimited number of times. The loan must be repaid immediately under certain circumstances, including, among others, (i) if any other third-party claims against Registered Shareholders for an amount more than RMB100,000 and the WFOE has reasonable ground to believe that the shareholders are unable to repay the claimed amount, (ii) if a foreign investor is permitted to hold majority or 100% equity interest in the Onshore Holdco and the WFOE elects to exercise its exclusive purchase option, or (iii) if the loan agreement, relevant share pledge agreement or exclusive option agreement terminates for cause not attributable to the WFOE or is deemed to be invalid by a court.

Shareholders' Rights Entrustment Agreement and Powers of Attorney

Pursuant to the shareholder's rights entrustment agreement entered into among the Registered Shareholders, the WFOE and the Onshore Holdco on September 17, 2020 (the "**Shareholders' Rights Entrustment Agreement**"), and the irrevocable power of attorney executed by each of the Registered Shareholders on the same day (the "**Power of Attorney**"), whereby the Registered Shareholders appointed the WFOE or a director of its offshore holding company or his or her successor (including a liquidator replacing the WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning the Onshore Holdco and to exercise all of its rights as a registered shareholder of the Onshore Holdco. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of the Onshore Holdco. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of the Onshore Holdco on behalf of the Registered Shareholders. The Registered Shareholders have each undertaken to transfer all assets obtained after the winding up of the Onshore Holdco to the WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws. As a result of the Shareholders' Rights Entrustment Agreement and the Powers of Attorney, we, through the WFOE, are able to exercise management control over the activities that most significantly impact the economic performance of the Onshore Holdco.

The Shareholders' Rights Entrustment Agreement also provided that, in order to avoid potential conflicts of interest, where the Registered Shareholders are officers or directors of our Group, the powers of attorney are granted in favor of other unrelated officers or the Directors of our Company.

The Shareholders' Rights Entrustment Agreement and the Powers of Attorney shall automatically terminate once the WFOE (or any member of our Group other than the Onshore Holdco and their respective subsidiaries) directly holds the entire equity interests in and/or the entire assets of the Onshore Holdco once permitted under the then PRC laws and the WFOE (or its subsidiaries) is allowed to conduct the Relevant Businesses under the then PRC laws, following which the WFOE is registered as the sole shareholder of the Onshore Holdco.

Share Pledge Agreement

The Onshore Holdco, the Registered Shareholders and the WFOE entered into a share pledge agreement on September 17, 2020 (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Registered Shareholders will pledge as first charge all of their respective equity

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interests in the Onshore Holdco to the WFOE as collateral security for any or all of their payments due to the WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Loan Agreement and the Powers of Attorney. The Share Pledge Agreement will not terminate until (i) all obligations of the Onshore Holdco and the Registered Shareholders are satisfied in full; (ii) the WFOE exercises its exclusive option to purchase the entire equity interests held by the Registered Shareholders in the Onshore Holdco and/or the entire assets of the Onshore Holdco pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws; (iii) the WFOE exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Registered Shareholders may transfer or permit the encumbrance of any of their equity interests in and the relevant assets of the Onshore Holdco (including any equity interests in and the relevant assets of the subsidiaries of the Onshore Holdco) without the WFOE's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, the WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of the Onshore Holdco, which further strengthens the protection of the WFOE's interests over the Onshore Holdco under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to the WFOE's satisfaction within 30 days upon being notified by the WFOE, the WFOE may demand that the Registered Shareholders and/or the Onshore Holdco immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to the WFOE. The pledges under the Share Pledge Agreement has been registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

Other key terms thereunder

Dispute resolution

Each of the Contractual Arrangements stipulates that the parties thereto shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions of any such Contractual Arrangements. In the event the parties fail to resolve such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Contractual Arrangements also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of the Onshore Holdco, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Onshore Holdco; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdiction (being the place of domicile of the Onshore Holdco and where the principal assets of the Onshore Holdco or the WFOE are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of the Onshore Holdco.

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However, our PRC Legal Adviser has advised that (i) a tribunal normally would not grant such kind of injunctive relief or winding up order of the Onshore Holdco under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that our Consolidated Affiliated Entities, the Onshore Holdco or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. Please refer to the section headed “Risk Factors—Risks Related to Our Corporate Structure—We rely on Contractual Arrangements with our Onshore Holdco and its shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control” of this document for details.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders, as if the successors were signing parties to the Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, the WFOE can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Registered Shareholders shall inherit any and all rights and obligations of the registered shareholders under the Contractual Arrangements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstance which would affect their exercise of equity interest in the Onshore Holdco, as if the inheritor was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreement, each of the Registered Shareholders has undertaken, in the event of death or any other event which causes the inability of the shareholder to perform their day-to-day obligations including bankruptcy, marriage or divorce, to transfer all of the equity interests, including right and obligations, in the Onshore Holdco, held by them without consideration to the WFOE or an individual or legal entity designated by the WFOE under applicable PRC law.

In addition, the spouse of each of Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) executes an irrevocable undertaking on September 17, 2020, whereby they expressly and irrevocably acknowledge and undertake that (i) any equity interests held by Richard Qiangdong Liu (劉強東), Pang Zhang (張雱) and Yayun Li (李姪雲) in the Onshore Holdco do not fall within the scope of their communal properties; (ii) they will not have any claim on the interests of the Onshore Holdco obtained through the Contractual Arrangements; (iii) they have never participated and will not participate in the operation or management of the Onshore Holdco.

Based on the foregoing, our PRC Legal Adviser is of the view that (i) the Contractual Arrangements provide protection to us even in the event of loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders; and (ii) loss of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholders would not affect the

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validity of the Contractual Arrangements, and the WFOE can enforce its rights under the Contractual Arrangements against the successors of such shareholders.

Arrangements to address potential conflicts of interest

Each of the Registered Shareholders has given their irrevocable undertakings in the Shareholders' Rights Entrustment Agreement which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed "—Shareholders' Rights Entrustment Agreement and the Powers of Attorney" above.

Loss sharing

None of the agreements constituting the Contractual Arrangements provides that our Company or the WFOE is obligated to share the losses of the Onshore Holdco, but if the Onshore Holdco suffers any losses or material difficulties of business, the WFOE will provide financial support as permitted under PRC laws at its discretion to the Onshore Holdco under the terms of the Exclusive Business Cooperation Agreement. Further, the Onshore Holdco is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or the WFOE is not expressly required to share the losses of the Onshore Holdco or provide financial support to the Onshore Holdco. Despite the foregoing, given that we conduct the Relevant Businesses in the PRC through the Consolidated Affiliated Entities which hold the requisite PRC license and approvals and that the Onshore Holdco's results of operations and assets and liabilities are consolidated into our results of operations and assets and liabilities under the applicable accounting principles, our business, financial condition and results of operations would be adversely affected if the Consolidated Affiliated Entities suffered losses.

Liquidation

Pursuant to the Exclusive Option Agreement, in the event of a mandatory liquidation required by PRC laws, the Onshore Holdco shall sell all of its assets, to the extent permitted by PRC laws, to the WFOE or another qualifying entity designated by the WFOE, at the lowest selling price permitted by applicable PRC laws. Any obligation for the WFOE to pay the Onshore Holdco as a result of such transaction shall be waived by the Onshore Holdco and any profits arising from the above transactions shall be paid to the WFOE or the qualifying entity designated by the WFOE in partial satisfaction of the service fees under the Exclusive Business Cooperation Agreement, as applicable under the then current PRC laws. Accordingly, in the event of winding up of the Onshore Holdco, a liquidator may seize the relevant assets of the Onshore Holdco through the WFOE based on the Contractual Arrangements for the benefit of our creditors/shareholders.

Termination

Each of the Contractual Arrangements provides that the WFOE and the Onshore Holdco shall terminate the Contractual Arrangements once the WFOE holds the entire equity interests in and/or the entire assets of the Onshore Holdco under the then PRC laws and if the WFOE or its subsidiaries are able to conduct the Relevant Businesses directly as a result of being permitted to do so under the then PRC laws and the WFOE is registered as the sole shareholder of the Onshore Holdco. In addition, pursuant to the Exclusive Business Cooperation Agreement, the WFOE has the unilateral right to terminate these agreements at any time by providing 30 days' advance written notice to the Onshore Holdco.

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Insurance

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

Company's confirmation

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

Legality of the Contractual Arrangements

Based on the above, our PRC Legal Adviser is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (i) each of the WFOE and the Onshore Holdco is an independent legal entity which is duly established, and their respective establishment is valid, effective and complies with the relevant PRC laws;
- (ii) each of the agreements under the Contractual Arrangements is legal, valid and binding on the parties thereto and none of the them would be deemed as “concealment of illegal intentions with a lawful form” and void under Contract Law of the PRC;
- (iii) none of the agreements under the Contractual Arrangements violates any provisions of respective articles of association of the WFOE, the Consolidated Affiliated Entities;
- (iv) the Contractual Arrangements do not require any approvals from the PRC governmental authorities, except that (a) the pledges under the Share Pledge Agreement are required to be registered with the relevant local SAMR; (b) the exercise of the option by WFOE of its right under Exclusive Option Agreement to all or part of the equity interests in our Onshore Holdco is subject to the approvals of, consent of, filing with and/or registration with the PRC governmental authorities;
- (v) the Contractual Arrangements are not in violation of applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of the Onshore Holdco, injunctive relief and/or winding up of the Onshore Holdco, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in the Onshore Holdco in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China; and
- (vi) the consummation of the contemplated listing of our shares on the Stock Exchange is not a violation of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which was adopted by six PRC regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, and effective since September 2006 and amended on June 22, 2009.

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However, we have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion of our PRC Legal Adviser.

Furthermore, in August 2020, the respective PRC Legal Advisers of the Company and of the Joint Sponsors verbally consulted the MIIT, the Shandong Province Medical Products Administration (山東省藥品監督管理局), the Shandong Provincial Department of Commerce (山東省商務廳) and the Health Commission of Yinchuan (銀川市衛生健康委員會). Our PRC Legal Adviser has advised us that (i) all of them are competent government authorities for the Company's relevant business activities; and (ii) based on such verbal consultations, the adoption of the Contractual Arrangements would not be challenged or subject to penalty for any violation of relevant PRC Laws and regulations. Our PRC Legal Adviser is of the view that the use of the Contractual Arrangements does not constitute a breach of the relevant laws and regulations.

According to the verbal consultation with MIIT conducted by the respective PRC Legal Advisers of our Company and of the Joint Sponsors, (i) foreign investors are required to demonstrate they have a track record of good performance and operational experience in the value-added telecom business outside the PRC in order to apply for the ICP License and/or the EDI License; and (ii) if the foreign investors could not meet the Qualification Requirements, the MIIT will not approve the application for the ICP License and/or the EDI License. Our PRC Legal Adviser is of the view that MIIT is the competent authority to give the relevant confirmation in relation to PRC's telecommunication regulatory matters. Based on the verbal consultation with the MIIT, our PRC Legal Adviser has advised that in practice it is not feasible for the Onshore Holdco to apply for an ICP License through a sino-foreign joint venture.

Based on the above analysis and advice from our PRC Legal Adviser, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations. See the section headed "Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations."

Given that the Contractual Arrangements will constitute non-exempt continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the section headed "Connected Transactions" of this document.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On March 15, 2019, the National People's Congress approved the Foreign Investment Law which became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Regulations on the Implementation of the Foreign Investment Law, which came into effect on January 1, 2020. The Foreign Investment Law replaced the Sino-Foreign Equity Joint Venture

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Enterprise Law, the Sino-Foreign Cooperative Joint Ventures Enterprise Law and the Wholly Foreign Invested Enterprises Law to become the legal foundation for foreign investment in the PRC. The Foreign Investment Law stipulates certain forms of foreign investment, but does not explicitly stipulate contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

Impact and consequences of the Foreign Investment Law

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including our Group. We use the Contractual Arrangements to establish control of our Consolidated Affiliated Entities, by the WFOE through which we operate our business in the PRC. As advised by our PRC Legal Adviser, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law and if future laws, regulations and provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties with an exception, for which, see “Contractual Arrangements—Legality of the Contractual Arrangements”.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council” without elaboration on the meaning of “other methods”. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of our Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and regulations. See “Risk Factors—Risks related to our Corporate Structure—Our current corporate structure and business operations may be affected by the Foreign Investment Law.”

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;
2. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and
4. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual

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Arrangements, review the legal compliance of the WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of operating entities

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by the WFOE, the Onshore Holdco shall pay services fees to the WFOE. The services fee shall equal to the Onshore Holdco's consolidated profit before tax excluding the service fee thereunder, after deducting any accumulated losses of the Consolidated Affiliated Entities from the preceding fiscal year, and any costs, expenses, tax and other statutory contribution in relation to the respective fiscal year. The WFOE has the right to periodically receive or inspect the accounts of the Consolidated Affiliated Entities.

In addition, under the Exclusive Option Agreement, the WFOE has absolute contractual control over the distribution of dividends or any other amounts to the Registered Shareholders as the WFOE's prior written consent is required before any distribution can be made. If the Registered Shareholders receive any income, profit distribution or dividend, they shall promptly transfer or pay, as part of the services fee under the Exclusive Business Cooperation Agreement, such income, profit distribution or dividend to the WFOE or any other person designated by the WFOE to the extent permitted under applicable PRC laws.

As a result of the Contractual Arrangements between the WFOE, the Onshore Holdco and the Registered Shareholders, the WFOE is able to effectively control, recognize and receive substantially all the economic benefit of the business and operations of the Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as controlled structured entities of our Company and consolidated by our Company. The basis of consolidating the results of the Consolidated Affiliated Entities is disclosed in Note 1.2 to the Accountants' Report set out in Appendix I.

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Regulations relating to Healthcare Services

General Policies

According to the Guiding Opinions on Vigorously Advancing the “Internet Plus” Action (《國務院關於積極推進「互聯網+」行動的指導意見》) (the “Opinions”) issued by the State Council on July 1, 2015, Internet enterprises are encouraged to cooperate with medical institutions in establishing online medical information platforms, strengthen the integration of regional health care service resources, and make full use of the Internet, Big Data and other means to improve the capability to prevent and control major diseases and unexpected public health incidents.

Pursuant to the Opinions on Promoting the Development of “Internet Plus Health Care” (《國務院辦公廳關於促進“互聯網+醫療健康”發展的意見》) issued by the General Office of the State Council on April 25, 2018, which encouraged medical institutions to apply the internet and other information technologies to expand the space and content of medical services, and develop an online-offline integrated medical service model covering stages before, during and after diagnosis. The development of Internet hospitals depending on medical institutions shall be permitted. Medical institutions may use Internet hospital as the second name and, based on physical hospitals, use Internet technology to provide safe and appropriate medical services, allowing online subsequent visits for some common diseases and chronic diseases. After reviewing documents of the medical records and profiles of patients, doctors shall be allowed to prescribe online for some common diseases and chronic diseases.

Pursuant to The 13th Five-year Plan for Health and Wellness (《「十三五」衛生與健康規劃》) (the “Plan”), which was promulgated by the State Council on December 27, 2016, it is proposed to strengthen the informatization of the population health and fully implement “Internet Plus” medical and healthcare people-benefiting service. The Plan also encourages the establishment of regional telemedicine platform and enhances the flow of high-quality healthcare resources to the Midwest and the primary level. On July 17, 2018, the National Health Commission (the “NHC”) and the National Administration of Traditional Chinese Medicine jointly promulgated three documents, including the Measures for the Administration of Internet Diagnosis and Treatment (Trial) (《互聯網診療管理辦法(試行)》), the Measures for the Administration of Internet Hospitals (Trial) (《互聯網醫院管理辦法(試行)》) and the Specifications for the Administration of Remote Medical Services (Trial) (《遠程醫療服務管理規範(試行)》). Pursuant to the Measures for the Administration of Internet Hospitals (Trial), “internet hospitals” include: (a) internet hospitals as the second name of physical medical institutions, and (b) internet hospitals that are independently established on the support of physical medical institutions.

Internet Hospital

According to the Measures for the Administration of Internet Hospitals (Trial), the state implements access management for internet hospitals pursuant to the Administrative Regulations on Medical Institutions (《醫療機構管理條例》) and the Implementation Measures of the Administrative Regulations on Medical Institutions (《醫療機構管理條例實施細則》). Before implementing access for internet hospitals, provincial health administrative departments shall establish provincial internet medical service supervision platforms to connect with information platforms of internet hospitals to achieve real-time supervision. Establishing an internet hospital is governed by the administrative approval process as stipulated in the Measures for the Administration of Internet Hospitals (Trial). According to the Measures for the Administration of Internet Hospitals (Trial), applying for establishing an internet hospital is required to submit an application to the practice registration

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authority of its supported physical medical institution, and submit the application form, the feasibility research report on the establishment, the address of the supported physical medical institution, and the agreement jointly signed by the applicant and the supported physical medical institution in relation to establishing an internet hospital through cooperation. If a physical medical institution intends to establish an internet hospital information platform through cooperation with a third-party institution, the relevant cooperation agreement should be submitted. For an internet hospital sets up through cooperation, if the cooperation partner changes or other circumstance occurs that will invalidate the cooperation agreement, reapplication for establishing an internet hospital shall be required.

The health administrative department of the State Council and the competent departments of traditional Chinese medicine shall be responsible for the supervision and administration of the Internet hospitals across China. The local health administrative departments at all levels (including the competent departments of traditional Chinese medicine) shall be responsible for the supervision and management of Internet hospitals within their respective jurisdictions.

In terms of practicing rules on internet hospitals, the Measures for the Administration of Internet Hospitals (Trial) provides that where a third-party institution jointly establishes an internet hospital on the support of its physical medical institution, it shall provide the physical medical institution with professional services such as physicians and pharmacists, and information technology support services, and clarify the responsibilities and rights of all parties in respect of medical services, information security, and privacy protection through agreements and contracts. In terms of supervision and management of internet hospitals, the Measures for the Administration of Internet Hospitals (Trial) clarifies that provincial health administrative departments and the registration authorities for internet hospitals jointly implement supervision on internet hospitals through the provincial internet medical service supervision platform, focusing on the supervision on internet hospitals' personnel, prescriptions, diagnosis and treatment behaviors, patients' privacy protection and information security. Internet hospitals shall adopt information security protection measures for Level 3 information system in accordance with relevant information security laws and regulations, including completion of filings with local public security authorities. Doctors can only provide follow-up diagnosis services through internet hospitals for patients that have been diagnosed with certain common diseases or chronic diseases, unless the patients are in physical hospitals and the doctors in the physical hospital invites other doctors to provide diagnosis services through internet hospital. Administrative Regulations on Medical Institutions (《醫療機構管理條例》) and Implementation Measures of the Administrative Regulations on Medical Institutions (《醫療機構管理條例實施細則》) set out the regulatory framework for the management and operation of the medical institutions, and the operation of Internet hospitals shall comply with Administrative Regulations on Medical Institutions (《醫療機構管理條例》) and Implementation Measures of the Administrative Regulations on Medical Institutions (《醫療機構管理條例實施細則》) as well. Additionally, the Basic Standards for Internet Hospitals (Trial) (《互聯網醫院基本標準(試行)》) as attached to the Measures for the Administration of Internet Hospitals (Trial) sets forth specific requirements for diagnosis and treatment items, departments, personnel, buildings and device and equipment, and rules and regulations of internet hospitals.

On January 7, 2019, the Health Commission of Ningxia Hui Autonomous Region issued the Implementation Measures for the Administration of Internet Hospitals in Ningxia Hui Autonomous Region (Trial) (《寧夏回族自治區互聯網醫院管理實施辦法(試行)》) (“Measures for Internet Hospitals in Ningxia”). In terms of access of internet hospitals, on the basis of the Measures for the Administration of Internet Hospitals (Trial), the Measures for Internet Hospitals in Ningxia clearly stipulates that the autonomous region establishes a provincial internet medical service supervision

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platform and the internet hospitals should connect with such information platform to achieve real-time supervision. Where an internet hospital is established on the support of its physical medical institution, it shall submit an application for practice registration to the license issuing authority of the physical medical institution, and submit relevant cooperation agreement and materials about the connections with the internet medical service supervision platform of the autonomous region. In terms of supervision and management and basic standards of internet hospitals, the Measures for Internet Hospitals in Ningxia puts forward stricter requirements when compared with the Measures for the Administration of Internet Hospitals (Trial). For example, the former requires that physicians providing medical services in internet hospitals shall have independent clinical working experience for more than five years and have been qualified with intermediate professional titles. For one applying for establishing an internet hospital, its supporting physical medical institution must be a medical institution above the second level, with independent corporate capacity and corresponding qualifications assessed by the expert committee.

On August 19, 2020, the Health Commission of Yinchuan issued the Specification for the Internet Diagnosis and Treatment Service (Trial) (《銀川市互聯網診療服務規範(試行)》) (“Specification”) which has been implemented on September 1, 2020, to further set forth requirements for the conduct of internet hospital and doctors, and provide guideline for internet diagnosis medical records, rational drug use, medical quality supervision and data security.

One of our Consolidated Affiliated Entities, Yinchuan JD Online Hospital, has obtained the Practicing License for Medical Institution on March 28, 2018 (and renewed on April 23, 2020) to conduct internet hospital service.

Medical Institutions

According to the Administrative Regulations on Medical Institutions (Revised in 2016) (《醫療機構管理條例》(2016 修訂)) (the “Regulations”), promulgated by the State Council, effective on September 1, 1994, and revised on February 6, 2016, hospitals, health centers, sanatoriums, out-patient departments, clinics, health clinics, health posts (rooms) and first aid stations are medical institutions. The health administrative departments of the local people’s governments at or above the county level shall be responsible for the supervision and administration of the medical institutions within their respective administrative regions. The establishment of medical institutions by entities or individuals shall be subject to the examination and approval of the health administrative department of the local people’s governments at or above the county level and obtain the written approval for the establishment of medical institutions. Furthermore, according to the Regulations, the practice of medical institutions shall complete the registration and obtain Practicing License for Medical Institution. Where the practicing is without authorization or obtaining the Practicing License for Medical Institution, the health administrative department of the people’s government at or above the county level must cease its practicing activities and confiscate the illegal incomes, medicines and medical devices in accordance with the law, and it can be imposed fines less than RMB10,000 in light of the circumstances. Medical institutions must conduct medical diagnosis and treatment activities in accordance with registered and approved subjects and shall not employ non-medical technical personnel in medical and health technical work.

Patient Diagnosis Service

According to the Measures for the Administration of Internet Diagnosis and Treatment (Trial) (《互聯網診療管理辦法(試行)》), Internet diagnosis and treatment activities shall be provided by the

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medical institutions that have obtained a “Practicing License for Medical Institution”, and the Internet-based diagnosis services provided by a medical institution shall be consistent with its diagnosis subjects. Physicians and nurses carrying out Internet diagnosis and treatment activities shall be able to be found in the national electronic registration system of physicians and nurses. A medical institution shall conduct electronic real-name verification for the medical staff members carrying out Internet diagnosis and treatment activities.

According to the Measures for the Administration of Internet Hospitals (Trial) (《互聯網醫院管理辦法(試行)》), Internet hospitals must inform the patients of the risks and obtain their consents. When a patient receives medical treatment in a physical medical institution and the physician receiving such patient invites other physicians to hold group consultation of physicians through the Internet hospital, the physicians attending the group consultation may issue diagnosis opinions and a prescription; and when a patient does not receive medical treatment in a physical medical institution, a physician may only provide subsequent visits for a patient of some common diseases and chronic diseases through the Internet hospital. Internet hospitals may provide contract signing service for family doctors. When a patient’s condition changes or there are other circumstances under which online diagnosis and treatment services are inappropriate, the physician shall direct the patient to receive medical treatment in a physical medical institution. Internet diagnosis and treatment activities shall not be carried out for any patient receiving initial diagnosis.

Medical Practitioners

On June 26, 1998, the Standing Committee of the National People’s Congress (the “SCNPC”) issued the Law on Licensed Medical Practitioners of the People’s Republic of China (the “Licensed Medical Practitioners Law”) (《中華人民共和國執業醫師法》), effective on May 1, 1999, and amended on August 27, 2009. According to the Licensed Medical Practitioners Law, when taking medical, preventive or healthcare measures and when signing relevant medical certificate, the licensed medical practitioners shall conduct diagnosis and investigation personally and fill out the medical files without delay as required. No medical practitioners may conceal, forge or destroy any medical files or the relevant data.

On November 5, 2014, the National Health and Family Planning Commission of PRC (the “NHFPC”, currently known as the National Health Commission of PRC), the National Development and Reform Commission (the “NDRC”), the Ministry of Human Resources and Social Security, the State Administration of Traditional Chinese Medicine, and the China Insurance Regulatory Commission (currently known as the China Banking and Insurance Regulatory Commission), jointly issued Several Opinions on Promoting and Standardizing Multi-Place Practice of Physicians (《推進和規範醫師多點執業的若干意見》), which puts forward to simplify the registration procedure of the multiple place practice and proposes the feasibility of exploring the “record management”. According to Administrative Measures for the Registration of Medical Practitioners (《醫師執業註冊管理辦法》), promulgated by the NHFPC on February 28, 2017, effective on April 1, 2017, medical practitioners shall obtain the Practice Certificate for Medical Practitioners to practice upon registration. Person who fails to obtain the Practice Certificate for Medical Practitioners shall not engage in medical treatment, prevention and healthcare activities. A medical practitioner who practices for multiple institutions at the same place of practice shall determine one institution as the main practicing institution where he or she practices, and apply for registration to the administrative department of health and family planning approving the practice of such institution; and, for other institutions where the medical practitioner is to practice, respectively apply for recordation to the administrative health and family planning authority

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approving the practice of such institution, and indicate the names of the institutions where he or she is to practice. If a medical practitioner practices in an additional institution not at the registered place of practice, he or she shall apply for registering such addition to the administrative health and family planning authority approving the practice of such institution. According to the Implementing Plan for the Filing of Internet Medical Practitioners (《互聯網醫師執業“電子證”備案實施方案》), promulgated by Yinchuan Administrative Approval Service Bureau on February 11, 2018, so as to promote administration efficiency, the medical practitioners employed by the Internet hospital registered in Yinchuan, shall be able to practice and obtain the corresponding prescription right in such internet hospital after filing with the Yinchuan Internet Hospital Medical Practitioners Service Platform.

Prescription Management

For the purpose of regulating the administration of prescriptions, the Measures for the Administration of Prescriptions (《處方管理辦法》) (the “Measures”) was released by the NHFPC on February 14, 2007 and as effective from May 1, 2007. Under the Measures, a certified medical practitioner shall obtain the corresponding prescription right at the registered practice place and the certified medical practitioner shall issue prescriptions according to the requirements of medical treatment, disease prevention, healthcare, and subject to the treatment standards and drug instructions. Under any of the following circumstances, the health administrative department at or above the county level shall request the medical institutions to make corrections within a grace period, and may impose the fine no more than RMB5,000; and under serious circumstances, Practicing License for Medical Institution shall be revoked: (1) prescribing by a pharmacist who has not obtained the right to prescribe or whose prescription right has been canceled; (2) prescribing narcotic drugs and the psychotropic drugs of category I by pharmacists who have not obtained the prescription right for such narcotic drugs and psychotropic drugs; (3) employing persons who have not obtained the qualifications for the professional and technical positions of pharmaceutical science to conduct the prescription adjustment. If the medical practitioners issue prescriptions without obtaining prescription rights at a medical institution not registered in their licenses, during their practicing activities, they will be given a warning or be ordered to suspend their practicing activities for a period of not less than six months but not more than one years and under the serious circumstances, their Practice Certificates for Medical Practitioners will be revoked.

Regulations relating to Pharmaceutical Operation

In September 1984, the SCNPC promulgated the Drug Administration Law (《藥品管理法》), which was amended in 2001, 2013, 2015 and 2019 respectively to regulate all entities or individuals engaging in research, manufacture, operation, use, supervision and management of drugs within the PRC. According to the Drug Administration Law, no pharmaceutical operation, including pharmaceutical whole sale and pharmaceutical retail business, is permitted without obtaining the Pharmaceutical Operation License. Where the trading of drugs is conducted without a Pharmaceutical Operation License, the illegal incomes by selling drugs shall be confiscated and the local Food and Drug Administration (the “FDA”, now known as the Medical Products Administration, or the MPA”) shall impose the fine ranging from 15 to 30 times of the value of the illegally sold drugs (including sold or unsold drugs). The Implementation Rules for the Drug Administration Law (《藥品管理法實施條例》), was promulgated by the State Council in August 2002 and amended in 2016 and 2019, which emphasized the detailed implementation rules of drugs administration. The China Food and Drug Administration (“CFDA”, now known as the National Medical Products Administration, or the “NMPA”) promulgated the Measures for the Administration of Pharmaceutical Operation License

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(《藥品經營許可證管理辦法》) in February 2004 as amended in 2017, which stipulates the procedures for applying the Pharmaceutical Operation License and the requirements and qualifications for pharmaceutical wholesalers or pharmaceutical retailers with respect to their management system, personnel, facilities and etc. The valid term of the Pharmaceutical Operation License is five years and shall be renewed through application six months prior to its expiration date.

According to the Measures on Prescription Drugs and OTC Drugs Classification Management (Trial) (《處方藥與非處方藥分類管理辦法(試行)》) and the Interim Provisions on the Circulation of Prescription and OTC Drugs (Trial) (《處方藥與非處方藥流通管理暫行規定(試行)》), which were both promulgated by the State Drug Administration, which was restructured and integrated into the CFDA, in 1999 and became effective in January 2000, drugs are divided into prescription drugs and over-the-counter drugs, or OTC drugs. For prescription drugs, the dispensing, purchase and use can only be based on the prescription issued by the certified medical practitioner or certified medical assistant practitioner. In addition, the prescription drugs can only be advertised and promoted in professional medical magazines. OTC drugs, on the other hand, are further divided into Class A and Class B and they both can be purchased and used without a prescription and promoted in public upon approval by the relevant governmental authorities. The pharmaceutical wholesale enterprises distributing prescription drugs and/or OTC drugs, as well as pharmaceutical retail enterprises selling prescription drugs and/or Class A OTC drugs are required to obtain the Pharmaceutical Operation License.

According to the Administrative Measures for the Supervision and Administration of Circulation of Pharmaceuticals (《藥品流通監督管理辦法》), promulgated by the CFDA in January 2007 and effective in May 2007, pharmaceutical manufacture and operation enterprises and medical institutions shall be responsible for the quality of pharmaceuticals they manufacture, provide or use. The operation of prescription drugs is highly regulated under these rules. Prescription drugs may not be sold by pharmaceutical retail enterprises without valid prescriptions and an enterprise in violation of such restriction will be instructed to rectify any violation, given a disciplinary warning, and/or imposed a fine of no more than RMB1,000. In addition, a pharmaceutical manufacture or operation enterprise shall not sell prescription drugs directly to the public by post or over internet, and the enterprise in violation of such restriction shall be instructed to rectify, given a disciplinary warning, and imposed a fine of not more than two times the value of the pharmaceuticals sold, but not more than RMB30,000. The newly revised Drug Administration Law (《藥品管理法》) in 2019 abolishes the restriction on online sale of prescription drugs and adopts the principle of keeping online and offline sales consistent. However, as of the Latest Practicable Date, none of the regulations or implementation rules regulating online drug sales have yet been promulgated and implemented, which may further introduce and impose certain conditions and restrictions to the online sale of drugs. Furthermore, the Administrative Standard of Pharmaceutical Operating Quality (《藥品經營質量管理規範》), promulgated by the CFDA in April 2000 and amended in 2012, 2015 and 2016 respectively, the pharmaceutical operation enterprises shall take effective quality control measures over the process of procurement, storage, transportation and sale of drugs in order to ensure their quality.

Certain Consolidated Affiliated Entities have obtained a Pharmaceutical Operation License.

Regulations relating to Internet Pharmaceutical Transaction Services

According to Interim Provisions on the Examination and Approval of Internet Drug Transaction Services (《互聯網藥品交易服務審批暫行規定》), promulgated by CFDA on September 29, 2005 and

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effective since December 1, 2005, the enterprises engaging in the internet pharmaceutical transaction service shall be subject to examination and acceptance, and obtain the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services. The Qualification Certificate for Providing Internet Pharmaceutical Dealing Services shall be valid for five years. The CFDA is in charge of examination and approval of the services provided for Internet pharmaceutical transactions between pharmaceutical production enterprises, pharmaceutical marketing enterprises and medical institutions, and the provincial FDA shall implement the examination and approval of the services provided for Internet pharmaceutical transactions with third-party enterprises engaged by pharmaceutical production enterprises, pharmaceutical wholesales enterprises on their own websites, as well as Internet pharmaceutical transactions services to individual consumers. The Interim Provisions on the Examination and Approval of Internet Drug Transaction Services further stipulates that any enterprise engaging in online pharmaceutical product trading services to individual consumers shall be established in the form of a pharmaceutical retail chain enterprise. According to the Drug Administration Law and the Administrative Standard of Pharmaceutical Operating Quality, the operation of pharmaceutical retail chain enterprise shall be in compliance with the acceptance standards provided by regulations and the CFDA. After obtaining the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services issued by the competent food and drug supervision and administration authority, the applicant shall obtain the permit for operation of telecommunications services as required by the Internet Measures, or go through the formalities for record-filing. According to the Decision on the Cancellation of the Third Batch of Items Subject to Administrative Permission by Local Governments Designated by the Central Government (《國務院關於第三批取消中央指定地方實施行政許可事項的決定》), promulgated by the State Council on January 12, 2017, except for the third party platform, all the examination and approval of Internet drug trading service company implemented by FDAs of provincial level are canceled. According to the Decision on the Cancellation of Various Items Subject to Administrative Permission (《國務院關於取消一批行政許可事項的決定》) by the State Council, on September 22, 2017, the CFDA shall no longer accept applications for examination and approval of Internet drug transaction service enterprises engaging the business as the third party platform. In November 2020, NMPA published for public comment the Draft Measures for the Supervision and Administration of Online Pharmaceuticals Sales (“the Draft Measures”) (《藥品網絡銷售監督管理辦法(徵求意見稿)》), aiming to enhance the supervision of online pharmaceutical sales and related platform services. The Draft Measures provides specific and explicit rules for the online sales of prescription drugs, which is perceived to be more conducive online prescription drug sellers including us. The Draft Measures provides that, among others, online prescription drug sellers shall (i) ensure the accuracy and reliability of the source of e-prescription, (ii) keep records of any e-prescription for at least five years and no less than one year after the expiration date of the prescription drugs, and (iii) disclose safety warnings including “prescription drugs should only be purchased and used with prescriptions and guidance of licensed pharmacists” when displaying information of prescription drugs. The Draft Measures also imposes certain obligations on platform service providers for online pharmaceutical sales, including, among others, that platform service providers should (i) enhance the scrutiny on the required licenses and permits of online pharmaceutical merchants for online pharmaceuticals sales, (ii) establish the examination and inspection system for drug information published on the platforms and report to competent governmental authorities when discovering any significant issue in connection with drug quality and safety, and (iii) promptly stop any illegal behavior upon discovery and report it to the relevant local governmental authorities. As advised by our PRC Legal Advisor, the Draft Measures was released for public comment only and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. We will closely monitor and assess the trajectory of the rule-making process. We will comply with

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these rules after the Draft Measures takes effect, both as a platform and an online pharmaceuticals seller.

One of our Consolidated Affiliated Entities, Jingdong Pharmacy Qingdao, has obtained the Qualification Certificate for Providing Internet Pharmaceutical Dealing Services on October 19, 2016, before such approval was canceled.

Regulations relating to Online Drug Information Services

According to the Measures Regarding the Administration of Drug Information Service over the Internet (《互聯網藥品信息服務管理辦法》), promulgated by SFDA on July 8, 2004 and amended on November 17, 2017, the operational Internet drug information service refers to the activities of providing medical information (including medical devices) and other services to Internet users through the Internet, and where any website intends to provide Internet drug information services, it shall, prior to applying for an operation permit or record-filing from the State Council's department in charge of information industry or the telecom administrative authority at the provincial level, file an application with the provincial FDA, and shall be subject to the examination and approval thereof for obtaining the qualifications for providing Internet drug information services. The validity term for a Qualification Certificate for Internet Drug Information Services is five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority. Pursuant to the Measures Regarding the Administration of Drug Information Service over the Internet, the Internet drug information services are classified into two categories, namely, profit-making services and non-profit-making services. Profit-making services refers to that of providing Internet users with drug information in return for service fees whilst non-profit-making services refers to that of providing Internet users with drug information which is shared and accessible by the public through the Internet free of charge. Furthermore, the information relating to drugs shall be accurate and scientific in nature, and its provision shall comply with the relevant laws and regulations. No product information of stupeficient, psychotropic drugs, medicinal toxic drugs, radiopharmaceutical, detoxification drugs and pharmaceuticals made by medical institutes shall be distributed on the website. In addition, advertisements relating to drugs (including medical devices) shall be approved by the NMPA or its competent branches, and shall specify the approval document number.

Certain Consolidated Affiliated Entities have obtained a Qualification Certificate for Internet Drug Information Service.

Regulations relating to Medical Devices Operation

The Measures on the Supervision and Administration of the Business Operations of Medical Devices (《醫療器械經營監督管理辦法》) (the "Measures on Medical Devices"), which was promulgated by CFDA on July 30, 2014 and amended on November 17, 2017, applies to any business activities of medical devices as well as the supervision and administration thereof conducted within the territory of the PRC. Pursuant to the Measures on Medical Devices, CFDA shall be responsible for the supervision and administration of nationwide business operations concerning medical devices. Medical devices are divided into three classes depending on the degree of risks of medical devices. Entities engaged in distribution of Class III medical devices shall obtain a medical device operating license and entities engaged in distribution of Class II medical devices shall complete filings with the competent local MPA, while entities engaged in distribution of medical devices of Class I are not required to

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conduct any filing or obtain any license. In addition, in accordance with Regulations on Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), promulgated by the State Council on May 4, 2017, Class II and Class III medical devices shall be registered with the NMPA or its local branches, while Class I medical devices shall be filed with the competent local MPA. In the event that the business operator in distribution of Class III medical devices without a medical device operating license or the business operator in distribution of Class II or Class III medical devices that are not registered with the NMPA or its local branches, the business operator may be imposed fine or be shut down by the authorities. Certain of our subsidiaries and Consolidated Affiliated Entities have obtained a medical device operating license or completed filing for sales of Class II medical devices.

Regulations relating to Online Sales of Medical Device

On December 20, 2017, the CFDA promulgated the Administration and Supervision Measures of Online Sales of Medical Devices (《醫療器械網絡銷售監督管理辦法》) (the “Online Medical Devices Sales Measures”), which became effective on March 1, 2018. According to the Online Medical Devices Sales Measures, enterprises engaged in online sales of medical devices must be medical device manufacture and operation enterprises with medical devices production licenses or operation licenses or being filed for record in accordance with laws and regulations, unless such licenses or record-filing is not required by laws and regulations. Pursuant to the Online Medical Devices Sales Measures, the enterprises engaging in online sales of medical devices through its own website, and the third-party platform for provision of online medical devices transaction services shall obtain an Internet Drug Information Services Qualification License. Either enterprises engaging in online sales of medical devices or enterprises to provide a third-party platform for provision of medical devices online transaction services shall take technical measures to ensure the data and materials of medical devices online sales are authentic, completed and retrospective, for example the records of sale information of medical devices shall be kept for two years after the valid period of the medical devices, and for no less than five years in case of no valid period, or be kept permanently in case of implanted medical devices. For the enterprises engaging in online sales of medical devices, such enterprises shall display its medical device production and operation license or record-filing certificate on visible place of its homepage, and the information of the medical devices published on the website shall be consistent with the related contents registered or filed for record; in addition, the business scope shall not exceed the scope of its production and operation license or the scope filed for record. For the enterprises to provide a third-party platform for provision of medical devices online transaction services, such enterprises shall be filed for record with the local provincial FDA, and shall verify the materials submitted by any enterprise applying for entering the platform.

Regulations relating to Internet Security

Internet information in China is regulated and restricted from a national security standpoint.

The SCNPC, has enacted the Decisions on Maintaining Internet Security (《關於維護互聯網安全的決定》) on December 28, 2000, amended on August 27, 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security of the PRC has promulgated the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》) on December 16, 1997 and the State Council of the PRC has amended it on January 8,

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2011 to prohibit use of the Internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the PRC, or the Cyber Security Law (《網絡安全法》), which became effective on June 1, 2017. The Cyber Security Law requires network operators to comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. The Cyber Security Law further requires network operators to take all necessary measures in accordance with applicable laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to cyber security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

Regulations relating to Personal Information or Data Protection

In December 2011, the Ministry of Industry and Information Technology (the “MIIT”) issued Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), which provides that an internet information service provider may not collect any user’s personal information or provide any such information to third parties without such user’s consent. Pursuant to the Several Provisions on Regulating the Market Order of Internet Information Services, internet information service providers are required to, among others, (i) expressly inform the users of the method, content and purpose of the collection and processing of such users’ personal information and may only collect such information necessary for the provision of its services; and (ii) properly maintain the users’ personal information, and in case of any leak or possible leak of a user’s personal information, online lending service providers must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority.

Pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》), issued by the SCNPC in December 2012, and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》), issued by the MIIT in July 2013, any collection and use of any user personal information must be subject to the consent of the user, and abide to the applicable law, rationality and necessity of the business and fall within the specified purposes, methods and scopes in the applicable laws.

In addition, pursuant to Cyber Security Law of the PRC, the “personal information” refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify individuals’ personal information including but not limited to: individuals’ names, dates of birth, ID numbers, biologically identified personal information, addresses and telephone numbers, etc. The Cyber Security Law also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative

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regulations and agreements reached with users; (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered and thus it is impossible to match such information with specific persons, such circumstance is an exception. Furthermore, under the Cyber Security Law, network operators of key information infrastructure generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of the PRC. On August 22, 2019, the Cyberspace Administration of China (the “CAC”) issued the Provisions on the Cyber Protection of Children’s Personal Information (《兒童個人信息網絡保護規定》), which became effective on October 1, 2019 and apply to the collection, storage, use, transfer and disclosure of the personal information of the minors under the age of 14, or the Children, via the Internet.

Pursuant to the Ninth Amendment to the Criminal Law (《刑法修正案(九)》), issued by the SCNPC in August 2015, which became effective in November 2015, any Internet service provider that fails to fulfill its obligations related to Internet information security administration as required under applicable laws and refuses to rectify upon orders shall be subject to criminal penalty. In addition, Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Personal Information (《關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), issued on May 8, 2017 and effective as of June 1, 2017, clarified certain standards for the conviction and sentencing of the criminals in relation to personal information infringement. In addition, on May 28, 2020, the National People’s Congress adopted the Civil Code of the PRC (《中華人民共和國民法典》) (the “Civil Code”), which will come into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual shall legally obtain such personal information of others when necessary and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

Pursuant to the Regulations for Medical Institutions on Medical Records Management (《醫療機構病歷管理規定》) released on November 20, 2013, and effective from January 1, 2014, the medical institutions and medical practitioners shall strictly protect the privacy information of patients, and any leakage of patients’ medical records for non-medical, non-teaching or non-research purposes is prohibited. The NHFPC released the Measures for Administration of Population Health Information (Trial) (《人口健康信息管理辦法(試行)》) on May 5, 2014, which refers the medical health service information as the population healthcare information, and emphasizes that such information cannot be stored in offshore servers, and the offshore servers shall not be hosted or leased. Pursuant to the Management Measures of Standards, Safety and Service of National Health and Medical Big Data(Trial) (《國家健康醫療大數據標準、安全和服務管理辦法(試行)》), promulgated by the NHC on July 12, 2018, the medical institutions should establish relevant safety management systems, operation instructions and technical specifications to safeguard the safety of healthcare big data generated in the process of health management service or prevention and cure service of diseases. And it also stipulates that such healthcare big data should be stored in onshore servers and shall not be provided overseas without safety assessment.

Regulations relating to Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by the Catalog of Industries for Encouraging Foreign Investment (the “Encouraging Catalog”), and the Special

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Management Measures (Negative List) for the Access of Foreign Investment (the “Negative List”), which were promulgated and are amended from time to time by the Ministry of Commerce of the PRC (the “MOFCOM”) and NDRC. The Encouraging Catalog and the Negative List lay out the basic framework for foreign investment in the PRC, classifying businesses into three categories with regard to foreign investment: “encouraged”, “restricted” and “prohibited”. Industries not listed in the Encouraging Catalog and the Negative List are generally deemed as falling into a fourth category “permitted”. The NDRC and MOFCOM promulgated the Catalog of Industries for Encouraging Foreign Investment (2019 Version) (《鼓勵外商投資產業目錄(2019年版)》) (the “2019 Encouraging Catalog”), on June 30, 2019, and the Special Management Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “2020 Negative List”), on June 23, 2020, to replace the previous encouraging catalog and negative list thereunder. According to the 2020 Negative List, the value-added telecommunications services (excluding e-commerce business, domestic multi-party communications, store-and-forward and call centers) fall into the “restricted” category.

On March 15, 2019, the NPC, promulgated the Foreign Investment Law (《外商投資法》) (the “FIL”), which has come into effect on January 1, 2020 and replaced the trio of laws regulating foreign investment in the PRC, namely, the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》) and the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》). Its implementation of regulations promulgated by the State Council in December 2019 also came into effect on January 1, 2020. The FIL, by means of legislation, establishes the basic framework for the access, promotion, protection and administration of foreign investment in view of investment protection and fair competition.

According to the FIL, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” The FIL provides that foreign invested entities operating in foreign “restricted” or “prohibited” industries will require entry clearance and other approvals. The FIL does not comment on the concept of “de facto control” or contractual arrangements with consolidated affiliated entities, however, it has a catch-all provision under definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment. In addition, a foreign investment information reporting system shall be established and foreign investors or foreign-funded enterprises shall submit the investment information to competent departments for commerce through the enterprise registration system and the enterprise credit information publicity system.

Furthermore, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law (《中華人民共和國公司法》) and other laws and regulations governing the corporate governance.

On December 26, 2019, the State Council promulgated the Implementation Rules to the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which became effective on

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January 1, 2020. The implementation rules further clarified that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimize foreign investment environment, and advances a higher-level opening.

Regulations relating to Value-added Telecommunication Services

License for Value-added Telecommunications Services

The Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “Telecommunications Regulations”), promulgated by the State Council on September 25, 2000 and amended on July 29, 2014 and February 6, 2016, provide a regulatory framework for telecommunications services providers in the PRC. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (《電信業務分類目錄》), attached to the Telecommunications Regulations, which was promulgated by the Ministry of Information Industry (the “MII”, now known as MIIT) on February 21, 2003 and amended by the MIIT on December 28, 2015 and June 6, 2019, the Internet information services and the online data processing and transaction processing services fall within the value-added telecommunications services.

The Administrative Measures on Telecommunications Business Operating Licenses (《電信業務經營許可管理辦法》), which was promulgated by the MIIT on March 5, 2009 and amended on July 3, 2017, sets forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) (the “Internet Measures”), promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, requires that a commercial operator of Internet content provision services must obtain a value-added telecommunications business operating license for the provision of Internet information services from the appropriate telecommunications authorities.

Foreign Investment in Valued-Added Telecommunications Business

Foreign direct investment in telecommunications companies in China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016. The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises requires foreign-invested value-added telecommunications enterprises in China to be established as sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprise operating the value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business. In July 2006, the MII released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “MII Notice”), pursuant to which, domestic telecommunications enterprises are prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or

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provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MII Notice, the Internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

Regulations Relating to Online Trading

In January 2014, the State Administration for Industry & Commerce (the “SAIC”) promulgated the Administrative Measures for Online Trading, or Online Trading Measures (《網絡交易管理辦法》), which became effective in March 2014, to regulate all operating activities for products sale and services provision via the internet (including mobile internet). It stipulates the obligations of online products operators and services providers and certain special requirements applicable to third-party platform operators. The MOFCOM promulgated the Provisions on the Procedures for Formulating Transaction Rules of Third Party Online Retail Platforms (Trial) (《網絡零售第三方平台交易規則制定程序規定(試行)》) in December 2014, which became effective in April 2015, to guide and regulate the formulation, revision and enforcement of transaction rules by online retail third-party platform operators. These measures impose more stringent requirements and obligations on third-party platform operators. For example, online business operators are required to issue invoices to consumers for online products and services. Consumers are generally entitled to return products purchased from online business operators within seven days upon receipt, without giving any reason. Online business operators and third-party online marketplace operators are prohibited from collecting any information on consumers and business operators, or disclosing, selling or providing any such information to any third party, or sending commercial electronic messages to consumers, without their consent. Fictitious transactions, deletion of adverse comments and technical attacks on competitors’ websites are prohibited as well. In addition, third-party online marketplace operators are required to examine and verify the identifications of the online business operators and set up and keep relevant records for at least two years. Moreover, any third-party online marketplace operator that simultaneously engages in online trading for products and services should clearly distinguish itself from other online business operators on the marketplace platform.

After the issuance of Online Trading Measures, the relevant governmental authorities have issued a number of guidelines and implementing rules aimed at adding greater specificity to these regulations and continues to consider and issue guidelines and implementing rules in this industry. For example, the Ministry of Finance of the PRC (the “MOF”), General Administration of Customs and the State Taxation Administration of the PRC (the “SAT”) issued the New Cross-Border E-commerce Retail Imports Tax Notice (《關於跨境電子商務零售進口稅收政策的通知》) in March 2016. Pursuant to this circular, goods imported through the cross-border e-commerce retail are subject to tariff, import value-added tax, or VAT, and consumption tax based on the types of goods. Individuals purchasing any goods imported through cross-border e-commerce retail are taxpayers, and e-commerce companies, companies operating e-commerce transaction platforms or logistic companies are required to withhold the taxes.

In August 2018, the SCNPC promulgated the E-Commerce Law (《電子商務法》), effective on January 1, 2019, which aims to regulate the e-commerce activities conducted within the territory of the PRC. Pursuant to the E-Commerce Law, an e-commerce platform operator shall (i) collect, verify and register the truthful information submitted by the third-party merchants that apply to sell products or provide services on its platform, including the identities, addresses, contacts and licenses, establish registration archives and update such information on a regular basis; (ii) submit the identification

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information of the third-party merchants on its platform to market regulatory administrative department as required and remind the third-party merchants to complete the registration with market regulatory administrative department; (iii) submit identification information and tax-related information to tax authorities as required in accordance with the laws and regulations regarding the administration of tax collection and remind the individual third-party merchants to complete the tax registration; (iv) record and retain the information of the products and services and the transaction information for no less than 3 years; (v) display the platform service agreement and the transaction rules or links to such information on the homepage of the platform; (vi) display the noticeable labels regarding the products or services provided by the platform operator itself on its platform, and take liabilities for such products and services; (vii) establish a credit evaluation system, display the credit evaluation rules, provide consumers with accesses to make comments on the products and services provided on its platform, and restrain from deleting such comments; and (viii) establish intellectual property protection rules, and take necessary measures when any intellectual property holder notify the platform operator that his intellectual property rights have been infringed. An e-commerce platform operator shall take joint liabilities with the relevant third-party merchants on its platform and may be subject to warnings and fines up to RMB2,000,000 where (i) it fails to take necessary measures when it knows or should have known that the products or services provided by the third-party merchants on its platform do not meet the personal or property safety requirements or such third-party merchants' other acts may infringe on the lawful rights and interests of the consumers; or (ii) it fails to take necessary measures, such as deleting and blocking information, disconnecting, terminating transactions and services, when it knows or should have known that the third-party merchants on its platform infringe any intellectual property rights of any other third party. With respect to products or services affecting the consumers' life and health, if an e-commerce platform operator fails to verify the third-party merchants' qualification or fails to fulfill its obligations to safeguard the safety of consumers, which results in damages to the consumers, it shall take corresponding liabilities and may be subject to warnings and fines up to RMB2,000,000.

Regulations relating to Internet Advertising

The SCNPC released the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) on October 27, 1994 and latest amended on October 26, 2018, which provides that the Internet information service providers shall not publish medical, drugs, medical machinery or health food advertisements in disguised form of introduction of healthcare and wellness knowledge.

The Interim Measures for Administration of Internet Advertising (《互聯網廣告管理暫行辦法》) (the "Internet Advertising Measures") regulating the Internet-based advertising activities, were adopted by the SAIC on July 4, 2016. According to the Internet Advertising Measures, Internet advertisers are responsible for the authenticity of the advertisements content. Publishing and circulating advertisements through the Internet shall not affect the normal use of the Internet by users. It is not allowed to induce users to click on the content of advertisements by any fraudulent means, or to attach advertisements or advertising links in the emails without permission.

Pursuant to the Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Foods for Special Medical Purpose (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), which were promulgated by the State Administration for Market Regulation on December 24, 2019, effective on March 1, 2020, an enterprise seeking to advertise its drugs, medical devices, dietary supplement or food for special medical purpose must apply for an advertisement approval number. The validity period of the

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advertisement approval number concerning a drug, medical device, dietary supplement or food for special medical purpose shall be consistent with that of the registration certificate or record-filing certificate or the production license of the product, whichever is the shortest. Where no validity period is set forth in the registration certificate, record-filing certificate or the production license of the product, the advertisement approval number shall be valid for two years. The content of an approved advertisement may not be altered without prior approval. Where any alteration to the advertisement is needed, a new advertisement approval shall be obtained.

Regulations relating to Mobile Internet Applications Information Services

Mobile Internet applications (the “APPs”) and the Internet application store (the “APP Store”) are especially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “APP Provisions”), which was promulgated by the CAC on June 28, 2016 and became effective on August 1, 2016. The APP Provisions regulate the APP information service providers and the APP Store service providers, while the CAC and local offices of cyberspace administration shall be responsible for the supervision and administration of nationwide or local APP information respectively. The APP information service providers shall acquire relevant qualifications required by laws and regulations and implement the information security management responsibilities strictly and fulfill their obligations provided by the APP Provisions.

Regulations relating to Food Safety

In accordance with the Food Safety Law of the PRC (《中華人民共和國食品安全法》) (the “Food Safety Law”), promulgated on February 28, 2009 and latest amended on December 29, 2018, and the Implementation Regulations of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》), or the Implementation Regulations, issued on July 20, 2009 and latest amended on October 11, 2019 and effective on December 1, 2019, with the purpose of guaranteeing food safety and safe guarding the health and life safety of the public, the PRC sets up a system of the supervision, monitoring and appraisal on the food safety risks, compulsory adoption of food safety standards. To engage in food production, sale or catering services, the business operators shall obtain a license in accordance with the laws and regulations. Furthermore, the State Council implements strict supervision and administration for special categories of foods such as healthcare food, special formula foods for medical purposes and infant formula.

Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》) promulgated by CFDA on August 31, 2015 and amended on November 17, 2017, regulates the food operation licensing activities, strengthens supervision and management of food operation, and ensures food safety. Food operation operators shall obtain the food operation license for each business venue where they engage in food operation activities. The food operation license is valid for five years.

Regulations relating to Consumer Protection and Product Quality

Consumers Protection

The Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) promulgated by SCNPC, which was latest amended on October 25, 2013 and effective on March 15, 2014, sets out the obligations of business operators and the rights and interests of the consumers in China. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about

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the commodities, and guarantee the quality, function, usage and term of validity of the commodities. Failure to comply with the Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, replacement of commodities, repairing, ceasing damages, compensation, and restoring reputation, and even subject the business operators to criminal penalties. Where the operators of the online trading platforms are unable to provide the real names, addresses and valid contact details of the sellers or service providers, the consumers may also claim damages to the providers of the online trading platforms. Operators of online trading platforms that clearly knew or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liabilities with the sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services.

Product Quality

The Product Quality Law (《產品質量法》) applies to all production and sale activities in China. Pursuant to this law, products offered for sale must satisfy relevant quality and safety standards. Enterprises may not produce or sell counterfeit products in any fashion, including forging brand labels or giving false information regarding a product's manufacturer. Violations of state or industrial standards for health and safety and any other related violations may result in civil liabilities and administrative penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced and sold and the proceeds from such sales. Severe violations may subject the responsible individual or enterprise to criminal liabilities. Where a defective product causes physical injury or damage of property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

Regulations relating to Single-Purpose Commercial Prepaid Cards

Pursuant to the Administrative Measures on Single-Purpose Commercial Prepaid Cards (Trial Implementation) (《單用途商業預付卡管理辦法(試行)》) (the “Administrative Measures on Single purpose Prepaid Cards”), promulgated by MOFCOM on September 21, 2012 and amended on August 18, 2016, single-purpose commercial prepaid cards are prepaid certificates issued by an enterprise engaging in retail industry, accommodation and catering industry and residential services industry which are limited to be used as payment for goods or services by the enterprise or within the group to which the enterprise belongs or within the franchise system of the same brand, including physical cards in various forms such as magnetic stripe cards, chip cards, and paper coupons as well as virtual cards. In accordance with the Administrative Measures on Single-purpose Prepaid Cards, card-issuers shall complete filing formalities within 30 days from the date of carrying out single-purpose card businesses. The limit of a single registered card shall not exceed RMB5,000 and the limit of a single non-registered card shall not exceed RMB1,000. A registered card shall not have a validity period and a validity period of a non-registered card shall not be less than three years. Violation of the aforementioned regulations may result in an order of rectification. Where the card issuer fails to rectify the violation within a stipulated period, a fine ranging from RMB10,000 to RMB30,000 may be imposed.

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Regulations Relating to Anti-Monopoly in China

The PRC Anti-monopoly Law (《中華人民共和國反壟斷法》), which took effect on August 1, 2008, prohibits monopolistic conduct such as entering into monopoly agreements, abuse of dominant market position and concentration of undertakings that have the effect of eliminating or restricting competition.

A business operator with a dominant market position may not abuse its dominant market position to conduct acts such as selling commodities at unfairly high prices or buying commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, and refusing to trade with a trading party without any justifiable cause. Sanctions for the violations of the prohibition on the abuse of dominant market position include an order to cease the relevant activities, confiscation of the illegal gains and fines (from 1% to 10% of sales revenue from the previous year). On June 26, 2019, the SAMR issued the Interim Provisions on the Prohibitions of Acts of Abuse of Dominant Market Positions (《禁止濫用市場支配地位行為暫行規定》), which took effect on September 1, 2019 to further prevent and prohibit the abuse of dominant market positions. In November 2020, the State Administration for Market Regulation, or the SAMR, published a discussion draft of the Guideline on Anti-monopoly of Platform Economy Sector (《關於平臺經濟領域的反壟斷指南(徵求意見稿)》) (the “Draft Guideline”), aiming to improve anti-monopoly administration on online platforms. The released Draft Guideline, if enacted, will operate as a compliance guidance under the existing PRC anti-monopoly laws and regulations for platform economy operators. As advised by our PRC Legal Adviser, the Draft Guideline was released for public comment only, and its operative provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty.

Regulations relating to Taxation

Enterprise Income Tax

On March 16, 2007, the NPC promulgated the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was latest amended on December 29, 2018, and the State Council enacted the Regulations for the Implementation of the Law on Enterprise Income Tax (《企業所得稅法實施條例》) which were latest amended on April 23, 2019 (collectively, the “EIT Law”). According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

Value-Added Tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993 and latest

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amended on November 19, 2017, and the Implementation Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the MOF on December 25, 1993 and latest as amended on October 28, 2011, and became effective on November 1, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax (the “VAT”).

On March 20, 2019, the MOF, the SAT and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》), or Announcement 39, to further slash value-added tax rates. According to the Announcement 39, (i) for general VAT payers’ sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labor services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%. The Announcement 39 came into effect on April 1, 2019 and shall prevail in case of any conflict with existing provisions.

Dividend Withholding Tax

Pursuant to the Enterprise Income Tax Law (《企業所得稅法》) and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), or Circular 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Furthermore, the Administrative Measures for Non-Resident Taxpayer to Enjoy Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》), or SAT Circular 60, which became effective in November 2015, require that non-resident enterprises which satisfy the criteria for entitlement to tax treaty benefits may, at the time of tax declaration or withholding declaration through a withholding agent, enjoy the tax treaty benefits, and be subject to ongoing administration by the tax authorities. In the case where the non-resident enterprises do not apply to the withholding agent to claim the tax treaty benefits, or the materials and the information stated in the relevant reports and statements provided to the withholding agent do not satisfy the criteria for entitlement to tax treaty benefits, the withholding agent should withhold tax pursuant to the provisions of the PRC tax laws. The SAT issued the

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Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (國家稅務總局關於發佈《非居民納稅人享受協定待遇管理辦法》的公告), the SAT Circular 35 on October 14, 2019, which became effective on January 1, 2020. The SAT Circular 35 further simplified the procedures for enjoying treaty benefits and replaced the SAT Circular 60. According to the SAT Circular 35, no approvals from the tax authorities are required for a non-resident taxpayer to enjoy treaty benefits, where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, but it shall gather and retain the relevant materials as required for future inspection, and accept follow-up administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. According to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), or Circular 9, which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties.

Regulations relating to Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

Copyright. Copyright in the PRC is principally protected under the Copyright Law of the PRC (《中華人民共和國著作權法》) and its implementation rules. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law of the PRC and related rules and regulations, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, eliminate impacts, publicly apologize, and pay damages, etc. In addition, the Regulations on the Protection of Rights to Information Network Communication (《信息網絡傳播權保護條例》) promulgated by the State Council on May 18, 2006 as amended in 2013, provides specific rules on fair use, statutory license, and a safe harbor for use of copyrights and copyright management technology and specifies the liabilities of various entities for violations, including copyright holders, libraries and internet service providers.

Patent. The Patent Law (《專利法》) provides for three types of patents, “invention”, “utility model” and “design”. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. The National Intellectual Property Administration is responsible for examining and approving patent applications.

Trademark. The Trademark Law (《商標法》) and its implementation rules protect registered trademarks. The Trademark Office of National Intellectual Property Administration is responsible for

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the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a “first-to-file” principle with respect to trademark registration.

Domain Name. Domain names are protected under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) promulgated by the MIIT. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the CNNIC is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the “first to file” principle with respect to the registration of domain names. In November 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on January 1, 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity’s shareholders), or the entity’s principal or senior manager.

Regulations relating to Foreign Exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on January 29, 1996 and was latest amended on August 5, 2008. Pursuant to this regulation and other PRC rules and regulations on currency conversion, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the State Administration of Foreign Exchange (the “SAFE”) or its local counterpart is obtained.

On February 13, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》), according to which, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration. On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《關於改革外商投資企業外匯資金結匯管理方式的通知》) (the “Circular 19”). According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement, which means that the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution have been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise, and if a foreign-invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and proceed with the review process with the banks. Furthermore, Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for payments beyond the business scope of the enterprises or payments as prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment

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in securities unless otherwise provided by the relevant laws and regulations; (iii) directly or indirectly used for granting entrust loans in Renminbi (unless permitted by the scope of business), repaying inter-enterprise borrowings (including advances by the third-party) or repaying the bank loans in Renminbi that have been sub-lent to third parties; or (iv) directly or indirectly used for expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

The Circular of Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) or SAFE Circular 13, which became effective on June 1, 2015 and was amended on December 30, 2019, cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplifies the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, investors should register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《關於改革和規範資本項目結匯管理政策的通知》) (the “Circular 16”), was promulgated by SAFE on June 9, 2016. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

On January 26, 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》), which stipulates several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including: (i) banks should check board resolutions regarding profit distribution, the original version of tax filing records, and audited financial statements pursuant to the principle of genuine transactions; and (ii) domestic entities should hold income to account for previous years’ losses before remitting the profits. Moreover, pursuant to this circular, domestic entities should make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts, and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, the SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which, among other things, allows all FIEs to use Renminbi converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the negative list on foreign investment. However, since this circular is newly promulgated, it is unclear how the SAFE and competent banks will carry it out in practice.

According to the Circular of SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) (the “SAFE Circular 8”) promulgated and effective on April 10, 2020 by the SAFE, the reform of facilitating the payments of incomes under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy

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the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

Regulations relating to Labor

The Labor Contract Law (《勞動合同法》) as promulgated by the SCNPC on June 29, 2007 and amended on December 28, 2012 and effective as from July 1, 2013, and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations, which significantly affects the cost of reducing workforce for employers. In addition, if an employer intends to enforce a non-compete provision with an employee in an employment contract or non-competition agreement, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract. Employers in most cases are also required to provide a severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the Social Insurance Law (《社會保險法》) which was promulgated by the SCNPC on October 28, 2010 and became effective on July 1, 2011 and as amended on December 29, 2018, an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated time limit and be subject to a late fee. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the Regulations on Management of Housing Fund (《住房公積金管理條例》) which was promulgated by the State Council on April 3, 1999 and became effective on April 3, 1999 and as amended on March 24, 2019, an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated time limit; otherwise, an application may be made to a local court for compulsory enforcement.

Regulations relating to Leasing

Pursuant to the Law on Administration of Urban Real Estate (《城市房地產管理法》), when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

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According to the PRC Contract Law (《中華人民共和國合同法》), the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.

Pursuant to the PRC Property Law (《中華人民共和國物權法》), if a mortgagor leases the mortgaged property before the mortgage contract is executed, the previously established leasehold interest will not be affected by the subsequent mortgage; and where a mortgagor leases the mortgaged property after the creation and registration of the mortgage interest, the leasehold interest will be subordinated to the registered mortgage.

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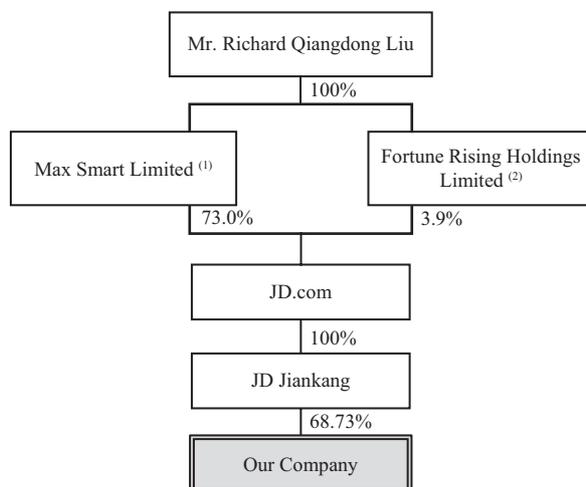
OUR CONTROLLING SHAREHOLDERS

As of the date of this document, JD.com, through its wholly-owned subsidiary JD Jiankang, is indirectly interested in 2,149,253,732 Shares, representing approximately 78.29% of our total issued share capital. Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme), JD.com, through JD Jiankang, will control approximately 68.73% of our total issued share capital. Accordingly, our Company will remain as a subsidiary of JD.com after the Listing.

Further, as of the Latest Practicable Date, Mr. Richard Qiangdong Liu (JD.com's chairman and chief executive officer) is interested in and controls, through Max Smart Limited (a company beneficially owned by him through a trust and of which he is the sole director), 322,700 Class A ordinary shares in the form of ADSs and 421,507,423 Class B ordinary shares of JD.com. In addition, as of the Latest Practicable Date, Fortune Rising Holdings Limited (of which Mr. Richard Qiangdong Liu is the sole shareholder and the sole director) holds 22,743,428 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under JD.com's share incentive plan, and administers the awards and acts according to JD.com's instruction. As of the Latest Practicable Date, Mr. Liu holds approximately 76.9% of the voting rights in JD.com through shares capable of being exercised on resolutions in general meetings. Therefore, Mr. Liu, Max Smart Limited and Fortune Rising Holdings Limited will be deemed to be a Controlling Shareholder after the Listing, and together with JD.com and JD Jiankang, will constitute a group of Controlling Shareholders of our Company.

JD.com is a company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to and registered by way of continuation in the Cayman Islands on January 16, 2014 as an exempted company under the laws of the Cayman Islands. JD.com's shares are listed on the Main Board (stock code: 9618) under Chapter 19C of the Listing Rules and its ADSs are listed on Nasdaq under the symbol "JD". JD.com is a leading technology driven e-commerce company transforming to become the leading supply chain based technology and service provider in the PRC.

The following diagram illustrates the ultimate beneficial interest of our Controlling Shareholders' voting rights for resolutions in general meetings with respect to matters, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised, the shares to be issued pursuant to JD.com's share incentive plan are not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme):



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Notes:

- (1) Represents (i) 421,507,423 Class B ordinary shares of JD.com directly held by Max Smart Limited, and (ii) 161,350 restricted ADSs, representing 322,700 Class A ordinary shares of JD.com, owned by Max Smart Limited, as of the Latest Practicable Date. Max Smart Limited is a BVI company beneficially owned by Mr. Richard Qiangdong Liu through a trust and of which Mr. Richard Qiangdong Liu is the sole director.
- (2) Represents 22,743,428 Class B ordinary shares of JD.com held by Fortune Rising Holdings Limited, as of the Latest Practicable Date. Fortune Rising Holdings Limited holds these Class B ordinary shares for the purpose of transferring such shares to the plan participants according to the awards under JD.com's share incentive plan, and administers the awards and acts according to JD.com's instruction. Fortune Rising Holdings Limited exercises the voting power with respect to these shares according to JD.com's instruction. Fortune Rising Holdings Limited is a company incorporated in the BVI. Mr. Richard Qiangdong Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited.

Clear delineation of business

There is a clear delineation between our businesses and those of JD Group. We are the largest online healthcare platform and the largest online retail pharmacy by revenue in China in 2019, according to the Frost & Sullivan Report. Our technology-driven platform is centered on the supply chain of pharmaceutical and healthcare products and strengthened by healthcare services, encompassing a user's full life span for all healthcare needs. On the other hand, JD Group will continue to operate, among others, an online retail and marketplace e-commerce business offering a diverse range of products (excluding pharmaceutical products and services) and supply chain based technologies and services.

Our business and that of JD Group have distinct differences in terms of business focus and strategy and our Directors (including our independent non-executive Directors) do not believe that any direct or indirect competition is or is likely to be material in nature. A summary of these areas is set out below:

Our Retail Pharmacy Business

Our retail pharmacy business operates through three business models: direct sales, online marketplace and omnichannel initiative.

Our retail pharmacy business is generally intended to only be carried out by our Group, except certain protective equipment products via direct sales channel that are related to healthcare (e.g. thermometers and facemasks), which may also be sold on JD Group's platforms. One reason for such an overlap is that in light of the COVID-19 situation, many merchants that previously did not sell any pharmaceutical and healthcare products now provide facemasks and other protective equipment products (thus blurring the classification of such protective equipment products between healthcare products and consumable products), and suppliers of such protective equipment products are fragmented across various industry sectors. However, we do not believe that any potential competition with JD Group is likely to be material to us because:

- *Immaterial revenue contribution:* Such products via the direct sales retail channel in aggregate only accounted for approximately 3.5%, 2.6%, 1.9% and 9.3% of our Group's revenue for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. The increase in proportion of the protective equipment products being sold relative to our Group's revenue from the year ended December 31, 2019 to the six months ended June 30, 2020 was mainly due to the increase in purchases of facemasks and thermometers as a result of the COVID-19 outbreak.
- *Suppliers of protective equipment are highly fragmented:* It is also noted that the suppliers of protective equipment (e.g. facemasks and thermometers) are highly fragmented and

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such an overlap between our Group and JD Group should not adversely impact the delineation between our Group and JD Group. Further, given (i) such protective equipment now straddle multiple product categories of daily necessities and maternal and child products (i.e. part of JD Group's business) and healthcare products (i.e. our Group's business), and (ii) protective equipment forms an important product offering under JD Group's maternal and child products category for an enhanced user experience, it would be commercially impracticable and not in accordance with market practice for JD Group to separate facemasks and thermometers from its business offerings of daily necessities and inject those product offerings solely into our Group.

- *Peripheral business:* The sale of protective equipment is peripheral to the businesses of both our Group and JD Group and JD Group has no intent to substantially develop this line of business in the foreseeable future. JD Group operates its own line of JD branded facemasks, and upon the Listing, JD Group will transfer the business of JD branded facemasks to our Group. The remaining protective equipment products still sold by JD Group will mainly include thermometers and facemasks for children (both under the maternal and child product category of JD Group)—these products only accounted for approximately 1.7%, 1.3%, 1.6% and 4.2% of our Group's revenue (enlarged to take into account the revenue attributed to the JD branded facemasks) for the three years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020. In the unlikely event of the proportion of the remaining protective equipment sold by JD Group exceeds 10% of our Group's total revenue, JD Group and our Group are prepared to transfer such remaining protective equipment to our Group by reaching an agreement with the relevant third parties to transfer the relevant procurement contracts from JD Group to our Group over a period of six months thereafter. Our audit committee will review the proportion of the revenue generated from the remaining protective equipment sold by JD Group relative to our Group's revenue on an annual basis and will make adequate disclosure on an ongoing basis in our Company's annual report after the Listing.

With regards to our retail pharmacy business's online marketplace, our Group and JD Group have clear guidelines and systems in place to ensure that the third-party merchants on our online marketplace can only register for one category of products they primarily sell and the registration of third-party merchants will not overlap between JD Group and our Group. Such internal guidelines and systems include our Group and JD Group providing a list of product categories for the third party merchants to select from. The third party merchants will register for one product category that is in line with and most relevant to their principal business activities, and will be required to provide the proof of relevant business licenses, permits and/or licenses from governmental authorities as applicable. With regards to the omnichannel initiative of our retail pharmacy business, JD Group is not engaged in the provision of such services similar to those of our Group.

Moreover, we currently and will continue to leverage the online platforms of JD Group which serve as sales channels for our Group's healthcare products. See the section "Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions" in this document and "—Operational Independence" in this section for more details. In this regard, it is submitted that such collaboration is, rather than competing, complementary to both JD Group and our Group's businesses considering that (i) JD Group does not provide healthcare products and services other than through our Group (and as disclosed in this section) and (ii) JD Group is a leading retailer in China and has a leading market position in China's e-commerce industry, which are and will be highly beneficial for the sale of our Group's products and services.

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Our Online Healthcare Service Business

Our Group also provides online healthcare services, which include:

- *Online hospital services.* Our online hospital services primarily include online consultation and prescription renewal, chronic disease management and family doctor service. These services are provided by our in-house and external medical teams.
- *Consumer healthcare services.* We also list a variety of consumer healthcare services provided by offline consumer healthcare providers, including general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. Users can make appointments and pay for these services on our platform.

JD Group is not engaged in the provision of any online healthcare services similar to those of our Group. Such online healthcare services are intended to only be carried out by our Group.

On the basis of the differences as set forth above, we consider that apart from their interest in our Company, our Controlling Shareholders and our Directors do not currently control a business similar to the principal business of our Group that competes or is likely to compete, either directly or indirectly, with our Group's business.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates after the Listing.

Management independence

Our business is managed and conducted by our Board and senior management. Our Board comprises one executive Director, five non-executive Directors and three independent non-executive Directors.

The Directors are of the view that our Board and our senior management are capable of operating our business and managing all actual or potential conflicts of interest independently of JD Group for the following reasons:

- Except for Richard Qiangdong Liu, Lei Xu, Sandy Ran Xu and Yayun Li, there will not be any overlap between JD Group and our Company in terms of directors and senior management. Richard Qiangdong Liu is the chairman of the board of directors of JD.com, while Lei Xu, Sandy Ran Xu and Yayun Li hold senior management positions with JD Group. Richard Qiangdong Liu, Lei Xu, Sandy Ran Xu and Yayun Li are all non-executive directors of our Company and will not be involved in the day-to-day management and operations of our business. They will provide strategic advice to our Company. See the section headed "Directors and Senior Management" in this document for their roles within JD Group.
- The executive Director and our senior management members are responsible for the day-to-day management of our business and none of them holds any directorships and/or other roles within JD Group.
- All of our independent non-executive Directors are independent of JD Group and are professionals having extensive experience in their respective areas of expertise. See the

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section headed “Directors and Senior Management” in this document for more details. Our independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. None of our independent non-executive Directors are directors of JD Group or otherwise connected with JD Group in any manner that may affect their independent judgment or independence as required under the Listing Rules.

- Each Director is aware of his fiduciary duties as a director which require, among others, that he acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall not vote and shall not be counted in the quorum in respect of such transactions. See “—Corporate governance measures” for other corporate governance measures we have adopted to manage conflicts of interest, if any, between our Group and our Controlling Shareholders.

Based on the above, our Directors believe that our business is managed independently of our Controlling Shareholders.

Although, as of the Latest Practicable Date, Lijun Xin (our executive Director and chief executive officer) held share awards in JD.com under its share incentive plan, representing 0.01% of equity interest, and approximately 0.003% of the voting power, in JD.com; the Company does not believe that his interest in JD.com constitutes material interest that compromises his independence of judgment in discharging his fiduciary duty as a director of the Group and therefore requires him to abstain from voting at the Board meetings in respect of matters involving JD Group after Listing.

Operational independence

Save as disclosed in the sections headed “Business—Intellectual Property”, “Business—Licenses, Approvals and Permits” and “Connected Transactions—Exempt Continuing Connected Transaction—1. IP Licensing Framework Agreement” in this document, our Group holds all material licenses and owns all material intellectual properties (or rights to use intellectual properties) and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. Apart from administration, human resources, legal and other general administrative services which will be provided by JD Group to our Group as set out in the section headed “Connected Transaction—Non-Exempt and Partially-Exempt Continuing Connected Transactions—10. Shared Services Framework Agreement”, we have established our own accounting and internal audit departments which operate independently from JD Group. We have also adopted a set of internal control procedures to maintain effective and independent operation of our business.

We also have independent access to our customers and an independent management team to operate our business. To the best knowledge of our Directors, save in respect of the ongoing services provided to us, and expected to continue to be provided to us, by JD Group and its associates as further described in the section headed “Connected Transactions” in this document, all of our suppliers are Independent Third Parties.

Given that our Group’s businesses are executed and leveraged on JD Group’s platforms, we have entered into a number of transactions with JD Group which constitute the framework for our

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business cooperation with JD Group. The transactions between us and JD Group constitute a significant proportion of our business transactions and collaborative arrangements. For example, the historical amounts related to Technology and Traffic Support Services Framework Agreement accounted for approximately 24.6%, 25.4%, 22.2% and 23.3%, of our Group's operating expenses for the three years ended December 31, 2019 and six months ended June 30, 2020, respectively, while the historical amounts related to the Logistics Services Framework Agreement accounted for approximately 42.1%, 39.5%, 34.4% and 32.5% of our Group's operating expenses for the three years ended December 31, 2019 and six months ended June 30, 2020, respectively (as if such arrangements existed throughout the Track Record Period). See the section headed "Connected Transactions" in this document for further details of and the reasons for entering into these transactions.

Technology and Traffic Support Framework Agreement, Loyalty Program Framework Agreement, Payment Cooperation Framework Agreement

Although we have set up individual websites which will eventually lead the consumers back to JD Group's platforms for payment processing, our Group's businesses are executed and leveraged on JD Group's platforms. Further, consumers on our individual websites will eventually be led back to JD Group's platforms for payment processing. This achieves consistency and synergies between JD Group and our Group's platforms and also ensures a consistent and superior customer experience, and will lead to increased user growth and stickiness, mutually benefitting both JD Group and our Group.

As such, we extensively use and leverage on the following services and platforms offered by JD Group to facilitate the online sales and marketing of our products and services, including technology and traffic support services, sharing of loyalty programs and payment services arrangements.

While we rely on JD Group for such services, the roles of JD Group (as a leading operator of online platforms and related services in the PRC) and of our Group (as the provider of healthcare products and services) are highly complementary and beneficial to each other. Given that JD Group enjoys a leading position in the PRC's e-commerce industry with an extensive network coverage (including but not limited to websites and software, smartphone applications) and a large user base, it is natural for, and in the best interest of, our Group to cooperate with and leverage on JD Group for the sale of our healthcare products and services, when our Group is still at its early stage of business development. In addition, there is no provision in the relevant framework agreements that JD Group has the right to terminate such agreements unilaterally without reasonable cause.

See the sections headed "Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—2. Technology and Traffic Support Services Framework Agreement", "Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—3. Loyalty Program Framework Agreement" and "Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—9. Payment Cooperation Framework Agreement" in this document for further details of and reasons for entering into these transactions.

Logistics Services Framework Agreement

Given that a large proportion of transactions of our Group's businesses are executed and leveraged on JD Group's platforms, it is also natural for our Group to utilize the various logistics

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services provided by JD Group. However, we are of the view that we do not and will not significant rely on JD Group for logistics services for the following reasons:

- Given that JD Group enjoys a leading position in the PRC's logistics services industry with an extensive network coverage (including but not limited to warehouses and delivery personnel), it is natural for, and in the best interest of, our Group to cooperate with JD Group to ensure efficient and reliable logistics services to enable its products to be safely and promptly delivered to our customers.
- The roles of JD Group (as the operator of logistics services) and of our Group (as the provider of healthcare products and services) are highly complementary and beneficial to each other.
- We are not and will not be bound to sell our healthcare products and services through JD Group's logistics services, and our Group is and will be open to all forms of cooperation with the operators of other logistics channels which are independent from JD Group.

See the section headed "Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—5. Logistics Services Framework Agreement" in this document for further details of and reasons for entering into these transactions.

Other Transactions

In addition, we have the following transactions with JD Group which constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules:

JD Sales Framework Agreement

Large corporate customers usually buy a wide range of products from JD Group in bulk, and healthcare products are only a portion of the entire products procured by such customers. Given that large corporate customers have already signed procurement agreements directly with JD Group and would prefer a single point of contact (instead of two points of contact split between JD Group and our Group), the JD Group purchases certain healthcare products from our Group as a de facto agent, and, the JD Group then sells those healthcare products onwards to the corporate customers.

We are of the view that we do not and will not significantly rely on JD Group for sales of our healthcare products to corporate customers for the following reasons:

- Such an arrangement is mutually beneficial to both JD Group and our Group. With a single point of contact for the customers, it increases customer satisfaction of products and service offerings of both the JD Group and our Group. JD Group is merely a de facto agent of our Group with regard to JD Sales Framework Agreement, and this arrangement is only for the convenience of third party corporate customers who prefer a single point of contact for payment processing and contracts.
- The prices of the healthcare products supplied to the corporate customers through JD Group are and will be determined directly by our Group and the relevant corporate customers (i.e. JD Group does not negotiate with the corporate customers on behalf of our Group).
- JD Group does not and will not charge our Group any service fees in the process.

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- With the expected increasing public awareness of our Group as an independent operating group from JD Group after the Listing, our Group plans to sign contracts directly with such large corporate customers going forwards where practicable. Our Group is able to reach out to those corporate customers directly instead of selling through JD Group, and has done so and will increasingly do so going forward.
- In addition, having considered the short to mid-term impact of COVID-19, JD Group is likely to continue to make in-kind donations to medical institutions, companies and communities in need and continue to purchase healthcare products from our Group on a cost basis for COVID-19 relief efforts. Our Group does not anticipate these transactions to be recurring in long run and will assess the need of continuing these transactions before the expiry of the JD Sales Framework Agreement.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—4. JD Sales Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Marketing Services Framework Agreement

JD Group and our Group provide certain marketing services to each other, including but not limited to the display of advertisements on various platforms and resources of JD Group and our Group in return for the marketing fees. Advertisements placed by third parties on our Group or JD Group’s platforms and resources will be subject to marketing service charges depending on which platform or resource the advertisement is placed on and whether JD Group or our Group sourced the third party advertisers.

We are of the view that we do not and will not significantly rely on JD Group for revenue generated from such marketing services or on JD Group for their marketing services for the following reasons:

- From the third parties’ perspective, being able to place advertisements on both JD Group and our Group’s platforms through one sales channel is convenient and allows for an enhanced customer experience and is therefore mutually beneficial to both JD Group and our Group.
- Such marketing services to our Group is ancillary and peripheral in nature, and does not form a core part of our business.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—6. Marketing Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Procurement Services Framework Agreement

We procure certain overseas inventories for our retail pharmacy business together with and through JD Group mainly for convenience of our third party suppliers allowing for one point of contact between JD Group and our Group.

We are of the view that we do not and will not significantly rely on JD Group for procurement of inventory for the following reasons:

- Such an arrangement is mutually beneficial to both JD Group and our Group, as it allows for a single point of contact for the third party suppliers.

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- Our Group does and is able to reach out to those third party suppliers directly instead of procuring through JD Group. We are not bound and will not be bound to purchase such inventories through JD Group, and our Group expects that it will independently procure its overseas sourced inventory on an increasing basis in the future.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—7. Procurement Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Promotion Services Framework Agreement

We place advertisements on third party platforms together with JD Group, as collective purchase allows for increased economies of scale, increased efficiency, and lower costs for both parties.

We are of the view that we do not and will not significantly rely on JD Group for promotion services for the following reasons:

- Placing advertisements on third party platforms together with JD Group is beneficial to both JD Group and our Group, as collective purchase allows for increased economies of scale, increased efficiency, and lower costs for both parties.
- Our Group is able to reach out to those third party platforms directly instead of placing advertisements together with JD Group, and may consider doing so in the future should it serve the best interests of our Group and our Shareholders.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—8. Promotion Services Framework Agreement” in this document for further details of and reasons for entering into these transactions.

Shared Services Framework Agreement

JD Group provides us back-office administrative support services, including but not limited to cloud service, provision of servers, information technology support service, maintenance and related customer services, certain human resources services, in addition to certain shared services, including office premises sharing and leasing, transportation and canteen facilities for staff, administrative purchases and various support services.

See the section headed “Connected Transactions—Non-Exempt and Partially Exempt Continuing Connected Transactions—10. Shared Services Framework Agreement” in this document for further details of and reasons for entering into these transactions. We are of the view that we do not and will not significantly rely on JD Group as a result of JD Group’s provision of these services considering (i) their ancillary and peripheral nature, (ii) such transactions promote better cooperation between our Group and JD Group and are thus of mutual benefit to both parties and (iii) the fact that we could if necessary obtain similar services from Independent Third Parties. These administrative services only relate to the peripheral aspects of our Group’s business operations that can be easily replicated by our Group should it choose to do so, and therefore these services will not give rise to any operational independence issue.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors believe that our business is operationally independent of our Controlling Shareholders.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. We have an independent internal control and accounting systems and also have an independent finance department. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

Other than certain accounts receivables and accounts payables arising from the normal course of business, there are no loans or other forms of financial assistance provided by JD Group or its associates, there are no outstanding loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates. In addition, it is expected that all outstanding accounts receivables and accounts payables between JD Group and our Group will be settled prior to the Listing.

Based on the above, our Directors believe that our business is financially independent of our Controlling Shareholders.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We will adopt the following corporate governance measures to resolve actual or potential conflict of interests between our Group and our Controlling Shareholders:

- (a) under the Articles, where any member is, under the Listing Rules, required to abstain from voting only for or only against any particular resolution proposed at a Shareholders' meeting, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted in the quorum in respect of such transactions;
- (b) our Company has established internal control mechanisms to identify connected transactions, and we will comply with the applicable Listing Rules if we enter into connected transactions with our Controlling Shareholders or any of their associates after Listing;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and our Controlling Shareholders (the "**Annual Review**") (including review of the composition of the Board and consider whether the Board, in light of the management overlap and the matters requiring the overlapping Directors to abstain from voting, can maintain effective functioning) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary or requested by the independent non-executive Directors for the Annual Review, including all relevant financial, operational and market information;
- (e) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses; and

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- (f) we have appointed Haitong International Capital Limited as our compliance adviser for the period prescribed by the Listing Rules to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors believe that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' interests after the Listing.

CONNECTED TRANSACTIONS

Upon Listing, transactions between us and our connected persons will constitute our connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

We have entered into certain transactions with the following connected persons, which will constitute our continuing connected transactions upon Listing:

JD.com and its associates:

Connected Relationship	Name
Controlling Shareholder	JD.com
JD.com's associates	Including, but not limited to Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) ("Jingdong Century"), Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司) ("Jingbangda") and JD.com International Limited ("JD HK")

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with JD Group:

Continuing connected transactions	Proposed annual cap for the year ending December 31, (RMB in thousands)
Exempt Continuing Connected Transaction	
1. IP Licensing Framework Agreement	
Royalties to be paid by us to JD Group	N/A
Non-Exempt and Partially Exempt Continuing Connected Transaction	
2. Technology and Traffic Support Services Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: N/A 2021: N/A 2022: N/A
3. Loyalty Program Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: 56,000 2021: 79,000 2022: 110,000
4. JD Sales Framework Agreement	
Transaction amount to be paid to us by JD Group	2020: 720,000 2021: 950,000 2022: 1,250,000

CONNECTED TRANSACTIONS

Continuing connected transactions	Proposed annual cap for the year ending December 31, <i>(RMB in thousands)</i>
5. Logistics Services Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: 1,600,000
	2021: 2,600,000
	2022: 4,300,000
6. Marketing Services Framework Agreement	
Transaction amount to be paid to us by JD Group	2020: 450,000
	2021: 600,000
	2022: 800,000
Transaction amount to be paid by us to JD Group	2020: 350,000
	2021: 530,000
	2022: 690,000
7. Procurement Services Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: 1,400,000
	2021: 1,000,000
8. Promotion Services Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: 300,000
	2021: 350,000
	2022: 400,000
9. Payment Cooperation Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: 240,000
	2021: 400,000
	2022: 600,000
10. Shared Services Framework Agreement	
Transaction amount to be paid by us to JD Group	2020: 600,000
	2021: 900,000
	2022: 1,200,000

Contractual Arrangements

11. Contractual Agreements

Continuing connected transactions	Proposed annual cap
Non-Exempt Continuing Connected Transaction	
Contractual Arrangements	N/A

EXEMPT CONTINUING CONNECTED TRANSACTION**1. IP Licensing Framework Agreement***Principal terms*

Our Company entered into an IP licensing framework agreement with JD.com (the “**IP Licensing Framework Agreement**”) on November 23, 2020, pursuant to which JD Group will grant to the Group exclusive and non-exclusive licenses for the use of certain intellectual property rights owned by JD.com, including trademarks and software copyrights that are either registered or for which registration applications have been filed in the PRC or Hong Kong owned by JD Group (the “**Licensed IP Rights**”) on a royalty-free basis. Exclusive licenses granted by JD Group to us include trademarks that specifically relate to our Group (including “JD Health”, “京東大藥房” and “京東互聯網醫院”), while non-exclusive licenses granted by JD Group to us include software copyrights, patents and other related IP rights. The Company will use the Licensed IP Rights within the scope specified in the IP Licensing Framework Agreement. For details of the Licensed IP Rights, please see the section headed “Appendix IV—Statutory and General Information—B. Further Information about our Business—2. Intellectual Property Rights” in this document.

Period of agreement and termination clause

The initial term of the IP Licensing Framework Agreement will commence on the Listing Date and end on ten years from the Listing Date on the condition that JD.com or its subsidiaries remain the largest shareholder of our Company. The IP Licensing Framework Agreement is subject to renewal through mutual consent by the parties.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for the continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the agreement to be of a duration longer than three years. The Directors (including the independent non-executive Director) are of the view that the IP Licensing Framework Agreement was entered into on normal commercial terms or better and the Licensed IP Rights are necessary for our business operations and a longer duration of the agreement will avoid any unnecessary business interruption and help ensure the long-term development and continuity of our business.

Reasons for the transaction

The Directors consider that the use of JD Group’s Licensed IP Rights will enable the Company to leverage on the popularity and reputation of JD Group and broaden its sales and distribution channels, thereby promoting its sales of products and services. Moreover, the Company has been using some of the Licensed IP Rights of JD Group for several years and the Directors believe it is in the best interests of the Company and its Shareholders to continue to use the Licensed IP Rights upon Listing. Further, JD Group is not able to transfer to our Group certain trademarks without transferring trademarks that belong to and are being used by JD Group due to their similarity (e.g. “JD” and “JD Health”). This is because the “JD Health” trademark involves the trademark “JD”, which belongs to and has been registered by JD Group. Consequently, in order for the trademark “JD Health” to be transferred to our Group, the trademark “JD” would also have to be transferred to our Group—which would be commercially impracticable for JD Group to do. Consequently, it is submitted the IP Licensing Framework Agreement remains the most appropriate and feasible means for ensuring that both JD Group and our Group can continue to enjoy the use of the Licensed IP Rights.

CONNECTED TRANSACTIONS

Historical amounts

There were no historical amounts for the IP Licensing Framework Agreement for each of the three years ended December 31, 2019 and the six months ended June 30, 2020.

Listing Rules implications

As the license to use the Licensed IP Rights is granted to us on a royalty-free basis, the transactions under the IP Licensing Framework Agreement constitute de minimis transactions and are fully exempt from the annual reporting, announcement, independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT AND PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have conducted the following transactions in the ordinary and usual course of our business, which will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting, announcement and independent Shareholders' approval (as the case may be) requirements under Chapter 14A of the Listing Rules (the “**Non-exempt Continuing Connected Transactions**”). During the Track Record Period, although the pricing policies of some of the connected transactions set out below have not yet been established, the rationale of the pricing policies of all of the connected transactions below has been consistently adopted.

2. Technology and Traffic Support Services Framework Agreement

Principal terms

Our Company entered into a technology and traffic support services framework agreement with JD.com on November 23, 2020 (the “**Technology and Traffic Support Services Framework Agreement**”), pursuant to which JD Group will provide our Group technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding activities, operational support and advertisement access for our Group's merchants and suppliers. JD Group will charge commissions by applying a fixed rate on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms.

The initial term of the Technology and Traffic Support Services Framework Agreement will commence on the Listing Date and end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Our Directors consider that the provision of technology and traffic support services from JD Group to our Group would benefit the Company for the following reasons:

- since the core businesses of JD Group (as the operator of, among others, online platforms) and of our Group (as the provider of healthcare products and services) are inextricably linked together in multiple aspects, the Group's business and those of JD Group are highly complementary and beneficial to each other;
- in light of the leading position that JD Group enjoys in the PRC e-commerce industry and given that JD Group has accumulated a relatively large user base during its years of operation in the e-commerce industry, it is natural and in the best interests of the Group to cooperate with JD Group;

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- our cooperation with JD Group in utilizing its platforms will enable us to leverage the popularity of JD Group among users, and allow us to reach more potential users, and further enhance our business growth; and
- as both parties enjoy respective advantages in different business fields, our collaboration may bring synergy into full play and share development achievements.

Pricing policies

JD Group will charge commissions by applying a fixed rate on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms. The fixed rate JD Group shall charge us on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms shall not exceed 3%.

The commission fees JD Group charged us were determined on the basis of arm's length negotiations between the relevant parties, which are in line with or better than the rates JD Group charged other independent third parties for similar technology and traffic support services and are in the best interests of our Company and our Shareholders as a whole. We will also obtain annually from JD Group a range of the rates that it charges other independent third parties for similar services provided, including the relevant underlying contracts subject to the confidentiality provisions in the relevant contracts, to ensure that the commission fees charged are fair and reasonable and on normal commercial terms or better. The arrangement with JD Group is not directly comparable with any arrangement between us and other third party online platforms, given that we extensively use the services offered by JD Group to facilitate the sales and marketing of our Group's products and services.

Historical amounts

In respect of technology and traffic support from JD Group to our business, the historical amounts were approximately RMB276.5 million, RMB424.9 million, RMB528.2 million and RMB424.1 million for each of the three years ended December 31, 2019 and six months ended June 30, 2020, respectively.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019 (the "**Closing Date**"), which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. For the avoidance of doubt, the abovementioned Closing Date is solely for the purpose of identifying related party transactions' effective date.

Prior to the Closing Date of Series A Preference Shares financing, the historical amounts were allocated based on JD Group's respective expenses incurred and the fulfilled order volume of our business in proportion to the aggregate fulfilled order volume of our business and JD Group in the relevant period and year.

Since the Closing Date of Series A Preference Shares financing, the transaction amounts in relation to provision of technology and traffic support services from JD Group to our Group were

CONNECTED TRANSACTIONS

charged based on a fixed percentage of the value of our Group's fulfilled orders of healthcare products and services generated through JD Group's online platforms in the relevant period or year.

Annual caps

The commission fees JD Group shall charge us shall be determined by the following formula:

$$\text{A fixed rate} \times \text{the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms}$$

The fixed rate JD Group shall charge us on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms shall not exceed 3%.

Basis for not setting monetary annual caps

It would be unsuitable to adopt monetary annual caps for the transactions contemplated in the Technology and Traffic Support Services Framework Agreement for the following reasons:

- (i) It would be impracticable to estimate with any degree of certainty the amount of revenue which may be generated by these transactions as it will ultimately depend on factors such as the acceptance and popularity of our healthcare products and services generated through JD Group's online platforms, all of which are beyond the immediate control of us and JD Group.
- (ii) We have been rapidly expanding our healthcare products and services, which has led to a corresponding increase in the provision of technology and traffic support services from JD Group to our Group, as the transaction amount for the six months ended June 30, 2020 achieved a significant year-over-year increase over the six months ended June 30, 2019. As we expect that we will continue to significantly expand our healthcare products and services after the Listing on JD Group's platforms, it would be difficult to predict with any certainty how rapid the growth in the user traffic and the value of fulfilled orders of healthcare products and services generated through JD Group's platforms will be in the future. We believe that the adoption of fixed monetary annual caps will impose an arbitrary ceiling on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms.
- (iii) Adoption of fixed monetary annual caps would impose an arbitrary ceiling on the revenue that we could derive from this type of business cooperation and will hinder us from business expansion that can maximize the benefits for our shareholders.
- (iv) Adoption of annual caps with fixed monetary annual caps will render it unduly burdensome for us to comply with the disclosure, announcement, circular and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules whenever commissions paid by us to JD Group through the transactions contemplated under the Technology and Traffic Support Services Framework Agreement exceed the caps.
- (v) The commissions paid by us to JD Group based on the formula provided in the Technology and Traffic Support Services Framework Agreement is consistent with the historical practices. The formula for JD Group charging a commission on the value of fulfilled orders of healthcare products and services generated through JD Group's online

CONNECTED TRANSACTIONS

platforms as set out above therefore offers the best alternative to monetary annual caps in light of the difficulties set out in sub-paragraphs (i) to (iv) above.

Listing Rules implications

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual caps for the Technology and Traffic Support Services Framework Agreement in terms of monetary value. As the highest applicable percentage ratio of the transactions under the Technology and Traffic Support Services Framework Agreement will exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

3. Loyalty Program Framework Agreement

Principal terms

Our Company entered into a loyalty program framework agreement with JD.com on November 23, 2020 (the "**Loyalty Program Framework Agreement**"), pursuant to which our Group participates in the customer loyalty program of JD Group and the relevant customer loyalty awards are supplied by JD Group.

The initial term of the Loyalty Program Framework Agreement will commence on the Listing Date and end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Given that our businesses are operated on JD Group's platforms and in an effort to provide an integrated customer user experience among the platforms of our Group and JD Group, our Group has historically and will continue to participate in the customer loyalty program of JD Group. JD Group is a leading player in the PRC e-commerce industry with extensive network coverage (including but not limited to websites and mobile apps) and enjoys a vast user base. Our cooperation with the JD Group in utilizing its platforms and participating in its customer loyalty programs will enable us to leverage the popularity of JD Group among users, and allow us to reach more potential users, and further enhance our business growth.

Pricing policies

We pay JD Group based on the number of loyalty points it granted and unit cost. The unit costs is fixed, while the number of loyalty points granted vary among different product categories and are determined by internal assessment of JD Group to achieve best marketing results while providing benefits to customers. We will obtain the relevant number of loyalty points record from JD Group in relation to our business to verify the loyalty points granted annually so as to assess whether the costs charged by JD Group are reasonable. The arrangement with JD Group is not directly comparable with any arrangement between us and other third party online platforms, given that we extensively use the services offered by JD Group to facilitate the sales and marketing of our Group's products and

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services. If a customer buys a certain amount of products from our Group, this will generate for the customer a corresponding number of loyalty points which is worth a certain dollar amount. Because JD Group supplies these loyalty points directly to the customer, our Group will thus settle the dollar worth of those loyalty points generated on its platform with JD Group. For the avoidance of doubt, if any customer consumes (or uses) the loyalty points during his/her purchase of healthcare products from our Group, JD Group will be responsible to settle and pay our Group the equivalent dollar amount.

Historical amounts

In respect of the loyalty points granted to users by JD Group for our business, the historical amounts in respect of the above services were approximately RMB19.9 million, RMB22.6 million, RMB27.1 million and RMB24.0 million for each of the three years ended December 31, 2019 and six months ended June 30, 2020, respectively.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the Closing Date, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services.

Prior to the Closing Date of Series A Preference Shares financing, the historical amounts were allocated based on JD Group's respective expenses incurred and our Group's fulfilled order volume in proportion to that of the aggregate fulfilled order volume of our business and JD Group in the relevant period and year.

Since the Closing Date of Series A Preference Shares financing, the transaction amounts charged by JD Group in relation to the loyalty program were charged based on the amount of loyalty points that were generated through customers' purchases from our Group, and the unit cost incurred by JD Group for each loyalty point granted in the relevant period and year.

Annual caps

The transaction amounts to be paid by us to JD Group under the Loyalty Program Framework Agreement for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by us to JD Group	56,000	79,000	110,000

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The historical transaction amounts and the growth trend for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the loyalty program arrangements between our Group and JD Group during the Track Record Period. In

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particular, the transaction amount for the six months ended June 30, 2020 was approximately RMB24.0 million or around a 86% increase compared to the transaction amount for the six months ended June 30, 2019. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the estimated annualized amount based on transaction amount for the six months ended June 30, 2020.

- The total number of JD loyalty points granted by our Group to users will increase as we attract more users and as the users become more engaged on our platform and make more purchases. As China's economy gradually recovers from COVID-19 and in light of government policies in favor of the digital economy including internet healthcare, we expect more active user engagement on our platform. Also, in anticipation of our increased selling and marketing activities during China's online shopping festival on November 11 and on December 12, we expect further expansion of our user base and higher user engagement on our platform in the fourth quarter of 2020. As a result, our platform is expected to grant more JD loyalty points to our users in the fourth quarter of 2020.
- The expected increase of our GMV due to increase in demand for our products from our Group's consumers, which will lead to a corresponding increase in the transaction amounts under the Loyalty Program Framework Agreement, and the customer base of our Group has been increasing during the Track Record Period and are expected to continue to increase in the three years ending December 31, 2022.
- The annual caps for the three years ended December 31, 2020, 2021 and 2022 are derived with reference to the historical fees paid to JD Group as a percentage of our Group's GMV. Our Group expects that such percentage for the year ended December 31, 2020 will be in line with historical percentages for the year ended December 31, 2019 and the six months ended June 30, 2020, and such percentage will remain stable for the years ended December 31, 2021 and 2022. Further, reference is also made to the historical amounts under the loyalty program arrangements as a percentage of our Company's revenues. For the three years ended December 31, 2019 and six months ended June 30, 2020, the fees charged by JD Group under the loyalty program arrangements accounted for (as if such arrangements existed throughout the Track Record Period) approximately 0.4%, 0.3%, 0.3% and 0.3% of the Company's total revenue, respectively.

Based on the above, the increase in the annual caps for the three years ending December 31, 2022 compared to the historical amounts for the transactions under the Loyalty Program Framework Agreement for the three years ended December 31, 2019 and the six months ended June 30, 2020 are mainly due to the expected increase in the sales volume of the Group's products and services. In addition, the proposed annual caps have also taken into account the estimated future demand, inflation factors and been calculated based on the principal assumption that there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect our business and those of JD Group during the term of the Loyalty Program Framework Agreement.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Loyalty Program Framework Agreement for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but less than 5% on an annual

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basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

4. JD Sales Framework Agreement

Principal terms

Our Company entered into a sales framework agreement with JD.com on November 23, 2020 (the “**JD Sales Framework Agreement**”), pursuant to which we will sell to JD Group healthcare related products, which will then sell or donate those healthcare products directly to certain large corporate customers or organizations.

Reasons for the transaction

Large corporate customers who have signed procurement agreements with JD Group usually buy a wide range of products from JD Group in bulk, and healthcare products are only a portion of the products procured by such customers.

Such an arrangement is mutually beneficial to both JD Group and our Group. With a single point of contact for the customers, it increases customer satisfaction with products and service offerings of both JD Group and our Group. Notwithstanding the benefit aforementioned, our Group is able to reach out to those corporate customers directly instead of selling through the JD Group, and has done so and will increasingly do so going forward.

In addition, in light of the COVID-19 situation, JD Group has donated, and having considered the short to mid-term impact of COVID-19, will likely continue to donate in the foreseeable future certain types of products and supplies (including protective equipment products and healthcare products) to assist medical institutions, companies and communities impacted by COVID-19. The healthcare products donated by JD Group will be purchased from our Group on a cost basis. Our Group will not impose any profit or service fees on top of the costs. Our Group does not anticipate these transactions to be recurring in the long run and will assess the need of continuing these transactions before the expiry of the JD Sales Framework Agreement.

Please refer to the section headed “Relationship with our Controlling Shareholders—Operational independence—Other Transactions—JD Sales Framework Agreement” for further details.

Pricing policy

The price of the healthcare related products supplied to JD Group shall be determined directly by us with the corporate customers and is generally determined by our Group’s actual costs plus reasonable profits. The level of profits we receive from such corporate customers will be consistent with our pricing policy for similar transactions we entered into with our direct customers of comparable profile. We will annually review the prices charged and level of profits with reference to similar transactions we entered into with our direct customers of comparable profile. JD Group will not charge our Group any service fees in the process.

The healthcare products donated by JD Group will be purchased from our Group on a cost basis. Our Group will not impose any profit or service fees on top of the costs.

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Historical amounts

In respect of the healthcare products sold from JD Group to large corporate customers for our business or donated by JD Group through in-kind donations to medical institutions, companies and communities in need during COVID-19, the historical amounts for each of the three years ended December 31, 2019 and six months ended June 30, 2020 were approximately RMB74.5 million, RMB115.7 million, RMB138.6 million and RMB352.5 million, respectively.

Annual caps

The transaction amounts to be paid by JD Group to us under the JD Sales Framework Agreement (excluding the healthcare products donated by JD Group which will be purchased from our Group on a cost basis) for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount received by us from JD Group	600,000	900,000	1,200,000

The transaction amounts to be paid by the JD Group to us under the JD Sales Framework Agreement (for only the healthcare products donated by JD Group which will be purchased from our Group on a cost basis) for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount received by us from the JD Group	120,000	50,000	50,000

Basis of caps

The above proposed annual caps for the transaction amounts to be paid by JD Group to us under the JD Sales Framework Agreement (excluding the healthcare products donated by JD Group which will be purchased from our Group on a cost basis) are determined with reference to the following factors:

- The Company primarily considered: (i) the historical transaction amounts and growth trend under the existing sales arrangements between us and JD Group, and (ii) the existing sales arrangements between us and JD Group as a percentage of the Company's product revenue during the Track Record Period. For each of the three years ended December 31, 2017, 2018 and 2019, and six months ending June 30, 2020, the existing sales arrangements between us and JD Group accounted for (as if such arrangements existed throughout the Track Record Period) approximately 1.5%, 1.6%, 1.5% and 3.8% of the Company's product revenue. The transaction amounts for existing sales arrangements between us and JD Group for the six months ended June 30, 2020 amounted to RMB295.9 million, or around 5 times the transaction amounts for the six months ended June 30, 2019. The increase was due to growth of our Group's corporate customer business. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the

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estimated annualized amount based on the transaction amount for the six months ended June 30, 2020.

- The annual cap for the year ended December 31, 2020 is derived from the estimated annualized transaction amount based on the transaction amount for the six months ended June 30, 2020. Our Group expects the relevant percentages of annual caps relative to our product revenue to gradually decline for the years ended December 31, 2021 and 2022.

The above proposed annual caps for the transaction amounts to be paid by JD Group to us under the JD Sales Framework Agreement (for only the healthcare products donated by JD Group which will be purchased from our Group on a cost basis) are determined with reference to the following factors:

- The Company primarily considered: (i) the historical transaction amounts and growth trend under the existing sales arrangements between us and JD Group, and (ii) the existing sales arrangements between us and JD Group as a percentage of the Company's product revenue during the Track Record Period. The increase of donation was due to JD Group's purchase of healthcare products for donation purpose in 2020 related to COVID-19. Therefore, for each of the three years ended December 31, 2019, and six months ending June 30, 2020, the donations accounted for approximately nil, nil, nil and 0.74% of the Company's product revenue.
- Although COVID-19 situation in China shows signs of stabilization in the second half of 2020 compared to the first half of 2020, we expect JD Group to continue fulfilling its social responsibilities in light of the typical flu season during the winter time in the fourth quarter and in case of any resurgence of COVID-19 during the same time or in other applicable circumstances. Therefore, we continue to budget in our annual cap in supply of healthcare products to JD Group through in-kind donations to medical institutions, companies and communities in need.
- The annual cap for the year ended December 31, 2020 is derived based on the estimated annualized transaction amount based on the transaction amount for the six months ended June 30, 2020. Our Group expects the relevant percentages of annual caps relative to our product revenue to decline for the year ended December 31, 2021 and 2022.

Listing Rules implications

In respect of the transactions under the JD Sales Framework Agreement, as the highest applicable percentage ratio for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

5. Logistics Services Framework Agreement

Principal terms

Our Company entered into a logistics services framework agreement with JD.com on November 23, 2020 (the "**Logistics Services Framework Agreement**") pursuant to which JD Group

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will provide to our Group various logistics services including but not limited to warehouse operation and storage services, delivery services, standard and special packaging services, and other value-added and logistics services provided by JD Group from time to time.

The Logistics Services Framework Agreement will take effect from the Listing Date and expire on December 31, 2022.

Reasons for the transaction

Our Directors consider that the provision of logistics services from JD Group to our Group would benefit the Company for the following reasons:

- The core businesses of JD Group (as the operator of, among others, logistics services) and of our Group (as the provider of healthcare products and services) are highly complementary and beneficial to each other.
- Given that JD Group enjoys a leading position in the PRC's logistics industry with an extensive network coverage (including but not limited to warehouses and delivery personnel), it is natural for, and in the best interest of, us to cooperate with JD Group.
- Our Group has been marketing and selling products or services online and requires efficient and reliable logistics services to enable our products to be safely and promptly delivered to its customers. In particular, our Group's healthcare product and service businesses have been expanding quickly. By entering into the Logistics Services Framework Agreement, our Group aims to meet the increasing demand for logistics services which is driven by the Group's sale of its healthcare products and services.

Pricing policies

Under the Logistics Services Framework Agreement, the logistics service fees are determined after arm's length negotiations in reference to market rates obtainable from comparable service provider, and are charged based a variety of factors including storage space taken and the weights and the delivery distance of the packages. We will obtain comparable quotations from independent third party service providers on annual basis to ensure that the terms we obtain from JD Group shall be on normal commercial terms or better as compared to those quoted by independent third party service providers for services of similar nature and scale.

Historical amounts

In respect of the logistics arrangements (including but not limited to warehouse operation and storage services, delivery services, standard and special packaging services, and other value-added and logistics services) made by JD Group on the fulfilment of the healthcare products for our business, the historical amounts in respective of the above services for each of the three years ended December 31, 2019 and six months ended June 30, 2020 were approximately RMB472.9 million, RMB660.9 million, RMB818.9 million and RMB591.3 million, respectively.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between JD

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Group and us were established and became effective since the Closing Date, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services.

Prior to the Closing Date of Series A Preference Shares financing, the historical amounts were allocated based on the actual amount incurred by JD Group in relation to our business in the relevant period and year.

Since the Closing Date of Series A Preference Shares financing, the transaction amounts in relation to provision of logistics services from JD Group to our Group are charged based on the agreed fee rates chargeable by JD Group on the various logistics services they provided to our Group in the relevant period and year.

Annual cap

The transaction amounts to be paid by us to JD Group under the Logistics Services Framework Agreement for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by us to JD Group	1,600,000	2,600,000	4,300,000

Basis of cap

The above proposed annual caps for the transaction amount to be paid by us to JD Group in respect of the provision of logistics services are determined with reference to the following basis:

- The historical transaction amounts and the growth trend for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the existing logistics services arrangements between our Group and JD Group during the Track Record Period. In particular, the transaction amount for the six months ended June 30, 2020 was approximately RMB591.3 million or around a 59% increase compared to the transaction amount for the six months ended June 30, 2019. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the estimated annual transaction amount for the year ended December 31, 2020 based on transaction amount for the six months ended June 30, 2020. The COVID-19 situation helped form consumer habits of online purchase of drugs and healthcare products. As the COVID-19 situation begins to stabilize, we expect that this consumer habit will continue and lead to an overall increase in our online sales volume in the second half of 2020, and slightly offset by a decline in sales volume of certain COVID-19 related products such as facemasks and protective equipment. Furthermore, the transformation from shelter-in-place to reopening-up allows more outdoor activities and as a result, we expect a recovery and significant increase on sales of healthcare and wellness products online. As a result, we expect increased usage of logistics services and leases of drug warehouses. In addition, the expected inflation on labor costs in the six months ending December 31, 2020 also should contribute to the rising logistics services fees.

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- As China's economy gradually recovers from COVID-19 and in light of government policies in favor of the digital economy including internet healthcare, we expect leasing of additional drug warehouses and increasing need for logistics services in anticipation of increased transaction volume around China's online shopping festival on November 11 and on December 12.
- The expected increase of our GMV due to increase in demand for our products from our Group's consumers which will lead to a corresponding increase in the logistics services to be provided by the JD Group to us, and the customer base of our Group has been increasing during the Track Record Period and are expected to continue to increase in the three years ending December 31, 2022.
- The annual caps for the years ended December 31, 2020, 2021 and 2022 are derived with reference to the historical fees paid to JD Group as a percentage of our Group's GMV. Our Group expects that such percentage for the year ended December 31, 2020 will be in line with the average historical percentages for the years ended December 31, 2018 and 2019, and will be slightly increasing for the year ended December 31, 2021 and 2022, due to the expected rising labor costs in China and more usage of cold chain logistics, which are generally more expensive. Further, reference is also made to the historical amounts under logistics services arrangements as a percentage of our Company's revenues. For the three years ended December 31, 2019 and six months ended June 30, 2020, the fees charged by JD Group under the logistics services arrangements accounted for (as if such arrangements existed throughout the Track Record Period) approximately 8.5%, 8.1%, 7.6% and 6.7% of the Company's total revenue, respectively.

Based on the above, the increase in the annual caps for the three years ending December 31, 2022 compared to the historical amounts for the transactions under the Logistics Services Framework Agreement for the three years ended December 31, 2019 and the six months ended June 30, 2020 were mainly due to the increase in the sales volume of the Group's products and services. In addition, the proposed annual caps have also taken into account the estimated future demand, inflation factors and been calculated based on the principal assumption that there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect our business and those of JD Group during the term of the Logistics Services Framework Agreement.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Logistics Services Framework Agreement for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

6. Marketing Services Framework Agreement

Principal terms

Our Company entered into a marketing services framework agreement with JD.com on November 23, 2020 (the "**Marketing Services Framework Agreement**"), pursuant to which JD Group and our Group will provide certain marketing services to each other, including but not limited to

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the display of advertisements on various platforms and resources of JD Group and our Group in return for the marketing fees which shall be calculated in accordance with the underlying standard marketing service agreements.

The period of the Marketing Services Framework Agreement will commence on the Listing Date and end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Advertisements placed by third party advertisers' on the platforms and resources of our Group or JD Group will be subject to marketing service charges depending on which platform the advertisement is placed on and whether the third party advertiser originally signed the marketing services contract with JD Group or our Group.

From the third parties perspective, being able to place advertisements on both JD Group and our Group's platforms through one channel is convenient and allows for an enhanced customer experience and is therefore mutually beneficial to both JD Group and our Group. In the course of our Group's restructuring, the vast majority of the suppliers and merchants of our Group that have advertising needs have already signed the marketing services contract with our Group directly. Further, if the third party advertiser is already a merchant (providing mainly healthcare products) of our Group, JD Group and our Group will have internal control measures upon the Listing to ensure that such third party advertiser will sign the marketing services contract with our Group directly.

Pricing policies

Under the Marketing Services Framework Agreement, the marketing fees charged by JD Group to our Group and the marketing fees charged by our Group to JD Group are based on a various factors, including which party sourced the third party advertiser and the platform and resource the third party advertiser desires to place an advertisement on. We will annually review and approve the economic split from time to time, to ensure the percentage splits are reasonable and in favor of our Group. The arrangement with JD Group is not directly comparable with any arrangement between us and other third party online platforms, given that we extensively use the services offered by JD Group to facilitate the sales and marketing of our Group's products and services.

Once the third party advertiser has signed the marketing services contract with our Group, it may elect to place advertisements in three main advertising slots or places: (i) our Group's resources and/or platforms, (ii) JD Group's resources and/or platforms or (iii) resources outside both our Group and JD Group's platforms.

- (a) If the third party advertiser (which has signed the marketing services contract with our Group) elects to place an advertisement using our Group's resources and/or platforms, there is no marketing service fees sharing arrangement, as 100% of the marketing service fees belong to our Group. For the avoidance of doubt, this scenario will not involve any connected transactions.
- (b) If the third party advertiser (which has signed the marketing services contract with our Group) elects to place an advertisement using JD Group's resources and/or platforms, 60% of the marketing services fees will be shared from our Group to JD Group, as the third party advertiser is utilizing JD Group's resources while our Group is in essence acting as an advertising agent. Such

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marketing service fees sharing arrangements are determined based on arm's length negotiation after factoring in the resources incurred by both parties, and the arrangement with JD Group is no less favorable to our Group than for similar marketing resources provided by JD Group to third parties. In addition, the third party advertisers are free to choose whether to place advertisements on either JD Group or our Group's resources and platforms, which is mostly conducted through a real time bidding system which combines the marketing resources of both JD Group and our Group. The real time bidding system takes into account the real time supply and demand and the market price of advertisements on both platforms of JD Group and our Group – as such, the advertisers tend to purchase resources (including selecting the platform) that can generate the highest ROIs for them.

- (c) If the third party advertiser (which has signed the marketing services contract with our Group) elects to place an advertisement using resources outside both our Group and JD Group's platforms, there will be a 90/10 marketing service fees sharing arrangement between JD Group and our Group. This is because JD Group is able to make mass purchase (and thus achieving mass efficiency and economies of scale) of resources (i.e. advertising slots) from companies outside our Group and JD Group for, among others, merchants selling their products and services on the platforms of JD Group and our Group. As such, 90% of the marketing services fees generated will be shared from our Group to JD Group to allow for JD Group to cover its costs of purchasing the third party advertisement resources / advertising slots, and the 10% our Group is entitled to keep is in consideration of its role as an advertising agent, after factoring in the administrative resources incurred by both parties. The arrangement with JD Group is no less favorable to our Group than for our Group to directly obtain relevant marketing resources and provide to the third party advertiser.

In the scenario where the third party advertiser has signed the marketing services contract with JD Group but wishes to place advertisements relating to healthcare products and services, it may elect to place advertisements in three main advertising slots of places: (i) our Group's resources and/or platforms, (ii) JD Group's resources and/or platforms or (iii) resources outside both our Group and JD Group's platforms. Our Group is involved with these healthcare related advertisements (and thus entitled to a certain proportion of the advertising fees generated), because our Group can provide value added services relating to healthcare products and services (i.e. marketing insights with regards to the healthcare industry) to the third party advertisers.

- (a) If the third party advertiser (which has signed the marketing services contract with JD Group) elects to place an advertisement using our Group's resources and/or platforms, 100% of the marketing service fees belong to our Group and this will be shared from JD Group to our Group.
- (b) If the third party advertiser (which has signed the marketing services contract with JD Group) elects to place a healthcare related advertisement on JD Group's platforms utilizing the services of our Group, our Group is entitled to 40% of the marketing services fees generated and this will be shared from JD Group to our Group. Such marketing services fees sharing arrangements were determined based on arm's length negotiation after factoring in the administrative resources incurred by both parties and indirect benefits of such healthcare related advertisement to our Group's business. In addition, the arrangement with JD Group is no less favorable to our Group than for us to directly provide same or similar marketing services to the third parties.
- (c) If the third party advertiser (which has signed the marketing services contract with JD Group) elects to place a healthcare related advertisement using resources outside both our Group and JD

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Group's platforms, there will be a 90/10 marketing services fees sharing arrangement between JD Group and our Group. This is because JD Group is able to make mass purchase of (and thus achieving mass efficiency and economies of scale) resources (i.e. advertising slots) from platforms outside our Group and JD Group for, among others, merchants selling their products and services on the platforms of JD Group and our Group. Our Group is entitled to 10% of the marketing services fees generated and this will be shared from JD Group to our Group, in consideration of our Group's role for providing healthcare related insights and services, after factoring in the administrative resources incurred by both parties. The arrangement with JD Group is no less favorable to our Group, than for our Group to directly provide same or similar marketing services to the third party advertiser.

Our Group can directly work with third party advertisers to provide them with advertising services. The majority of total advertising services revenue was generated through direct relationship with third party advertiser for the year ended December 31, 2019.

Historical amounts

Marketing Services Revenue

The marketing service fees from marketing services provided by JD Group in relation to the advertisements placed on JD Group's platform and third party platforms in relation to our business were approximately RMB23.3 million, RMB75.2 million, RMB213.2 million and RMB190.3 million for the three years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the Closing Date, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services.

Prior to the Closing Date of Series A Preference Shares financing, the historical amounts of marketing services revenue were calculated in reference to the relevant revenues recognized by JD Group generated from third party advertisers for the advertisements placed on (i) JD Group's platforms and (ii) third party platforms in relation to our business and the designated rates for (i) and (ii), respectively.

Since the Closing Date of Series A Preference Shares financing, the marketing services revenue were charged on the agreed basis set out in the Series A Share Subscription Agreement in the relevant period or year.

Marketing Services Cost

The historical amounts of costs incurred in relation to the marketing services provided by JD Group to our business were nil for the three years ended December 31, 2019 and the six months ended June 30, 2020, respectively. We would only incur marketing services costs if and when a third party advertiser signed a marketing services contract with our Group, and elected to place advertisements by utilizing JD Group's resources and/or platforms or resources outside both our Group and JD Group's platforms. However, given that the Reorganization has been ongoing during the Track Record Period,

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we have been transferring the contractual relationship in this regard from JD Group to entities of our Group and such marketing services were therefore not yet established and hence not yet recognized, nor can be allocated. The foregoing factors explain why this transaction was treated differently from other connected transactions which had historical amounts allocated or recognized based on the arrangements set forth in the Series A Share Subscription Agreement between our Group and JD Group as provided in this document. Upon completion of the Reorganization, if a third party signs the marketing services contract with us and elects to place an advertisement using JD Group's resources and/or platforms, we will purchase the resources from JD Group which will be accounted for as marketing services costs of our Group.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the Closing Date, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services.

Upon the later of (i) the Closing Date of Series A Preference Shares financing or (ii) the date when the relevant marketing contract(s) were entered into between the third party advertiser and our Group, the marketing services costs would be charged on the agreed basis set out in the Series A Share Subscription Agreement in the relevant period or year.

Annual caps

In respect of the Marketing Services Framework Agreement, the transaction amounts to be paid by us to JD Group and the transaction amounts to be paid by JD Group to us for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by JD Group to us	450,000	600,000	800,000
Transaction amount to be paid by us to JD Group	350,000	530,000	690,000

Basis of caps

The above proposed annual caps for the transaction amount to be paid by JD Group to us in respect of the provision of marketing services are determined with reference to the following basis:

- The Company primarily considered: (i) the historical transaction amounts and the growth trend for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the existing marketing services arrangements between our Group and JD Group during the Track Record Period; and (ii) the marketing services revenue as a percentage of service revenue. For each of the three years ended December 31, 2017, 2018 and 2019, and six months ending June 30, 2020, the marketing services revenue from JD Group to our Group accounted for (as if such arrangements existed throughout the Track Record Period) approximately 3.6%, 8.2%, 15.2% and 17.6% of the Company's service revenue, respectively. The transaction amounts for the six months ended June 30, 2020 amounted to RMB190.3 million, representing a 202% increase compared to the transaction

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amount for the six months ended June 30, 2019. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the estimated annualized transaction amount based on transaction amount for the six months ended June 30, 2020.

- The expected increase of demand for our products and services from our Group's consumers which should lead to a corresponding increase from third party advertisers placing advertisements on the platforms and resources of both our Group and JD Group.
- The customer base of our Group and JD Group has been increasing during the Track Record Period and are expected to continue to increase in the three years ending December 31, 2022.
- The annual cap for the year ending December 31, 2020 is derived in reference to the transaction amount for the six months ended June 30, 2020 and the strong growth of our digital marketing services in the second half of 2020. As China's economy gradually recovered from COVID-19 situation and government policies in favor of the digital economy including internet healthcare were promulgated, we expect that our merchants and suppliers would be prone to allocate more budgets on advertising and digital marketing services. In addition, e-commerce platforms in China tend to achieve higher marketing services revenues in the fourth quarter of each year due to larger demand for digital marketing services around online shopping festivals on November 11 and on December 12. It is observed that our advertisers engaged more actively in marketing activities through our platform in the fourth quarter. For example, our revenue from digital marketing and other services in the quarter ended December 31, 2019 was the highest among all quarters in 2019 and accounted for over one third of the digital marketing services revenues in 2019. In anticipation of the strong growth in the fourth quarter, our annual cap for the year ended December 31, 2020 is expected to achieve over 100% year-on-year growth compared to the transaction for the year ended December 31, 2019.
- Our Group considers that there will be a significant growth of our advertising services revenue, with the forecasted rapid development of our overall business. As such, it is expected that suppliers and platform merchants (and thus brand awareness) will gradually increase, and that more and more advertisers will use our Group's resources to promote their business and brand.

The above proposed annual caps for the transaction amount to be paid by us to JD Group in respect of the provision of marketing services are determined with reference to the following basis:

- The service revenue of our Group for the three years ended December 31, 2019 and the six months ended June 30, 2020 has achieved a significant year-over-year increase, which will lead to a corresponding increase in the transaction amounts to be paid by us to JD Group in respect of the provision of advertising services.
- The expected increase of demand for our products and services from our Group's consumers which should lead to a corresponding increase from third party advertisers placing advertisements on the platforms and resources of both our Group and JD Group.
- The customer base of our Group and JD Group has been increasing during the Track Record Period and are expected to continue to increase in the three years ending December 31, 2022.

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- Our Group expects the relevant percentages of annual caps relative to the service revenue to gradually decline for the years ended December 31, 2021 and 2022.

Listing Rules implications

As the highest applicable percentage ratio of the transactions contemplated under the Marketing Services Framework Agreement for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

7. Procurement Services Framework Agreement

Principal terms

Our Company entered into a procurement services framework agreement with JD.com on November 23, 2020 (the “**Procurement Services Framework Agreement**”), pursuant to which our Group will procure certain inventories (including goods sourced from outside of China which will steadily decrease going forwards as noted below) for its retail pharmacy business together with and through JD Group on a cost basis.

The initial term of the Procurement Services Framework Agreement will commence on the Listing Date and end on December 31, 2021, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

One key reason for our Group to procure certain inventories through JD Group is to procure certain healthcare products from outside of China. This usually requires an offshore trading company (often in the form of a trading company in Hong Kong). For the sake of our third party suppliers' convenience, our Group has purchased healthcare products from outside of China through JD Group (allowing for one point of contact between JD Group and our Group for third party suppliers).

We are not bound and will not be bound to purchase such inventories through JD Group, and we expect that we will independently procure our overseas sourced inventory on an increasing basis in the future. As such, we expect that the transaction amounts under the Procurement Services Framework Agreement will decrease going forwards.

Pricing policies

JD Group will not charge our Group additional service fees on the arrangement of procurement services. We shall pay JD Group procurement fees charged by the third party suppliers, and the charges will be determined after arm's length negotiation between our Group (or JD Group on behalf of our Group) and third party suppliers for products. The price of the procurement will in general be determined by the actual costs of the third party suppliers plus reasonable profits.

CONNECTED TRANSACTIONS

Historical amounts

In respect of the healthcare products procured overseas by JD Group for our business, the historical amounts incurred were approximately RMB353.7 million, RMB567.0 million, RMB920.4 million and RMB698.4 million for the three years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

Annual caps

With respect to the Procurement Services Framework Agreement, the transaction amounts to be paid by us to JD Group for the years ending December 31, 2021 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,	
	2020	2021
	<i>(RMB in thousands)</i>	
Transaction amount to be paid by us to JD Group	1,400,000	1,000,000

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The Company primarily considered: (i) the historical transaction amounts for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the existing procurement of inventories arrangements between our Group and JD Group during the Track Record Period, and (ii) the procurement fees to JD Group as a percentage of the Company's cost of revenue during the Track Record Period. For the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020, the transaction amounts under the existing procurement of inventories arrangements between our Group and JD Group accounted for (as if such arrangements existed throughout the Track Record Period) approximately 8.5%, 9.2%, 11.5% and 10.6% of the Company's cost of revenue, respectively. Further, the transaction amount for the six months ended June 30, 2020 was approximately RMB698.4 million, which represented a 98% increase compared to the transaction amount for the six months ended June 30, 2019. Consequently, the annual cap for the year ended December 31, 2020 is estimated to be RMB1.4 billion, which (i) is a significant increase compared to the year ended December 31, 2019, and (ii) is expected not to materially deviate from the estimated annualized transaction amount based on transaction amount for the six months ended June 30, 2020.
- We are not bound and will not be bound to purchase such inventories through JD Group, and we will independently procure our overseas sourced inventory on an increasing basis in the future; consequently, we expect that the transaction amounts under the Procurement Services Framework Agreement will decrease going forwards.
- The annual cap for the year ended December 31, 2020 is derived with reference to the historical fees paid to JD Group as a percentage of our Group's cost of revenues. Our Group expects that such percentage for the year ended December 31, 2020 will be in line with the historical percentages for the year ended December 31, 2019. As our Group expects that we will independently procure our overseas sourced inventory on an increasing basis in the future, our Group expects the percentage will decrease for the years ended December 31, 2021.

CONNECTED TRANSACTIONS

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Procurement Services Framework Agreement for each of the years ending December 31, 2021 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

8. Promotion Services Framework Agreement

Principal terms

Our Company entered into a promotion services framework agreement with JD.com on November 23, 2020 (the "**Promotion Services Framework Agreement**"), pursuant to which our Group will place advertisements on third party platforms together with and through JD Group to achieve economies of scale, increased efficiency and lower costs for both parties.

The initial term of the Promotion Services Framework Agreement will commence on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Placing advertisements on third party platforms together with and through JD Group is mutually beneficial to both JD Group and our Group, as collective purchase allows for increased economies of scale, increased efficiency, and lower costs for both parties.

Notwithstanding the aforementioned benefits, our Group is able to reach out to third party platforms directly instead of placing advertisements through JD Group.

Pricing policies

Our Group and JD Group will settle the expenses incurred between each other on a cost basis.

JD Group will not charge our Group additional service fees on the arrangement of promotion and marketing services. Our Group shall pay JD Group promotion fees charged by the third party promotion service providers for our Group, and the charges will be determined after arm's length negotiation between our Group (or JD Group on behalf of our Group) and third party promotion service providers for promotion services provided. The price of promotion service will be determined by the actual costs and expenses for preparing relevant displays on third parties' platforms plus reasonable profits of such third parties, or will be calculated by the unit prices of different online publicity resources multiplied by frequency such resources are used. The unit prices of each online publicity resources will be determined with reference to market rates. We will annually obtain and review the comparable quotations from other service providers to ensure the promotion service prices that we obtain from JD Group are fair and reasonable.

CONNECTED TRANSACTIONS

Historical amounts

With respect to the promotional activities sought by JD Group from third party platforms for our business, the historical amounts were approximately RMB7.8 million, RMB13.8 million, RMB136.0 million and RMB71.5 million for the three years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

Annual caps

With respect to the Promotion Services Framework Agreement, the transaction amounts to be paid by us to JD Group for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by us to JD Group	300,000	350,000	400,000

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The Company primarily considered: (i) the historical transaction amounts and the growth trend for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the existing promotion services arrangements between our Group and JD Group during the Track Record Period; and (ii) the promotion services fees to JD Group as a percentage of the Company's selling and marketing expenses during the Track Record Period. For the three years ended December 31, 2019, and six months ended June 30, 2020, the historical amounts under the existing promotion services arrangements accounted for (as if such arrangements existed throughout the Track Record Period) approximately 3.0%, 3.5% ,18.2% and 13.1% of the Company's selling and marketing expenses. Further, the transaction amount for the six months ended June 30, 2020 was approximately RMB71.5 million, or around a 150% increase compared to transaction amount for the six months ended June 30, 2019. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the estimated annual transaction amount based on transaction amount for the six months ended June 30, 2020. In addition, the COVID-19 situation helped form consumers' habit of online purchase of drugs and healthcare products. As such, we see this as an opportunity to launch marketing activities in the six months ending December 31, 2020 to promote our brand and boost our product sales. Therefore, we expect further increased usage of promotion services compared to the first six months of 2020.
- The expected increase of our revenue due to increase of demand for our products and services from our Group's consumers which should lead to a corresponding increase from our Group for placing advertisements on third party platforms together with and through JD Group.
- The annual cap for the year ending December 31, 2020 is derived from the estimated annualized transaction amount based on the transaction amount for the six months ended June 30, 2020. We have been increasingly placing advertisements on third party platforms

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together with and through JD Group in the second half of 2020, due to our strategy to promote our brand recognition and to seize the opportunity for effective marketing so as to acquire new customers and purchases during China's economy and consumption recovery from COVID-19. Generally, e-commerce platforms in China incur higher selling and marketing expenses in the fourth quarter due to promotions around the online shopping festivals on November 11 and on December 12. Our selling and marketing expenses in the quarter ended December 31, 2019 was the highest among all quarters in 2019 and accounted for over 40% of the selling and marketing expenses in 2019. Similarly, our selling and marketing expenses are expected to further increase in the fourth quarter of 2020, in anticipation of increasing needs for promotional events and branding activities. As a result, our annual cap for the year ended December 31, 2020 is expected to achieve over 100% year-on-year growth compared to the transaction amount for the year ended December 31, 2019.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Promotion Services Framework Agreement for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 0.1%, but less than 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules and the announcement requirement under Rule 14A.35 of the Listing Rules.

9. Payment Cooperation Framework Agreement

Principal terms

Our Company entered into a payment cooperation framework agreement with JD.com and its associate(s) on November 23, 2020 (the "**Payment Cooperation Framework Agreement**"), pursuant to which JD Group and its associate(s) agreed to arrange our Group to use the payment services through payment channels provided by third party payment service providers or self-owned payment channels, so as to enable users to conduct online purchase of products in an integrated manner from the platforms of both JD Group and our Group.

The initial term of the Payment Cooperation Framework Agreement will commence on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

Given that our Group sells healthcare products through JD Group's platform, our Group engages the same payment services as JD Group on a cost basis of JD Group. This achieves consistency between the platforms of JD Group and our Group, and also ensures a consistent and superior customer experience that would be difficult for our Group to replicate elsewhere. Our Group may also engage JD Group's associates for certain payment services for similar reasons.

Pricing policies

For payment services provided by third party payment service providers, related costs are first settled by JD Group and later settled in full (on a cost basis of JD Group) by our Group. This will allow our Group to utilize the payment services to enable efficient, safe and prompt real-time payment for its

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online transactions. JD Group will not charge us additional service fees on the arrangement of payment service. Our Group shall pay JD Group the amount equal to payment service fees charged by third party service providers to conduct online transactions and the service will be charged based on a commission rate with reference to market rates by the payment service provider. For payment services directly provided by payment channels operated by JD Group's associates to our Group, service fees charged to our Group will be calculated with reference to the prevailing market rates. We will annually obtain and review prevailing market rates to ensure that the service fees charged by JD Group's associates to our Group to ensure they are fair and reasonable.

Historical amounts

With respect to the payment processing services sought by JD Group and the payment processing services provided by the associate(s) of JD Group for our business, the historical amounts incurred were approximately RMB51.4 million, RMB86.9 million, RMB133.0 million and RMB94.9 million for the three years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the Closing Date, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services.

Prior to the Closing Date of Series A Preference Shares financing, payment fees in respect of the orders of our business that were part of JD Group's expenses were allocated based on the percentage of the fulfilled order volume of our business in the aggregate fulfilled order volume of our business and JD Group in the relevant period or year.

Since the Closing Date of Series A Preference Shares financing, the transaction amounts in relation to provision of payment services arrangements from JD Group to our Group were charged on the agreed basis set out in the Series A Share Subscription Agreement.

Annual caps

With respect to the Payment Cooperation Framework Agreement, the transaction amounts to be paid by us to JD Group and its associate(s) for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by us to JD Group and its associate(s) in aggregate	240,000	400,000	600,000

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The historical transaction amounts and the growth trend for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the existing payment

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services arrangements between our Group and JD Group (including its associate(s)) during the Track Record Period. In particular, the transaction amount for the six months ended June 30, 2020 was approximately RMB94.9 million or around a 63% increase compared to the transaction amount for the six months ended June 30, 2019. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the estimated annual transaction amount for the year ended December 31, 2020 based on transaction amount for the six months ended June 30, 2020. In addition, the COVID-19 situation helped form consumer habits of online purchase of drugs and healthcare products. As the COVID-19 situation begins to stabilize, we expect that this consumer habit will continue and lead to an overall increase in our online sales volume in the second half of 2020, and slightly offset by a decline in sales volume of certain COVID-19 related products such as facemasks and protective equipment. Furthermore, the transformation from shelter-in-place to reopening-up allows more outdoor activities, we expect a recovery and significant increase on online sales of healthcare and wellness products, which would lead to an increased usage of payment services arrangements in the six months ending December 31, 2020.

- As China's economy gradually recovers from COVID-19 and in light of government policies in favor of the digital economy including internet healthcare, and in anticipation of our increased sales during China's online shopping festival on November 11 and on December 12, we expect more usage of payment services arrangements due to strong growth on the transaction volumes on our platform in the fourth quarter of 2020.
- The expected increase of our GMV due to increase of demand for our products from our Group's consumers which will lead to a corresponding increase in the payment services arrangements provided by JD Group and its associate to our Group, and the customer base of our Group has been increasing during the Track Record Period and are expected to continue to increase in the three years ending December 31, 2022.
- The annual caps for the three years ended December 31, 2020, 2021 and 2022 are derived with reference to the historical fees paid to JD Group and its associate as a percentage of our Group's GMV. Our Group expects that such percentage the year ended December 31, 2020 will be in line with historical percentages the year ended December 31, 2019 and the six months ended June 30, 2020, and such percentage will remain stable for the years ended December 31, 2021 and 2022. Further, reference is also made to the historical amounts under logistics services arrangements as a percentage of our Company's revenues. For the three years ended December 31, 2019 and six months ended June 30, 2020, the fees paid to JD Group under the payment services arrangements accounted for (as if such arrangements existed throughout the Track Record Period) approximately 0.9%, 1.1%, 1.2% and 1.1% of the Company's total revenue, respectively.

Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Payment Cooperation Framework Agreement for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

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10. Shared Services Framework Agreement

Principal terms

Our Company entered into a shared services framework agreement with JD.com on November 23, 2020 (the “**Shared Services Framework Agreement**”), pursuant to which JD Group will provide to our Group certain back-office administrative support services, including cloud services, provision of servers, information technology support service, maintenance and related customer services, certain human resources services, in addition to certain shared services, including office premises sharing and leasing, transportation and canteen facilities for staff, administrative purchases and various support services.

The initial term of the Shared Services Framework Agreement will commence on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Reasons for the transaction

The services provided under Shared Services Framework Agreement can help enhance utilization and economies of scale of JD Group’s operational support resources and, on the other hand, reduce the administrative costs of our Group in procuring similar services from a wide range of other providers. The Shared Services Framework Agreement will allow our Group to better leverage on the mature infrastructure and coverage already built by JD Group and promote better cooperation between JD Group and our Group.

Pricing policies

JD Group will not charge our Group additional service fees on the arrangement of shared services. Our Group shall pay JD Group the actual costs incurred during the service process including, among others, staff costs, office premises sharing, IT system maintenance, and third party service costs. We will annually review the actual costs incurred by JD Group in providing relevant services with reference to prevailing market prices of such services to ensure they are fair and reasonable.

Historical amounts

With respect to the administrative support provided by JD Group to our business, the historical amounts incurred were approximately RMB70.8 million, RMB126.6 million, RMB335.4 million and RMB269.7 million for the three years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

In May 2019, we entered into Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the Closing Date, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services.

Prior to the Closing Date of Series A Preference Shares financing, the historical amounts were allocated based on JD Group’s respective expenses incurred and our Group’s fulfilled order volume in proportion to the aggregate fulfilled order volume of our business and JD Group.

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Since the Closing Date of Series A Preference Shares financing, the transaction amounts in relation to provision of shared services from JD Group to our Group are derived and calculated on the agreed basis set out in the Series A Share Subscription Agreement in each year respectively.

Annual caps

With respect to the Shared Services Framework Agreement, the transaction amounts to be paid by us to JD Group for the three years ending December 31, 2022 shall not exceed the proposed annual caps as set out in the table below:

	Proposed annual caps for the year ending December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Transaction amount to be paid by us to JD Group	600,000	900,000	1,200,000

Basis of caps

The above proposed annual caps are determined with reference to the following factors:

- The Company primarily considered: (i) the historical transaction amounts and the growth trend for the three years ended December 31, 2019 and the six months ended June 30, 2020 under the existing shared services arrangements between our Group and JD Group during the Track Record Period, and (ii) the shared services fees as a percentage of the Company's aggregate amount of fulfillment expenses, selling and marketing expenses, research and development expenses, and general and administrative expenses during the Track Record Period. For the three years ended December 31, 2019, and six months ended June 30, 2020, the shared services fees accounted for approximately 6.3%, 7.6%, 14.1% and 14.8%, respectively, of the Company's aggregate amount of fulfillment expenses, selling and marketing expenses, research and development expenses, and general and administrative expenses. Further, the historical amount for the six months ended June 30, 2020 was approximately RMB269.7 million, or around a 97% increase compared to the six months ended June 30, 2019. Thus, the annual cap for the year ended December 31, 2020 (i) reflects a significant increase over the year ended December 31, 2019, and (ii) is not expected to materially deviate from the estimated annualized transaction amount based on transaction amount for the six months ended June 30, 2020.
- The number of employees and the customer base of our Group have been increasing during the Track Record Period and are expected to continue to increase in the three years ending December 31, 2022; consequently, the transactions contemplated under the Shared Services Framework Agreement is also expected to correspondingly increase.
- The annual cap for the year ended December 31, 2020 is derived based on the estimated annual transaction amount for the year ended December 31, 2020 and based on the transaction amount for the six months ended June 30, 2020. Our Group expects the relevant percentages of annual caps relative to the aggregate amount of fulfillment expenses, selling and marketing expenses, research and development expenses, and general and administrative expenses to gradually decline for the years ended December 31, 2021 and 2022.

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Listing Rules implications

As the highest applicable percentage ratio of the transactions under the Shared Services Framework Agreement for each of the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

11. Contractual Arrangements

Background

As disclosed in the section headed “Contractual Arrangements” in this document, due to regulatory restrictions on foreign ownership and other legal restrictions in the PRC, we conduct a portion of our business through our Consolidated Affiliated Entities, namely the Onshore Holdco and its respective subsidiaries, in the PRC. We do not hold any equity interests in our Onshore Holdco. The registered shareholders of the Onshore Holdco are Richard Qiangdong Liu (劉強東), Yayun Li (李婭雲) and Pang Zhang (張雱). The Contractual Arrangements among the WFOE, Onshore Holdco and the shareholders of Onshore Holdco enable us to (i) receive substantially all of the economic benefits from the Onshore Holdco in consideration for the services provided by the WFOE; (ii) exercise effective control over our Consolidated Affiliated Entities through our Onshore Holdco; and (iii) hold an exclusive option to purchase all or part of the equity interests and assets of our Onshore Holdco when and to the extent permitted by PRC laws.

See the section headed “Contractual Arrangements” in this document for detailed terms of the Contractual Arrangements.

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Richard Qiangdong Liu (劉強東), Yayun Li (李婭雲) and Pang Zhang (張雱), are connected persons of the Group. Richard Qiangdong Liu (劉強東) holds more than 50% of the voting power entitled to be exercised in the general meetings of JD.com, one of our Controlling Shareholders. Yayun Li (李婭雲) is a director of our Company while Pang Zhang (張雱) is an employee of JD Group.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group (“**New Intergroup Agreements**” and each of them, a “**New Intergroup Agreement**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors

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consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

WAIVERS GRANTED BY THE STOCK EXCHANGE

(2) Technology and Traffic Support Services Framework Agreement

In relation to the Technology and Traffic Support Services Framework Agreement, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the announcement requirements, the circular (including the opinion and recommendation from an independent financial advisor) requirements, the independent shareholders' approval requirements, and the annual monetary cap requirements for the Technology and Traffic Support Services Framework Agreement pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

- (a) we will disclose in our subsequent annual and interim reports (i) a clear description of the bases for calculating the commissions charged by JD Group under the Technology and Traffic Support Services Framework Agreement, and (ii) the actual transaction amounts under the Technology and Traffic Support Services Framework Agreement;
- (b) our independent non-executive Directors will review the underlying transactions entered into pursuant to the Technology and Traffic Support Services Framework Agreement on an annual basis and confirm in our annual reports the matters set out in Rule 14A.55 of the Listing Rules;
- (c) we will comply with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules if there is any material change to the terms of the Technology and Traffic Support Services Framework;
- (d) we will engage an external auditor to report on, among other things, transactions contemplated in the Technology and Traffic Support Services Framework Agreement pursuant to Rule 14A.56 of the Listing Rules. We will also ensure that the auditors are allowed sufficient access to our records for the purpose of reporting on the transactions contemplated in the Technology and Traffic Support Services Framework Agreement;
- (e) we and our Board will ensure that the relevant transactions under the Technology and Traffic Support Services Framework Agreement are undertaken in accordance with the terms of the Technology and Traffic Support Services Framework Agreement and will use our best endeavors to comply with such terms and the Listing Rules requirements applicable to the Technology and Traffic Support Services Framework Agreement to the extent not waived by the Stock Exchange;
- (f) we will disclose in this document (i) the background of entering into the Technology and Traffic Support Services Framework Agreement, (ii) the salient terms of the Technology and Traffic Support Services Framework Agreement, (iii) the grounds of application for waivers set out in the final waiver application(s) submitted to the Stock Exchange, and (iv) our Directors' and the Joint Sponsors' views on the fairness and reasonableness of the Technology and Traffic Support Services Framework Agreement as a whole; and

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- (g) we will implement internal procedures so as to ensure that the Technology and Traffic Support Services Framework Agreement are undertaken in accordance with the terms provided therein and the underlying transaction agreements entered into pursuant to or governed by the Technology and Traffic Support Services Framework Agreement.

(3) Loyalty Program Framework Agreement and (8) Promotion Services Framework Agreement

In relation to the (3) Loyalty Program Framework Agreement and (8) Promotion Services Framework Agreement, since the highest applicable percentage ratio is expected to be 0.1% or more but less than 5%, the transactions contemplated thereunder are exempt from the circular (including the opinion and recommendation from an independent financial advisor) and the independent shareholders' approval requirements, but are subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules in respect of these transactions, provided that the total values of these transactions for each of the three years ending December 31, 2022 will not exceed the relevant proposed annual caps above.

(4) JD Sales Framework Agreement, (5) Logistics Services Framework Agreement, (6) Marketing Services Framework Agreement, (7) Procurement Services Framework Agreement and (9) Payment Cooperation Framework Agreement, (10) Shared Services Framework Agreement

In respect of the continuing connected transactions as described above under the (4) JD Sales Framework Agreement, (5) Logistics Services Framework Agreement, (6) the Marketing Services Framework Agreement, (7) Procurement Services Framework Agreement, (9) Payment Cooperation Framework Agreement, and (10) Shared Services Framework Agreement, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2022 are expected to be more than 5% on an annual basis. Accordingly, the continuing connected transactions under these framework agreements are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

As the above continuing connected transactions are expected to be carried out on a recurring basis, our Directors consider that strict compliance with the aforesaid announcement and independent Shareholders' approval requirements will be impractical, and such requirements will lead to unnecessary administrative costs and create an onerous burden on us. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, pursuant to Rule 14A.105 of the Listing Rules, waivers from strict compliance with the announcement and independent Shareholders' approval requirements under Rule 14A.35 and Rule 14A.36 of the Listing Rules in respect of the transactions under (4) JD Sales Framework Agreement, (5) Logistics Services Framework Agreement, (6) the Marketing Services Framework Agreement, (7) Procurement Services Framework Agreement, (9) Payment Cooperation Framework Agreement, and (10) Shared Services Framework Agreement, provided that the total amount of transactions for each of the three years ending December 31, 2022

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will not exceed the relevant proposed annual caps as set out in this section. Any material changes to the terms of these continuing connected transactions will be approved by independent shareholders. The independent non-executive Directors and auditors of the Company will review whether the transactions under the above continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant framework agreements as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

The Contractual Arrangements

In respect of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange, subject, however, to the following conditions:

(a) ***No change without independent non-executive Directors' approval***

No change to the Contractual Arrangements (including with respect to any fees payable to the WFOE thereunder) will be made without the approval of our independent non-executive Directors.

(b) ***No change without independent Shareholders' approval***

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will, however, continue to be applicable.

(c) ***Economic benefits flexibility***

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Consolidated Affiliated Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOE by the Consolidated Affiliated Entities under the Exclusive Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

CONNECTED TRANSACTIONS

(d) ***Renewal and reproduction***

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however, be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) ***Ongoing reporting and approvals***

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial reporting period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Onshore Holdco to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and Onshore Holdco during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company's auditor will carry out review procedures annually on the transactions, pursuant to the Contractual Arrangements, and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", our Consolidated Affiliated Entities will be treated as our Company's subsidiaries, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including, for this purpose, the Consolidated Affiliated Entities), other than

CONNECTED TRANSACTIONS

those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Our Consolidated Affiliated Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group's management and our Company's auditor full access to its relevant records for the purpose of our Company's auditor's review of the connected transactions.
- In addition, we have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated in any New Intergroup Agreements (as defined above), (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from our Consolidated Affiliated Entities in any New Intergroup Agreements, and (iii) the requirement to limit the term of any New Intergroup Agreement to three years or less, for so long as Shares are listed on the Stock Exchange. The waiver is subject to the condition that the Contractual Arrangements subsist and that the consolidated affiliated entities will continue to be treated as our Company's subsidiaries, but their directors, chief executives or substantial shareholders of the consolidated affiliated entities and its associates will be treated as connected persons of our Company (excluding, for this purpose, our consolidated affiliated entities), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONFIRMATION BY DIRECTORS

Our Directors (including independent non-executive Directors) are of the view that:

- (a) the Non-Exempt Continuing Connected Transactions set out in this document have been entered into in the ordinary and usual course of our business, on normal commercial terms or better, on terms that are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole;
- (b) the proposed annual caps of the Non-Exempt Continuing Connected Transactions set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (c) the term of the IP Licensing Framework Agreement, which is longer than three years, is in the normal business practice of our Company and is in the interests of the Company and the Shareholders as a whole and it is a normal business practice for intellectual property license agreements to be of a similar or longer duration in order to minimize the possibility

CONNECTED TRANSACTIONS

of disruption of the Group's business operation and the occurrence of unnecessary costs;
and

- (d) the non-monetary annual cap of the Technology and Traffic Support Services Framework Agreement set out above is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONFIRMATION BY THE JOINT SPONSORS

Based on the documentation, information and data (including historical figures) provided by the Company, the representations and confirmations provided by the Company and the Directors to the Joint Sponsors, and participation in due diligence and discussions, the Joint Sponsors are of the view that:

- (a) the Non-exempt Continuing Connected Transactions for which a waiver has been sought have been entered into in the ordinary and usual course of the Company's business, on normal commercial terms or better, that are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole;
- (b) the proposed annual caps of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (c) it is in the normal business practice of the Company and in the interests of the Company and the Shareholders as a whole to enter into the IP Licensing Framework Agreement with a term longer than three years; and
- (d) the non-monetary annual cap of the Technology and Traffic Support Services Framework Agreement set out above is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Upon Listing, our Board will consist of nine Directors, including one executive Director, five non-executive Directors and three independent non-executive Directors. The following table sets out certain information in respect of our Directors:

Name	Age	Position(s)	Date of joining our Group	Date of appointment	Roles and responsibilities
Directors					
Lijun Xin (辛利軍)	47	Executive Director and chief executive officer	February 2014	June 28, 2019	Overall strategic planning and business direction
Richard Qiangdong Liu (劉強東)	47	Chairman and non-executive Director	September 2020	September 14, 2020	Provide strategic advice to the Board
Lei Xu (徐雷)	46	Non-executive Director	June 2019	June 28, 2019	Provide strategic advice to the Board
Sandy Ran Xu (許冉)	43	Non-executive Director	August 2020	August 21, 2020	Provide strategic advice to the Board
Yayun Li (李婭雲)	40	Non-executive Director	August 2020	August 21, 2020	Provide strategic advice to the Board
Qingqing Yi	48	Non-executive Director	August 2020	August 21, 2020	Provide strategic advice to the Board
Xingyao Chen (陳興堯)	46	Independent non-executive director	November 26, 2020	November 26, 2020	Provide independent opinion and judgment to the Board
Ling Li (李玲)	59	Independent non-executive director	November 26, 2020	November 26, 2020	Provide independent opinion and judgment to the Board
Wenyi Huang (黃文藝)	49	Independent non-executive director	November 26, 2020	November 26, 2020	Provide independent opinion and judgment to the Board

Executive Director

Lijun Xin (辛利軍), aged 47, is an executive Director and the chief executive officer of the Group. Mr. Xin is responsible for the Company's overall strategic planning and business direction.

Prior to his appointment as the chief executive officer of our Group in July 2019, Mr. Xin had been serving various positions within JD.com since October 2012. Mr. Xin was in charge of JD.com's third-party platform covering multiple business categories including home furnishing and apparel, and was subsequently in charge of different business groups or departments of JD Retail, such as the Home Business Department of Home Lifestyle Business Group and the Lifestyle and Services Business Group.

Before joining JD.com in October 2012, Mr. Xin had worked as general manager at Beijing Baishitongchuang Trading Co., Ltd. (北京佰世同創商貿有限公司).

Mr. Xin received a bachelor's degree of science in electrical engineering and automation from Shanghai Jiao Tong University (上海交通大學) in 1995 and an EMBA from China Europe International Business School (中歐國際工商學院) in August 2018.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Richard Qiangdong Liu (劉強東), aged 47, is a non-executive Director and chairman of the Board. Mr. Liu has been the chairman and chief executive officer of JD.com since its inception. Mr. Liu founded JD.com's business in 2004 and has guided its development and growth since then. In December 2011, Mr. Liu received the prestigious award "2011 China Economic Person of the Year" from CCTV, China's largest nationwide television network. Mr. Liu has received numerous other awards for his achievements in the e-commerce industry in China, such as "2011 Chinese Business Leader" and Fortune China's "2012 Chinese Businessman." Mr. Liu currently serves as the chairman and director of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020.

Mr. Liu received his bachelor's degree in sociology from Renmin University of China (中國人民大學) in July 1996 and an EMBA from China Europe International Business School (中歐國際工商學院) in October 2011.

Lei Xu (徐雷), aged 46, is a non-executive Director. Mr. Xu joined JD.com in 2009 and is serving as the chief executive officer of JD Retail of JD.com, responsible for the development, operation and strategy of JD.com retail business, both online and offline. Since joining JD Group in 2009, Mr. Xu has held several leadership roles within the sales and marketing divisions of JD Group's retail business, including head of marketing and branding, head of JD Wireless, and head of JD Group's marketing and platform operations. Under his leadership, JD Group successfully rebranded itself from 360buy to JD.com and launched its popular mascot, Joy. Mr. Xu was responsible for the launch of JD Plus, as well as JD Group's Super Brand Day strategic marketing program. He also leads JD Group's Kepler open platform, a key pillar of JD Group's "Retail as a Service" strategy that leverages JD Group's strengths in logistics, marketing, financial services, and other areas to help partners to expand their online businesses. Before joining JD.com, Mr. Xu held several senior management roles in marketing and operations at Lenovo, Allyes and Belle E-Commerce. Mr. Xu currently serves as a director of Dada Nexus Limited, whose shares have been listed on the NASDAQ (ticker: DADA) since June 2020.

Mr. Xu received an EMBA from China Europe International Business School (中歐國際工商學院) in October 2013.

Sandy Ran Xu (許冉), aged 43, is a non-executive Director. Ms. Xu joined JD.com in 2018 and has served as the chief financial officer of JD.com since June 2020. From July 2018 to May 2020, Ms. Xu oversaw group finance, accounting and tax functions in addition to serving as chief financial officer of JD Retail Business Group of JD Group, where she played a critical role in improving JD Retail's financial and operational performance in 2019. Prior to joining JD.com, Ms. Xu was an audit partner and spent nearly 20 years with PricewaterhouseCoopers Zhong Tian LLP, Beijing office and PricewaterhouseCoopers LLP, San Jose office. Ms. Xu was a Certified Public Accountant in both China and the United States. Ms. Xu currently serves as a director (and member of the compensation committee and nominating and corporate governance committee) of Dada Nexus Limited, whose shares have been listed on the NASDAQ (ticker: DADA) since June 2020, and a director of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020.

Ms. Xu received her bachelor's degree with a double major in information science and economics from Peking University (北京大學) in July 1998.

DIRECTORS AND SENIOR MANAGEMENT

Yayun Li (李嫻雲), aged 40, is a non-executive Director. Ms. Li joined JD.com in December 2007 and serves as the chief compliance officer of JD.com, overseeing compliance, legal affairs and internal audits, as well as information security. Ms. Li also previously served as vice president of the compliance department and head of the legal team of JD.com. Ms. Li currently serves as a supervisor of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020.

Ms. Li received a master's degree in law from Renmin University of China (中國人民大學) in July 2006 and an EMBA from China Europe International Business School (中歐國際工商學院) in November 2018.

Qingqing Yi, aged 48, is a non-executive Director. Mr. Yi is a partner at Hillhouse Capital. He has been with Hillhouse since 2005. Mr. Yi's work at Hillhouse includes investments in the healthcare sectors. Mr. Yi is also a director of HM Healthcare, a member of Hillhouse. Mr. Yi currently serves as a director of BeiGene, Ltd., whose shares are listed on the Stock Exchange (stock code: 6160) and on NASDAQ (ticker: BGNE), since October 2014, a director of Shanghai Junshi Biosciences Co., Ltd., whose shares have been listed on the Stock Exchange (stock code: 1877) and Shanghai Stock Exchange (SHA: 688180), since December 2016 and a director of JHBP (CY) Holdings Limited, whose shares are listed on the Stock Exchange (stock code: 6998), since December 3, 2018.

Mr. Yi received his bachelor of science degree in engineering from Shanghai Maritime University (上海海事大學) in July 1995 and a master's degree of business administration from University of Southern California in May 2003.

Independent Non-executive Directors

Xingyao Chen (陳興堯), aged 46, is an independent non-executive Director. Mr. Chen served as the chief financial officer of New Hope Liuhe Co., Ltd. (新希望六和股份有限公司) (“**New Hope Liuhe**”) (SZSE Stock Code: 000876) from November 2011 to January 2017 and as its vice president from May 2013 to January 2017. Since March 2015, he has served as president of New Hope Huinong (Tianjin) Technology Co., Ltd. (新希望慧農(天津)科技有限公司), an affiliate of New Hope Liuhe, responsible for, among other things, supervision of its operations and major financial decisions, and review of financial reports.

Mr. Chen received his bachelor's degree in materials science and engineering and his master degree in materials science from Beihang University (北京航空航天大學) in July 1996 and March 1999, respectively. Mr. Chen also received a MBA from Tsinghua University (清華大學) in July 2005 and an EMBA from China Europe International Business School (中歐國際工商學院) in July 2011.

Ling Li (李玲), aged 59, is an independent non-executive Director. Ms. Li has served as the director of PKU China Center for Health Development Studies (北京大學中國健康發展研究中心) since June 2015. Ms. Li has worked as a doctoral supervisor and held professorship at National School of Development at Peking University (北京大學國家發展研究院) since July 2008. Prior to that, Ms. Li had served as the deputy director, a doctoral supervisor and held professorship at China Center for Economic Research (北京大學中國經濟研究中心) from August 2003 to June 2008. Ms. Li worked as an assistant professor from 1994 to 2000 and later as an associate professor with tenure from 2000 to 2003 at Towson University. Ms. Li taught Wuhan University (武漢大學) from September 1982 to February 1987. Ms. Li obtained an independent director qualification certificate issued by the Shanghai Stock Exchange in March 2019. Ms. Li serves as an independent non-executive director of Shanghai

DIRECTORS AND SENIOR MANAGEMENT

Fosun Pharmaceutical (Group) Co., Ltd., whose shares are listed on the Stock Exchange (stock code: 2196) since June 2019. Ms. Li had served as an independent non-executive director of Sinopharm Group Co. Ltd., whose shares are listed on the Stock Exchange (stock code: 1099), from December 2012 to December 2018.

Ms. Li currently also serves as the vice chairman of China Health Economics Association, a member of the State Council Health Reform Advisory Commission, a member of National Health and Family Planning Commission on public policy, an evaluation expert in the Pilot Project of Urban Resident Basic Medical Insurance implemented by the State Council, an advisor to the Beijing Municipal Government, an advisor to the pharmaceutical and healthcare reform of Guangdong Province and the vice chairman of Gerontological Society of China.

Ms. Li received her bachelor's in physics from Wuhan University (武漢大學) in August 1982 and her master's degree and PhD in economics from the University of Pittsburgh in September 1990 and August 1994, respectively.

Wenyi Huang (黃文藝), aged 49, is an independent non-executive Director. Mr. Huang currently holds professorship and serves as a doctoral supervisor at Renmin University of China (中國人民大學). Prior to that, Mr. Huang held a professorship and served as a doctoral supervisor at Jilin University (吉林大學) during the period from December 2004 to December 2010. During the period from December 2010 to April 2015, Mr. Huang served as an associate dean at Jilin Academy of Social Sciences (吉林省社會科學院). From 2015 to 2019, Mr. Huang served as deputy director of research office of Committee of Political and Legal Affairs of the CPC Central Committee (中共中央政法委員會研究室). Mr. Huang was admitted as a practicing lawyer in the PRC since June 1996.

Mr. Huang received his bachelor of laws degree in economic law and a master of laws degree from Jilin University (吉林大學) in July 1993 and January 1996, respectively. Mr. Huang received his doctor of laws degree in jurisprudence in July 1999 from Renmin University of China (中國人民大學).

There is no material matter relating to our Directors that needs to be brought to the attention of our Shareholders and the information of our Directors disclosed in this document comply with the requirements under Rule 13.51(2) of the Listing Rules in all material respects.

SENIOR MANAGEMENT

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

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Date of joining our Group</u>	<u>Date of appointment</u>	<u>Roles and responsibilities</u>
Dong Cao (曹冬)	44	Chief financial officer	February 2014	April 2019	Responsible for the Company's finance and investments

Dong Cao (曹冬), aged 44, is the chief financial officer of the Company and oversees the finance and investments of our Group. Mr. Cao held different positions within JD.com from January 2012 to April 2019. Mr. Cao served as the director of the auditing department of JD.com from January 2012 to November 2013 and subsequently was in charge of the accounting center of finance department of JD.com from November 2013 to August 2014. He was the responsible person of the

DIRECTORS AND SENIOR MANAGEMENT

reporting division of the operation analysis department of JD.com from August 2014 to April 2015. Between April 2015 and April 2019, Mr. Cao served as the head of the analysis function of the budget and analysis department and subsequently the head of the budget and analysis department within JD.com. Mr. Cao served as the financial controller at Beijing Ruiwodi International Education Technology Development Co., Ltd. (北京瑞沃迪國際教育科技發展有限公司) from October 2009 to December 2011. Mr. Cao had served at New Oriental Education & Technology Group Inc. from January 2004 to June 2009, with his last position held as a senior auditing manager. Mr. Cao was accredited as a Certified Public Accountant by Beijing Institute of Certified Public Accountants in September 2010 and was also accredited as a Certified Internal Auditor by China Institute of Internal Audit in November 2004.

Mr. Cao received his bachelor of science degree in financial management from China University of Petroleum (中國石油大學) in July 1999. Mr. Cao received a master's degree in international trade from University of International Business and Economics (對外經濟貿易大學) in July 2002.

COMPANY SECRETARY

Chiu Ming King (趙明璟), our company secretary, is an executive director of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field. He is currently (1) the joint company secretary of Shanghai Haohai Biological Technology Co., Ltd., a main board listed company in Hong Kong (stock code: 6826); (2) the joint company secretary of Kunming Dianchi Water Treatment Co., Ltd., a main board listed company in Hong Kong (stock code: 3768); (3) the company secretary of Grace Wine Holdings Limited, a GEM listed company in Hong Kong (stock code: 8146); (4) the joint company secretary of AAG Energy Holdings Limited, a main board listed company in Hong Kong (stock code: 2686); (5) the joint company secretary of CanSino Biologics Inc., a main board listed company in Hong Kong (stock code: 6185); (6) the company secretary of Sheng Yuan Holdings Limited, a main board listed company in Hong Kong (stock code: 851) and (7) the company secretary of Loco Hong Kong Holdings Limited, a GEM listed company in Hong Kong (stock code: 8162).

Mr. Chiu was elected as an associate and a fellow of The Chartered Governance Institute in the United Kingdom in 2003 and 2015, respectively, and admitted as an associate and a fellow of The Hong Kong Institute of Chartered Secretaries (“HKICS”) in October 2003 and September 2015, respectively. He is also a holder of the Practitioner's Endorsement Certificate issued by HKICS. He has been a vice chairman of the Membership Committee, a chairman of the Professional Services Panel and a council member of HKICS.

Mr. Chiu obtained his bachelor of arts degree from University of Toronto in Canada in June 1999 and received his master of arts degree in professional accounting and information systems from City University of Hong Kong in November 2003.

Management and corporate governance

Board Committees

Audit committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the

DIRECTORS AND SENIOR MANAGEMENT

Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and provide advice and comments to the Board. The audit committee comprises three members, namely Xingyao Chen (陳興堯), Wenyi Huang (黃文藝) and Sandy Ran Xu (許冉), with Xingyao Chen (陳興堯) (being our independent non-executive Director with the appropriate professional qualifications) as chair of the audit committee.

Remuneration committee

We have established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration committee comprises three members, namely Xingyao Chen (陳興堯), Ling Li (李玲) and Yayun Li (李婭雲), with Xingyao Chen (陳興堯) as chair of the remuneration committee.

Nomination committee

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The nomination committee comprises three members, namely Richard Qiangdong Liu (劉強東), Wenyi Huang (黃文藝) and Ling Li (李玲), with Richard Qiangdong Liu (劉強東) as chair of the nomination committee.

Corporate Governance Code

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

Board diversity

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

Management presence

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be

DIRECTORS AND SENIOR MANAGEMENT

ordinarily resident in Hong Kong. We do not have sufficient management presence in Hong Kong for the purposes of Rule 8.12 of the Listing Rules.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. See “Waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance” for further details.

Remuneration

Our Directors receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf. For the details of the service contracts and appointment letters that we have entered into with our Directors, see the section headed “Statutory and General Information—C. Further Information about our Directors—1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans, share-based compensation expenses and discretionary bonuses) for our Directors for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was approximately RMB25.0 million, RMB26.0 million, RMB19.3 million and RMB7.0 million, respectively. Further information on the remuneration of each Director during the Track Record Period is set out in the Accountants’ Report as set out in Appendix I to this document. For details relating to our Pre-IPO ESOP, please see the section headed “Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in Appendix IV to this document.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the financial year ending December 31, 2020 is expected to be approximately RMB4 million.

The five highest paid individuals of our Group for the year ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included 1 Director. The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for the remaining highest paid individuals for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was approximately RMB7.1 million, RMB10.8 million, RMB18.6 million and RMB11.8 million, respectively.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 by our Company to our Directors.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

DIRECTORS AND SENIOR MANAGEMENT

Compliance Adviser

We have appointed Haitong International Capital Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company, among others, in the following circumstances:

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

The term of appointment of the Compliance Adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme) the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group:

<u>Name of Shareholder</u>	<u>Capacity / Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company after the Global Offering</u>
JD Jiankang ⁽¹⁾	Beneficial owner	2,149,253,732	68.73%
JD.com ⁽¹⁾	Interest in controlled corporations	2,149,253,732	68.73%

Note:

(1) JD Jiankang is wholly-owned by JD.com. Under the SFO, JD.com is deemed to be interested in and control the 2,149,253,732 Shares held by JD Jiankang.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme), have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each a “**Cornerstone Investment Agreement**”, and together the “**Cornerstone Investment Agreements**”) with the cornerstone investors set out below (each a “**Cornerstone Investor**”, and together the “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe, or cause their designated entities to subscribe, for such number of Offer Shares (rounded down to the nearest whole board lot of 50 Shares) which may be purchased with an aggregate amount of approximately US\$1,350 million (approximately HK\$10,467 million) (calculated based on the conversion rate of 7.7526) at the Offer Price (the “**Cornerstone Placing**”), assuming a final Offer Price of HK\$70.58 per Share.

The Cornerstone Placing will form part of the International Offering, and the Cornerstone Investors will not acquire any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be acquired by the Cornerstone Investors will rank *pari passu* in all respect with the fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules.

Immediately following the completion of the Global Offering, the Cornerstone Investors will not become substantial shareholders of our Company and, save for Hillhouse Capital, the Cornerstone Investors will not have any Board representation in our Company. To the best knowledge of our Company, each of the Cornerstone Investors (i) is an Independent Third Party, (ii) is independent of other Cornerstone Investors, (iii) is not financed by us, our Directors, chief executive, existing Shareholders (save that each of Gaoling Fund, L.P. and YHG Investment, L.P. (together, “**Hillhouse**”) is financed by close associates of SUM XI Holdings Limited which is an existing Shareholder) or any of its subsidiaries or their respective close associates, and (iv) is not accustomed to take instructions from us, our Directors, chief executive, existing Shareholders (save that Hillhouse is accustomed to take instructions from close associates of SUM XI Holdings Limited which is an existing Shareholder) or any of its subsidiaries or their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in their name or otherwise held by them. There are no side arrangements between us and the Cornerstone Investors. Save for our existing Shareholders, we became acquainted with each of the Cornerstone Investors through introduction by certain Underwriters. As confirmed by each Cornerstone Investor, their subscription under the Cornerstone Placing would be financed by their own internal financial resources and/or the financial resources of their shareholders.

There will be no delayed delivery or deferred settlement of Offer Shares to be subscribed by the Cornerstone Investors and the consideration will be settled by the Cornerstone Investors on or before the Listing Date. The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation in the event of over-subscription under the Hong Kong Public Offering, as described in “Structure of the Global Offering—The Hong Kong Public Offering—Reallocation”. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around December 7, 2020.

Among the Cornerstone Investors, Gaoling Fund, L.P. and YHG Investment, L.P., are affiliates of SUM XI Holdings Limited (“**SUM XI**”) which is an existing Shareholder of the Company. Hillhouse Capital Management, Ltd. (“**Hillhouse Capital**”) acts as the sole management company of Hillhouse Fund IV, L.P., which owns SUM XI, an exempted company incorporated under the laws of Cayman Islands. As of the date of this document, Hillhouse Capital, through SUM XI, holds 4.34% of our total issued and outstanding Shares.

CORNERSTONE INVESTORS

Pursuant to a letter agreement entered into between the Company and SUM XI on August 21, 2020, SUM XI and/or one or more of its designated affiliates is entitled to, on certain conditions, purchase, as a cornerstone investor and at the Offer Price, Shares to be issued by the Company as part of the Global Offering up to an amount that is equal to a percentage of the total offering size of the Global Offering, with such percentage being the lower of (a) 4.5% or (b) the shareholding percentage that SUM XI holds in the total Shares of the Company on a fully diluted basis immediately prior to the Global Offering (the “**Anti-Dilution Right**”).

Affiliates of SUM XI have been permitted to participate in the Cornerstone Placing by a waiver from strict compliance with Rule 10.04 of and consent pursuant to paragraph 5(2) of Appendix 6 to the Listing Rules. For details of the waiver application, please refer to the section headed “Waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Waiver and consent in relation to the subscription of Offer Shares by SUM XI (through its affiliate)”. Hillhouse Capital, through Gaoling Fund, L.P. and YHG Investment, L.P., exercised the Anti-dilution Right by way of subscribing for shares in the Company as a cornerstone investor.

THE CORNERSTONE INVESTORS

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

1. Hillhouse

Gaoling Fund, L.P. and YHG Investment, L.P. (“**Hillhouse**”) are limited partnerships formed under the laws of the Cayman Islands. Hillhouse Capital Advisors, Ltd. serves as the sole investment manager of Gaoling Fund, L.P. and the general partner of YHG Investment, L.P.. Hillhouse Capital Advisors, Ltd. is an affiliate of Hillhouse Capital.

Founded in 2005, Hillhouse Capital is a global firm of investment professionals and operating executives who are focused on building and investing in high quality business franchises that achieve sustainable growth. Independent proprietary research and industry expertise, in conjunction with world-class operating and management capabilities, are key to Hillhouse Capital’s investment approach. Hillhouse Capital partners with exceptional entrepreneurs and management teams to create value, often with a focus on enacting innovation and technological transformation. Hillhouse Capital invests in the healthcare, consumer, TMT, advanced manufacturing, financial and business services sectors in companies across all equity stages. Hillhouse Capital and its group members manage assets on behalf of institutional clients such as university endowments, foundations, sovereign wealth funds, and family offices.

2. Tiger Global

Internet Fund IIIA Pte Ltd (“**Tiger Global**”), is a private limited company incorporated under the laws of Singapore, and is an private investment fund focused on public and private companies in the global Internet, software, consumer, and financial technology industries. The ultimate controlling shareholder of Internet Fund IIIA Pte Ltd is Tiger Global Singapore Pte. Ltd., whose principal activities are investment advisory services.

3. Lake Bleu Prime

Lake Bleu Capital (Hong Kong) Limited (清池資本(香港)有限公司) acts as the investment manager to Lake Bleu Prime Healthcare Master Fund Limited (“**Lake Bleu Prime**”). Lake Bleu Prime, an Exempted Company incorporated in the Cayman Islands, is a long-bias public equity fund with investments focused on Asia/Greater China healthcare, including pharmaceuticals, biotech, medical devices, and healthcare services.

4. China Structural Reform Fund

China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) (“**China Structural Reform Fund**”) is a company incorporated in the PRC which is indirectly controlled by State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會). It is mainly engaged in business including non-public raising funds, equity investment, project investment, capital management, investment consulting and enterprise management consulting. For the purpose of this cornerstone investment, China Structural Reform Fund has engaged ICBC Credit Suisse Asset Management Co., Ltd. (工銀瑞信基金管理有限公司) (“**ICBCCS**”), an asset manager that is a qualified domestic institutional investor as approved by the relevant PRC authority, to subscribe for and hold such offer shares on a discretionary basis on behalf of China Structural Reform Fund.

ICBC International Capital Limited has been appointed by the Company as one of the Joint Global Coordinators and Joint Bookrunners, while ICBC International Securities Limited has been appointed by the Company as one of the Joint Lead Managers and Underwriters (together, the “**Connected Syndicate Members**”). ICBCCS is owned by Industrial and Commercial Bank of China Limited (“**ICBC**”) as to 80%, and each of the Connected Syndicate Members is indirectly wholly owned by ICBC. ICBCCS is in the same group of companies as the Connected Syndicate Members and is therefore a connected client of each of the Connected Syndicate Members under paragraph 13(7) of Appendix 6 to the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, its consent pursuant to paragraph 5(1) of Appendix 6 to the Listing Rules for China Structural Reform Fund to participate as a cornerstone investor in the Global Offering through ICBCCS, subject to the conditions as disclosed in the section “Waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Consent in relation to allocation of Shares to a connected client of one of the Joint Bookrunners”.

5. GIC

GIC Private Limited (“**GIC**”) is a global investment management company established in 1981 to manage Singapore’s foreign reserves. GIC invests internationally in equities, fixed income, foreign exchange, commodities, money markets, alternative investments, real estate and private equity. With its current portfolio size of more than US\$100 billion, GIC is amongst the world’s largest fund management companies.

6. BlackRock

Investment management subsidiaries of BlackRock, Inc. (“**BlackRock**”) have discretionary investment management power over BlackRock Global Allocation Fund, Inc., BlackRock Global Allocation V.I. Fund of BlackRock Variable Series Funds, Inc., BlackRock Global Allocation Portfolio of BlackRock Series Fund, Inc., BlackRock Global Allocation Fund (Australia), BlackRock Global Funds—Global Allocation Fund, BlackRock Global Funds—Global Dynamic Equity Fund, BlackRock Capital Allocation Trust, BlackRock Science and Technology Trust, BlackRock Technology Opportunities Fund of BlackRock Funds, BlackRock Global Funds—World Technology Fund, BlackRock Health Sciences Trust II, BlackRock Health Sciences Opportunities Portfolio of BlackRock Funds, BlackRock Health Sciences Master Unit Trust, BlackRock Global Funds—World

CORNERSTONE INVESTORS

Healthscience Fund, and BlackRock Health Sciences Trust (each, a “**BlackRock Fund**”, and collectively the “**BlackRock Funds**”). BlackRock is listed on the New York Stock Exchange (stock code: BLK). As of September 30, 2020, the firm managed approximately US\$7.81 trillion in assets on behalf of investors worldwide. BlackRock’s shareholders’ and New York Stock Exchange’s approval are not required for BlackRock Funds’ subscription for the Offer Shares pursuant to the Cornerstone Investment Agreement.

CORNERSTONE INVESTORS

The table below sets forth details of the Cornerstone Placing:

Cornerstone Investor	Total investment amount ⁽¹⁾	Assuming a final Offer Price of HK\$62.80 per Share (being the low-end of the indicative Offer Price range)				Assuming a final Offer Price of HK\$66.69 per Share (being the mid-point of the indicative Offer Price range)				Assuming a final Offer Price of HK\$70.58 per Share (being the high-end of the indicative Offer Price range)			
		Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised		Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised		Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised	
		Number of Offer Shares to be acquired ⁽²⁾	Approximate % of Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾	Number of Offer Shares to be acquired ⁽²⁾	Approximate % of Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾	Number of Offer Shares to be acquired ⁽²⁾	Approximate % of Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾
Hillhouse . . .	US\$134-151 million	16,584,000	4.34%	0.53%	3.78%	16,584,000	4.34%	0.53%	3.78%	16,584,000	4.34%	0.53%	3.78%
Tiger	US\$300 million	37,034,600	9.70%	1.18%	8.43%	34,874,350	9.13%	1.12%	7.94%	32,952,250	8.63%	1.05%	7.50%
Lake Bleu	US\$100 million	12,344,850	3.23%	0.39%	2.81%	11,624,750	3.04%	0.37%	2.65%	10,984,050	2.88%	0.35%	2.50%
China Structural Reform Fund	US\$199 million	24,592,900	6.44%	0.79%	5.60%	23,158,400	6.06%	0.74%	5.27%	21,882,050	5.73%	0.70%	4.98%
GIC	US\$350 million	43,207,000	11.31%	1.38%	9.84%	40,686,750	10.65%	1.30%	9.26%	38,444,300	10.07%	1.23%	8.75%
BlackRock	US\$250 million	30,862,150	8.08%	0.99%	7.03%	29,061,950	7.61%	0.93%	6.62%	27,460,200	7.19%	0.88%	6.25%
Total	US\$1,334-1,350 million	164,625,500	43.11%	5.26%	37.48%	155,990,200	40.85%	4.99%	35.52%	148,306,850	38.83%	4.74%	33.77%

Notes:

- (1) Calculated based on an exchange rate of US\$1.00 to HK\$7.7526 as described in the section headed "Information about this document and the Global Offering—Exchange Rate Conversion". The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate prescribed in the relevant Cornerstone Investment Agreement.
- (2) Subject to rounding down to the nearest whole board lot of 50 Shares.
- (3) Immediately upon the completion of the Global Offering and excluding Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme.

CORNERSTONE INVESTORS

CLOSING CONDITIONS

The subscription obligation of each Cornerstone Investor under the respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

- (a) the underwriting agreements for the Hong Kong Public Offering and the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Underwriting Agreements, and neither of the aforesaid underwriting agreements having been terminated;
- (b) the Offer Price having been agreed upon between our Company and the representatives of the Joint Global Coordinators (for themselves and on behalf of the underwriters of the Global Offering);
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares (including the Shares subscribed for by the Cornerstone Investors) as well as other applicable waivers and approvals, and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the respective Cornerstone Investment Agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the representations, warranties, undertakings and confirmations of such Cornerstone Investor or our Company (as the case may be) under the respective Cornerstone Investment Agreement are accurate and true in all material respects and not misleading and that there is no material breach of such Cornerstone Investment Agreement on the part of such Cornerstone Investor or our Company (as the case may be).

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Offer Shares they have purchased pursuant to the relevant Cornerstone Investment Agreement, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of our authorized share capital and the amount in issue and to be issued as fully paid or credited as fully paid immediately prior to and following completion of the Global Offering assuming that (i) the Global Offering becomes unconditional and the Offer Shares are issued pursuant to the Global Offering, (ii) the Over-allotment Option is not exercised, (iii) shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme are not issued and (iv) each Preference Share is converted into one Share:

Authorized share capital at the date of this document

<u>Shares</u>	<u>Approximate aggregate nominal value of Shares</u>
100,000,000,000	US\$50,000

Issued Share Capital

The issued share capital of our Company immediately following the completion of the Global Offering will be as follows:

<u>Number of shares</u>	<u>Description of Shares</u>	<u>Approximate aggregate nominal value of Shares (US\$)</u>	<u>% of the issued share capital</u>
2,745,182,111	Shares in issue as of the date of this document	1,372.59	87.79%
381,900,000	Shares to be issued under the Global Offering	190.95	12.21%
3,127,082,111	Shares in total	1,563.54	100.00%

The tables above do not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

Ranking

The Offer Shares are ordinary shares in our share capital and rank equally with all Shares currently in issue and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meeting and class meeting are required

Our Company may by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may reduce its share capital or capital redemption reserve by its shareholders passing a special resolution.

See “Summary of the constitution of our Company and Cayman Islands company law—2 Articles of Association—2.5 Alteration of capital” in Appendix III to this document for further details.

SHARE CAPITAL

Subject to the Cayman Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

See “Summary of the constitution of our Company and Cayman Islands company law—2 Articles of Association—2.4 Variation of rights of existing shares or classes of shares” in Appendix III to this document for further details.

General mandate to issue Shares

Subject to the Global Offering becoming unconditional, our Directors were granted a general mandate to allot, issue and deal with any Shares or securities convertible into Shares of not more than the sum of:

- 20% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and excluding any Shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme); and
- the total number of Shares repurchased by our Company pursuant to the authority referred to in “—General mandate to repurchase Shares” below.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

General mandate to repurchase Shares

Subject to the Global Offering becoming unconditional, our Directors were granted a general mandate to repurchase our own Shares up to 10% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and excluding any Shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme).

This mandate only relates to repurchases on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, and in accordance with all applicable laws and the requirements under the Listing Rules or equivalent rules or regulations of any other stock exchange as amended from time to time.

SHARE CAPITAL

This general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

See “Statutory and General Information—A. Further Information About Our Group—5. Explanatory Statement on Repurchase of Our Own Securities” in Appendix IV to this document for further details of this general mandate to repurchase Shares.

Share Incentive Schemes

We adopted the Pre-IPO ESOP on September 14, 2020. See “Statutory and General Information—D. Share Incentive Schemes—1. Pre-IPO ESOP” in Appendix IV to this document for further details.

We adopted the Post-IPO Share Option Scheme on November 23, 2020. See “Statutory and General Information—D. Share Incentive Schemes—2. Post-IPO Share Option Scheme” in Appendix IV to this document for further details.

We adopted the Post-IPO Share Award Scheme on November 23, 2020. See “Statutory and General Information—D. Share Incentive Schemes—3. Post-IPO Share Award Scheme” in Appendix IV to this document for further details.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited combined financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included in the Accountants' Report set out in Appendix I to this document, together with the respective accompanying notes. Our audited combined financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs").

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

OVERVIEW

We are the largest online healthcare platform and the largest online retail pharmacy by revenue in China in 2019, according to the Frost & Sullivan Report. Our technology-driven platform is centered on the supply chain of pharmaceutical and healthcare products and strengthened by healthcare services, encompassing a user's full life span for all healthcare needs. Through our end-to-end supply chain and online-plus-offline approach, we believe that we can redefine the way users manage personal health.

Retail pharmacy. Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our direct sales business operates mainly through *JD Pharmacy* ("京東大藥房"). We have established a supply chain network with industry-leading pharmaceutical companies and healthcare product suppliers. In addition, we partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses and over 230 other warehouses as of June 30, 2020. Our online marketplace leverages our brand recognition, large and growing user base, and proprietary technology platform, and offers more diversified pharmaceutical and healthcare products that supplement those of *JD Pharmacy*. Our omnichannel initiative meets users' needs for urgent medication and offers same-day, next-day and 30-minute, 24/7 on-demand delivery services. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. In 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, revenue from our retail pharmacy business accounted for a majority of our total revenue, of which (i) sales of pharmaceutical and healthcare products accounted for 88.4%, 88.8%, 87.0%, 87.5% and 87.6% of our total revenue, respectively and (ii) the marketplace service revenue accounted for 7.9%, 7.4%, 7.3%, 7.3% and 6.8% of our total revenue, respectively.

Online healthcare services. In addition to our retail pharmacy business, we also provide comprehensive online healthcare services, such as online consultation and prescription renewal, chronic disease management, family doctor and consumer healthcare. These services are offered on a 24/7 basis, providing a convenient and trustworthy user experience. We have assembled a team of in-house doctors and external medical professionals across departments and specialties and partnered with numerous third-party hospitals and healthcare institutions. By providing our strong supply chain capabilities and technology-driven solutions, our platform connects doctors and hospitals with users,

FINANCIAL INFORMATION

and extends their service capabilities to cover preventive care, aftercare and health management. In addition, we are developing our consumer healthcare services. By collaborating with offline consumer healthcare institutions, our platform allows users to make appointments and pay for services such as general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. During the COVID-19 pandemic, we were the first company in China to offer online appointments for COVID-19 nucleic acid testing service. For each period of the Track Record Period, revenue from our online healthcare services accounted for an insignificant portion of our total revenue.

We have experienced significant growth during the Track Record Period. Our total revenue increased from RMB5.6 billion in 2017 to RMB8.2 billion in 2018 and further to RMB10.8 billion in 2019. Our total revenue increased from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020.

In 2017, 2018 and 2019, we recorded a profit of RMB178.5 million, a profit of RMB214.9 million and a loss of RMB971.8 million, respectively. For the six months ended June 30, 2019 and June 30, 2020, we recorded a profit of RMB236.3 million and a loss of RMB5.4 billion, respectively. The loss recorded in 2019 and for the six months ended June 30, 2020 was primarily attributable to an increase in the fair value of Series A Preference Shares in 2019 and for the six months ended June 30, 2020 as a result of an increase in our equity value.

Excluding the impact of fair value changes of convertible preferred shares and a few other non-recurring items, we had (i) a non-IFRS profit of RMB209.0 million in 2017, RMB248.4 million in 2018 and RMB344.1 million in 2019, and (ii) a non-IFRS profit of RMB254.0 million for the six months ended June 30, 2019 and RMB370.8 million for the six months ended June 30, 2020. See “Financial Information—Non-IFRS Measure: Non-IFRS Profit For the Year/Period” for more details on this non-IFRS measure.

BASIS OF PRESENTATION

We were incorporated as an exempted company with limited liability under the laws of the Cayman Islands in November 2018. Immediately prior to the incorporation of our Company, our business was managed by JD.com, Inc. We have become the holding company of the business previously managed by JD.com, Inc. after a series of reorganization transactions, including obtaining control over and becoming the primary beneficiary of Suqian Tianning by entering into a series of contractual arrangements with Suqian Tianning and its shareholders. In addition, we are in the process of a spin-off for our remaining business operations conducted under certain subsidiaries and consolidated affiliated entities of JD Group (collectively the “Remaining Listing Business”), which includes the transfer of relevant management and employees, operating assets and liabilities, retained profits, as well as the replacement of the counterparty of business contracts to us. We refer to such reorganization and spin-off transactions collectively as the Reorganization in this document. We had not been involved in any other business prior to the Reorganization. The Reorganization was merely a recapitalization of our business with no change in the management of such business. Accordingly, the business we are operating is regarded as a continuation of the business previously operated by JD Group, and the historical financial information of our Group has been prepared and presented using the carrying value for all periods presented as if the Reorganization had been completed before the Track Record Period. To the extent the assets, liabilities, income and expenses that are specifically identified to our business, such items are included throughout the Track Record Period.

FINANCIAL INFORMATION

We have adopted a “carve-out” approach to present our financial information in accordance with the “Carve outs” section in the HKSIR 200 and taken into consideration the recognition, measurement, presentation and disclosure requirements under IFRS, and disclosed the basis of preparation and presentation of historical financial information on pages 293 to 297 and pages I-13 to I-17 in the Accountants’ Report as set out in Appendix I to this document.

The combined statements of profit or loss, combined statements of comprehensive income/ (loss), the combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group and the Remaining Listing Business as if the current group structure had been in existence and the Listing Business had been operated by the Group throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period.

The combined statements of financial position of the Group as of December 31, 2017, 2018, 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the companies now comprising the Group and the Remaining Listing Business at the carrying amounts shown in the financial statements of the relevant entities, as if the current group structure had been in existence and the Listing Business had been operated by the Group at those dates taking into account their respective dates of incorporation.

To the extent the assets, liabilities, income and expenses are specifically identified to our business, such items are included throughout the Track Record Period. To the extent the assets, liabilities, income and expenses that are impracticable to be identified specifically, these items are allocated to us on the basis set out below (such items include certain fulfillment expenses, selling and marketing expenses, research and development expenses, general and administrative expenses and income tax expense). Items that do not meet the criteria above are not included in the historical financial information of the Group.

During the Track Record Period, our Remaining Listing Business were operated by certain subsidiaries and consolidated affiliated entities of JD Group, which had not been controlled by us. Accordingly, the sales and procurement contracts of the Remaining Listing Business were contracted under the name of entities of JD Group other than the entities controlled by us. Taken into consideration of (1) we were not legally entitled to collect or obligated to pay for the transactions in relation to our Remaining Listing Business operated by JD Group, but JD Group had such rights and obligations; (2) we did not maintain separate bank accounts in relation to the Remaining Listing Business since the treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group and the net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group; (3) we did not enter into any separation agreements with JD Group, the trade receivables and trade payables of JD Group attributable to our Remaining Listing Business were not recognized as our Group’s financial assets and financial liabilities in accordance with IFRS 9 but recognized as net return to/contribution from JD Group or amount due from/to JD Group as further stated below. The non-IFRS trade receivables and non-IFRS trade payables are presented as if the trade receivables and trade payables of JD Group attributable to our Remaining Listing Business were included in our statement of financial position because we believe that the non-IFRS trade receivables and non-IFRS trade payables are more indicative of our financial position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they

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do to our management. For other financial assets and financial liabilities, such as other receivables and other payables, the consideration and basis aforementioned are also applicable. We expect that the Reorganization will be completed prior to the Listing and accordingly all of such non-IFRS trade receivables and non-IFRS trade payables will be reflected as our trade receivables and payables on our annual report subsequent to the Listing for the following reasons: (1) all of the Remaining Listing Business will have been transferred to the entities of our Group upon completion of Reorganization; (2) we will directly enter into business contracts with the counterparties relating to the Remaining Listing Business under the name of our entities instead of JD Group's therefore we will be legally entitled to collect or obligated to pay the respective amounts under such contracts; (3) we will conduct our business through bank accounts of the entities of our Group, such as the receipt and payment of the sales and purchase of products.

In May 2019, the Company entered into the Series A Share Subscription Agreement, in which certain related party transactions between our Group and JD Group, including logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and others, were established and priced based on the terms effective since the Closing Date. Furthermore, based on the terms stipulated in the Series A Share Subscription Agreement, the accumulated profits and funds generated/ utilized by our Remaining Listing Business since January 1, 2017 should be distributed from / attributable to JD Group.

Prior to the Closing Date of the Series A Preferred Shares financing, for our Remaining Listing Business which was operated by JD Group:

- (1) the revenue, cost of revenue and expenses of such business were recorded in our combined statement of profit or loss based on the actual amounts incurred as those reflect our business results. However, as there were no arrangements between us and JD Group on the distribution of such profits to us, therefore, such profit legally belonged to JD Group and was recorded as "net return to JD Group" in our combined statement of changes in equity as the profit stayed in JD Group.
- (2) the trade receivables and trade payables of such business were not recognized in our combined statements of financial position as our financial assets and liabilities since we did not have the right to receive from customers or obligation to pay to suppliers, instead these were the financial assets and liabilities of JD Group, as JD Group was the party entering into the contracts with the customers or suppliers and had the rights to receive from customers or obligation to pay to suppliers. Such trade receivables and trade payables were recorded as net return to/ contribution from JD Group as they did not meet the definition of financial assets or financial liabilities of our group in accordance with IFRS 9 taking into account the considerations disclosed on previous page. Regarding other financial assets and liabilities, especially the prepayments, other receivables and other assets, and accrued expenses and other payables, we did not recognize in our combined statements of financial positions because they did not meet the definition of financial assets or financial liabilities of our group in accordance with IFRS 9 based on the similar reasons on the treatment of trade receivable and payables as discussed above.
- (3) the cash and cash equivalents generated/used by the Remaining Listing Business did not belong to us as such balances were included in JD Group's bank accounts and the treasury and cash disbursement functions were centrally managed under JD Group.

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- (4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, intangible assets, inventories and contract liabilities, the balances were recorded in our combined statements of financial position since these assets and liabilities have been allocated by JD Group to us through the Reorganization given that they are specifically identified within the Remaining Listing Business and separately managed and controlled by JD Group. We had neither right claims on nor obligation to any third parties, in contrast to financial assets and liabilities such as trade receivables involving the right to receive from customers or trade payables involving obligation to pay to suppliers. Therefore, there is no need for adjustments regarding the assets and liabilities other than financial assets and liabilities.
- (5) there were no related party transactions since no arrangements existed between us and JD Group. Therefore, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to our Remaining Listing Business were carved out from JD Group as all of these transactions and activities were carried out by the Remaining JD Group. These transactions have been recorded in our combined statements of profit or loss based on the actual amounts recognized/incurred by the Remaining JD Group (other than certain expenses that were not able to be specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were our revenue and expenses.

After the Closing Date of Series A Preferred Shares financing, for our Remaining Listing business which was operated by JD Group:

- (1) the revenue, cost of revenue and expenses of such business were recorded in our combined statements of profit or loss based on the related party transactions established in accordance with terms stipulated in the Series A Share Subscription Agreement. For revenue, cost of revenue and expenses that were not covered by the Series A Share Subscription Agreement, they were recorded following the same principle as prior to the Closing Date of Series A Preferred Shares financing. In addition, the profit generated from the Remaining Listing Business was recorded as amounts due from JD Group in our combined statement of financial position as we have the right to receive such profit based on Series A Share Subscription Agreement.
- (2) the trade receivables and trade payables and other financial assets and liabilities were not recognized in our combined statements of financial position as financial assets and liabilities since it was still JD Group that entered into the contracts with customers or suppliers. Such trade receivables and trade payables and other financial assets and liabilities, especially the prepayments, other receivables and other assets, and accrued expenses and other payables, were recorded as amounts due from/to JD Group in our combined statements of financial position, which is different from the treatment prior to the Closing Date of the Series A Preferred Shares financing as discussed on previous page, which were recorded as net return to/ contribution from JD Group. This is mainly because upon the Closing Date of Series A Preferred Shares, we have established the arrangement with JD Group through which we have the right to receive from or obligation to pay JD Group on such trade receivables and trade payables and other financial assets and liabilities.

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- (3) the cash and cash equivalents generated/used by the Remaining Listing Business were also not recorded following the same method as prior to the Closing Date of Series A Preferred Shares financing.
- (4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, intangible assets, inventories and contract liabilities, these balances were recorded on our combined statements of financial position following the same method as prior to the Closing Date of Series A Preferred Shares financing.
- (5) there were related party transactions as based on the Series A Share Subscription Agreement, where the terms between us and JD Group were established. Accordingly, the related party services were recorded based on the pricing policies stipulated in such agreements for the related expenses in our combined statements of profit or loss.

The net contribution from/(return to) JD Group we recognized on the items attributable to our Remaining Listing Business as discussed above for the years ended December 31, 2017, 2018 and 2019 were RMB12.7 million, RMB(161.8) million and RMB(561.9) million, respectively.

Our Directors believe that the method of recognition or allocation of the above items form a reasonable basis of presenting the operating results and financial position of our business for the Track Record Period.

The “carve-out” basis are disclosed in note 1.2 to the Accountants’ Report in Appendix I to this document. The Reporting Accountants’ opinion on the Historical Financial Information for the Track Record Period as a whole is set out on I-2 of Appendix I to this document.

Adoption of IFRS 9, IFRS 15 and IFRS 16

The historical financial information of our Company has been prepared in accordance with IFRSs, which consist of all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). For the purpose of preparing and presenting the historical financial information of our Company for the Track Record Period, we, throughout the Track Record Period, consistently applied IFRSs, amendments to IFRSs and the related interpretations issued by the IASB, including IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments*.

Neither have we prepared, nor the reporting accountants have audited or reviewed, our combined financial statements for the Track Record Period prepared under IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 18 *Revenue* and IAS 17 *Leases*.

For the purpose of providing additional information to our investors, our Directors have used our best efforts to assess the respective impact on our combined financial information of the adoption of IFRS 9, IFRS 15 and IFRS 16.

Save as disclosed below, our Directors consider that the adoption of IFRS 9, IFRS 15 and IFRS 16 has no significant impact on our financial position and performance when compared to that of IAS 39, IAS 18 and IAS 17, respectively.

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IFRS 9

Based on our internal assessments, the adoption of IFRS 9 has no significant impact on our financial position and performance as compared with IAS 39.

IFRS 15

Based on our internal assessments, the adoption of IFRS 15 has no significant impact on our financial position and performance as compared with IAS 18, except that contract liabilities amounted to RMB31.2 million, RMB40.5 million, RMB87.7 million and RMB189.3 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, would have been reclassified to “accrued expenses and other payables” had IAS 18 been applied during the Track Record Period. The reclassification has no significant impact on our key financial ratios, such as gearing ratio, current ratio and quick ratio as of December 31, 2017, 2018 and 2019 and June 30, 2020.

IFRS 16

Under IAS 17, operating lease payments are charged to the combined statements of profit or loss on a straight-line basis over the period of the lease, and operating lease commitments are disclosed separately in a note to the combined financial statements and are recognized outside of the combined statements of financial position. Under IFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognized in the form of assets (being the right-of-use assets in our financial statements) and financial liabilities (being the lease liabilities in our financial statements) on our combined statements of financial position at the commencement of respective leases.

Based on our internal assessment, except for the increases in total assets and total liabilities of RMB3.0 million and RMB3.3 million as of December 31, 2017, RMB3.0 million and RMB3.1 million as of December 31, 2018, RMB10.6 million and RMB11.3 million as of December 31, 2019 and RMB60.0 million and RMB53.6 million as of June 30, 2020, respectively, as a result of further recognition of right-of-use assets and relevant lease liabilities under IFRS 16, the adoption of IFRS 16 has no significant impact on our financial position and performance as compared with IAS 17. In addition, the adoption of IFRS 16 has no significant impact on our key financial ratios, such as gearing ratio, current ratio and quick ratio as of December 31, 2017, 2018 and 2019 and June 30, 2020.

The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 3 to the Accountants’ Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by general factors driving China’s healthcare industry, in particular, the retail pharmacy industry and online healthcare services industry in China.

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Our business expansion and revenue growth have been and will continue to be affected by the development of the healthcare industry in China, which is in turn driven by an aging population, increasing disposable income, rising prevalence of chronic diseases and growing health awareness. Unfavorable changes in any of these general industry conditions could negatively affect demand for products and services at our platform and adversely and materially affect our results of operations.

In addition, we are affected by government policies and regulations that address all aspects of our operations, including qualifications and licensing requirements for online sales of pharmaceutical and healthcare products, online healthcare services and smart solutions. See “Risk Factors—Risks Related to Our Business and Industry—We are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may materially and adversely affect our business and prospects.” We have benefited from certain recent favorable regulatory and policy changes in China, especially various policy initiatives that have promoted the sales of pharmaceutical and healthcare products.

While our business is influenced by general factors affecting the general healthcare industry in China, we believe our results of operations are more directly affected by company-specific factors, including the following major factors:

- our ability to increase active user accounts and drive additional purchases for our retail pharmacy business;
- our ability to further increase and leverage our scale of business;
- our ability to create value for third-party merchants and healthcare service providers;
- our ability to manage our mix of product and service offerings;
- our ability to enhance operating leverage;
- our ability to promote our brand effectively and efficiently; and
- our ability to effectively invest in technology.

Our Ability to Increase Active User Accounts and Drive Additional Purchases for Our Retail Pharmacy Business

Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. During the Track Record Period, our retail pharmacy business had experienced significant growth. Such growth was primarily driven by our success in creating new active user accounts and driving additional purchases from existing user accounts. We have a growing active user base. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. We expect to achieve continued growth in our retail pharmacy business in the foreseeable future as we attract more users to our platform. We define “annual active user accounts” as user accounts that made at least one purchase during the past trailing twelve months ended on the applicable date, primarily through *JD Pharmacy*, online marketplace and omnichannel initiative.

We are committed to providing superior user experience and services. In particular, our platform offers a wide selection of pharmaceutical and healthcare products at competitive prices, and we also provide timely and reliable delivery, convenient payment options and superior customer services. The number of products available on our platform has grown rapidly, which enables us to

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serve a large user base, expand our reach and coverage and in turn drive additional purchases. As of June 30, 2020, there were more than 10 million SKUs on our platform. In addition, we have utilized and will continue to utilize our and JD Group's big data analytics capabilities to better understand our users so that we could better serve their evolving needs and demands.

Our Ability to Further Increase and Leverage Our Scale of Business

Our results of operations are directly affected by our ability to further increase and leverage our scale of business, particularly our retail pharmacy business. As our business further grows in scale, we expect to obtain more favorable terms from suppliers, including pricing terms, credit period and volume-based rebates. In addition, we aim to create value for our suppliers by providing an effective and transparent channel for selling large volumes of their products online and by offering them valuable insights on market demand, customer preferences and supply chain information based on our vast user base. We believe these value propositions will also help us deepen our relationships with, and obtain favorable terms from, suppliers and reduce our procurement costs.

Our Ability to Create Value for Third-Party Merchants and Healthcare Service Providers

Our results of operations also depend on our ability to create value for third-party merchants and healthcare service providers. Our online marketplace and omnichannel initiative allow third-party merchants to directly offer products to users through our platform. In addition, we are experimenting with an online drugs wholesale platform that connects upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies. We strive to improve the efficiency of the whole healthcare value chain through digitalizing the overall process. Furthermore, we provide hospitals with a holistic smart solution to improve their daily operating efficiency and help them better serve patients. Our smart solution partnerships with hospitals provide us with a variety of business opportunities, including medical devices orders, patient referral, and other value-added services. We empower doctors on our online healthcare platform with effective tools and resources for patient management and academic and clinical research. Our platform also assists them to further enhance their professional expertise and build their reputation and branding for sustainable long-term career development. The high-quality medical professionals on our platform improve our user experience, hence increasing user stickiness and improving product sales on our platform, creating a mutually beneficial relation between us and medical professionals. See "Business—Our Value Propositions" for details of our value propositions to third-party merchants and healthcare service providers.

We may be able to expand our product and service offering as we create value for third-party merchants and healthcare service providers. Users are in turn drawn to our platform because we offer comprehensive products and services. We may be also able to lower the cost of user acquisition by accessing users of other healthcare value chain participants and create monetization opportunities for our retail pharmacy business and online healthcare services.

Our Ability to Manage Our Mix of Product and Service Offerings

Our results of operations, in particular our gross margin, are affected by the mix of products and services we offer. We currently derive our revenue substantially from sales of pharmaceutical and healthcare products to users. For 2017, 2018, 2019 and the six months ended June 30, 2020, the product sales contributed to 88.4%, 88.8%, 87.0% and 87.6% of our total revenue, respectively. We

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also earn commission fees and platform usage fees from third-party merchants on our online marketplace, and digital marketing service fees from third-party merchants and suppliers. We also earn fees from online healthcare services provided to users and smart healthcare solutions to hospitals. The mix of our product and service offerings affects our gross margin. For example, the online marketplace services we offer to third-party merchants and the online healthcare services we offer to our users generally have higher gross margins than product sales. Therefore, the mix of our product and service offerings would have a major impact on our gross margin.

Our Ability to Enhance Operating Leverage

We leverage JD Group's experience and expertise in operation and management and integrate them with our own experience in the healthcare industry to constantly improve our operating efficiency.

Our fulfillment expenses are the largest component of our operating expenses, and they primarily consist of logistics and warehouse expenses, employee benefits of fulfillment personnel and order processing expenses. In 2017, 2018 and 2019, fulfillment expenses accounted for 11.5%, 11.4% and 10.8% of our total revenue, respectively. For the six months ended June 30, 2019 and 2020, fulfillment expenses accounted for 10.4% and 10.4% of our total revenue, respectively. We expect our fulfillment expenses to increase in absolute amounts in the near future as we continue to grow our business.

We continuously seek to streamline our operations and improve our supply chain, fulfillment and inventory management. Controlling operating expenses to achieve optimal operating efficiency is important to our success. As our business grows in scale, we expect to have significant operating leverage and realize structural cost savings.

Our Ability to Promote Our Brand Effectively and Efficiently

Our platform has network effects that can promote our brand effectively and enhance our marketing efficiency. More product and service categories offered and more third-party merchants and healthcare service providers on our platform increase the choices available to users, and more users on our platform increase the potential transactions for merchants and healthcare service providers, forming a virtuous cycle. The self-reinforcing network effects of our platform and associated operating leverage allow us to promote our brand and compete effectively by enjoying low user acquisition cost and growing user lifetime value. In addition, we believe JD Group's established brand also improves our branding and marketing efficiency. Accordingly, we believe our massive scale, coupled with the network effects of our own and JD Group, will allow us to promote our brand and acquire users and merchants more cost-effectively and benefit from substantial economies of scale as our business further grows.

As we operate in intensely competitive markets, we need to provide incentives to attract users, merchants and healthcare service providers, and conduct promotion and advertising activities to enhance our brand awareness. Our selling and marketing expenses are a significant component of our operating expenses, and they primarily consist of (i) promotion and advertising expenses, (ii) expenses of technology and traffic support services allocated/provided by JD Group, (iii) expenses related to other support services allocated by JD Group, and (iv) payroll and related expenses for employees involved in marketing and business development activities. In 2017, 2018 and 2019, selling and

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marketing expenses accounted for 4.6%, 4.8% and 6.9% of our total revenue, respectively. For the six months ended June 30, 2019 and 2020, selling and marketing expenses accounted for 5.2% and 6.2% of our total revenue, respectively. Our selling and marketing expenses increased by 90.4% from RMB391.8 million in 2018 to RMB746.0 million in 2019 primarily due to our increased marketing efforts to promote our retail pharmacy business, online healthcare services and our experimental online drugs wholesale platform. We expect our selling and marketing expenses to remain substantial in absolute amounts while we further expand our business.

Our Ability to Effectively Invest in Technology

Our results of operations depend in part on our ability to invest in technology to cost-effectively meet the demands of our anticipated growth. Our ability to engage users and empower third-party merchants and healthcare service providers is affected by the breadth and depth of our user insights, such as the accuracy of our targeted marketing services, our technology capabilities and infrastructure to develop our online healthcare platform, and our continued ability to timely adapt to the rapidly evolving industry trends and user preferences. We have made, and will continue to make, significant investments in our technology infrastructure to attract users, merchants and other participants, enhance user experience and expand the capabilities and scale of our platform, in particular, our online healthcare platform. We plan to continue to invest in improving and expanding our online healthcare platform, talent recruitment and training in the fields of AI, big data and cloud computing to strengthen our technological advantage. We believe the investment will deliver overall long-term growth, while increasing our operating efficiency.

IMPACT OF COVID-19 ON OUR OPERATIONS

The vast majority of our revenue is derived from sales of pharmaceutical and healthcare products. Our results of operations and financial condition in 2020 have been and may continue to be affected by the spread of COVID-19. Although China had gradually controlled the spread of COVID-19 by the end of June 2020, the extent to which COVID-19 impacts our results of operations in 2020 will depend on the future developments of the outbreak, which are highly uncertain and unpredictable.

In response to intensifying efforts to contain the spread of COVID-19, the Chinese government has taken a number of actions, which included compulsory quarantining arrangement, travel restrictions, remote work arrangement and public activities restrictions, among others. COVID-19 also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have also taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees. These measures have temporarily reduced the capacity and efficiency of our operations and have negatively impacted our procurement of products, which negatively affected our results of operations.

During the early stage of COVID-19 outbreak, we have seen a decrease in demand for certain health and wellness products. Leveraging JD Group's logistics network, the general public's increased awareness and significant unmet need for healthcare products and services, we have resumed normal operations and have seen an increase in demand for our online healthcare services, in particular, the demand for our online hospital services, along with an increase in demand for our pharmaceutical products. Despite the impact of the COVID-19 outbreak, our revenue increased by 76.0% from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020.

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As of June 30, 2020, we had cash and cash equivalents of RMB3.2 billion and term deposit of RMB2.8 billion. In August 2020, we raised approximately US\$914 million by issuing Series B Preference Shares to investors. We believe our liquidity is sufficient to successfully navigate an extended period of uncertainty.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in notes 2 and 3 to the Accountants' Report in Appendix I to this document.

Significant Accounting Policies

Revenue from contracts with customers

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

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

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

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

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

We mainly through our and JD Group's mobile apps and www.jd.com website engage primarily in the sale of pharmaceutical and healthcare products sourced from manufacturers and distributors in the PRC, offer an online marketplace that enables third-party merchants to sell their

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products to consumers, and provide internet healthcare, health management and intelligent healthcare solutions services to our customers. Customers place orders for those products or services online primarily through our and JD Group's mobile apps and www.jd.com website. Payment for the purchased products or services is generally made either before delivery or upon delivery.

We evaluate whether it is appropriate to record the gross amounts of product sales or services provided and related costs, or the net amount earned as commissions. When we are a principal, that we obtain control of the specified goods or services before they are transferred to the customers, the revenue should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When we are an agent and our obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, in which case we do not control the specified goods or services provided by third parties before those goods or services are transferred to the customer, the revenue should be recognized in the net amount for the amount of commission which we earn in exchange for arranging for the specified goods or services to be provided by other parties.

For contracts that contain more than one performance obligations, we allocate the transaction price to each performance obligation on a relative stand-alone selling price ("SSP") basis. The SSP of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which we would sell a promised good or service separately to a customer. If an SSP is not directly observable, we estimate it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which we expect to be entitled in exchange for transferring the promised goods or services to the customer.

Product Revenue

We primarily sell pharmaceutical and healthcare products through online direct sales. We recognize the product revenue from the online direct sales on a gross basis as we are acting as a principal in these transactions and are responsible for fulfilling the promise to provide the specified goods. Product revenue is recognized at the point of delivery of products, net of discounts and return allowances.

Service Revenue

The service revenue primarily consists of commission fees charged to third-party merchants for participating in the online marketplace mainly through our and JD Group's mobile apps and www.jd.com website. We generally are acting as an agent and our performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, we charge the third-party merchants a fixed rate commission fee based on the sales amount, net of discounts and return allowances. Commission fee revenue is recognized on a net basis at the point of delivery of products.

We provide online marketing services to advertisers primarily consisting of third-party merchants on our and JD Group's various website channels and third-party marketing affiliates' websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which advertisers are charged based on display per thousand impressions or per effective click on their products or service listings. Our third-party merchants, when joining our marketplace, have the options to open an advertising account through

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which they could elect to advertise their products on our or JD Group's platforms, as well as third-party platforms. For each of the three years ended December 31, 2017, 2018 and 2019, and for the six months ended June 30, 2020, more than 50% of our third-party merchants used our advertising services.

When the online marketing services are rendered using our resources and/or platforms, we act as the Principal and recognize the gross amounts of services provided because (1) we own and control the digital marketing resources and can determine the transfer of the services to the customers; (2) we have full discretion in determining the pricing for digital marketing services delivery; and (3) we retain the inventory risks that the digital marketing resources are not sold out.

When the online marketing services are rendered using JD Group's resources and/or platforms or using resources outside both our Group and JD Group's platforms, we act as the agent and recognize the revenue for the shared marketing services fees from JD Group since we do not satisfy the criteria mentioned above. See "Connected Transactions—6. Marketing Services Framework Agreement" for more details on the marketing services fee sharing arrangement between our Group and JD Group.

We recognize revenue from pay for performance marketing services at point of time when each effective click is generated. We recognize revenue from advertising placements ratably over time as the customer simultaneously receives and consumes the benefits throughout the period during which the digital marketing services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions.

We provide internet healthcare, health management and intelligent healthcare solutions services to customers on our and JD Group's mobile apps and www.jd.com website. The services mainly include online consultation, hospital or doctor referral, health check-ups, genetic testing and beauty care. We recognize revenue overtime during the service period or at point in time when such services are rendered. Revenue from such services is recognized on a gross basis when we have the ability to determine the pricing and nature of the services, and are responsible for the services provided as we are acting as a principal and obtain control of the specified services before they are transferred to the customers. Revenue is recognized on a net basis when we charge commissions from such services as we are acting as an agent.

We also render platform services through our platform to the platform merchants, such as order management, client management, and other merchants operational and maintenance supports. The platform usage fee collected from platform merchants shall be recognized as revenue over the service period as the platform merchants simultaneously receive the relevant services throughout the period.

Contract balances

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

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

Timing of revenue recognition may differ from the timing of invoicing to customers. Trade receivables represent amounts invoiced and revenue recognized prior to invoicing when we have satisfied our performance obligation and have the unconditional right to payment.

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For online retail business with return conditions, we estimate the possibility of return based on the historical experience. Changes in judgements on these assumptions and estimates could materially impact the amount of revenue recognized, liabilities and assets estimated for return allowances. Liabilities for return allowances are included in “Accrued expenses and other payables”. The estimated return of product sold associated with our liabilities for return allowances are our assets, which are included in “Prepayments, other receivables and other assets”.

We applied a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. We have no material incremental costs of obtaining contracts with customers that we expect the benefit of those costs to be longer than one year which need to be recognized as assets.

Share-based payments

Share-based awards our employees are granted under a share incentive plan of JD Group (“JD Group Share Incentive Plan”). The combined financial statements include allocation of the expenses recorded at JD Group based on our employees participating under JD Group Share Incentive Plan. JD Group grants its service-based restricted share units (“RSUs”) and share options to our eligible employees, which are treated as deemed contribution from JD Group and recorded in other reserves in our combined statements of financial position.

Equity-settled share-based payment transactions

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

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

When share options are exercised, the amount previously recognized in other reserves will continue to be held in other reserves. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will continue to be held in other reserves.

When RSUs granted are vested, the amount previously recognized in other reserves will continue to be held in other reserves.

Taxation

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

The current tax is based on taxable profit for the Track Record Period. Taxable profit differs from profit/(loss) before tax because of income or expense that are taxable or deductible in other years

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and items that are never taxable or deductible. Our current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of our assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which we recognize the right-of-use assets and the related lease liabilities, we first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, we apply IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

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Inventories

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

Convertible preferred shares

Series A Preference Shares issued by us are convertible at the option of the holders of Series A Preference Shares or automatically converted under certain events. Series A Preference Shares are not redeemable, but we are required to pay dividends to the holders of Series A Preference Shares up to the purchase price of Series A Preference Shares when certain conditions are met.

Each Series A Preference Shares shall be convertible, at the option of the holder of the Series A Preference Shares, at any time after the date of issuance of such Series A Preference Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preference Shares purchase price by the conversion price then applicable to such Series A Preference Shares. The conversion price is subject to adjustments when any equity securities of us are issued at a price per share lower than the purchase price of Series A Preference Shares.

The convertible preferred shares include contractual obligation to deliver dividend up to the purchase price to holders of Series A Preference Shares, and when the convertible preferred shares are converted to our fully paid and non-assessable ordinary shares, the number of ordinary shares to be converted is not fixed due to the potential adjustments aforementioned to the conversion price under certain circumstances. The convertible preferred shares are initially recognized at fair value. We do not account for the embedded derivatives separately from the host contract and designate the entire convertible preferred shares as financial liabilities at FVTPL with fair value change recognized in “fair value changes of convertible preferred shares” in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Critical Accounting Estimates and Judgements

The preparation of the combined financial statements requires our Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenue and expenses during the reported period in the combined financial statements and accompanying notes.

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Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to our financial position and results of operation are addressed below:

Consolidation of Affiliated Entities

We obtained control over a PRC domestic company, Suqian Tianning, by entering into a series of Contractual Arrangements with the PRC domestic company and its shareholders. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing our Company with direct control over the PRC domestic company and uncertainties presented by the PRC legal system could impede our Company's beneficiary rights of the results, assets and liabilities of the PRC domestic company. The Directors of our Company, based on the advice of our PRC Legal Adviser, consider that the Contractual Arrangements among our WFOE, Suqian Tianning and its shareholders are in compliance with the relevant PRC laws and are legally enforceable.

Impairment of Inventories

Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment.

Rebates and Subsidies

Rebates are earned upon reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on our past experiences and current forecasts, a portion of the rebates is recognized as we make progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through us and are recorded as a reduction of cost of revenue when the sales have been completed and the amount is determinable.

Estimation of the Fair Value of the Convertible Preferred Shares

The convertible preferred shares issued by us are not traded in an active market and the respective fair value is determined by using valuation techniques. We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions and key inputs, such as the timing of the liquidation or initial public offering event as well as the probability of the various scenarios were based on our best estimates.

Estimation of the Fair Value of the Call Option and Put Option

The fair value of the call option and put option associated with the investment in our joint venture, in the absence of an active market, are estimated by using appropriate valuation techniques. We applied the Black-Scholes model to determine the fair value of the options. Key assumptions and key inputs, such as risk-free interest rate and volatility, were based on our best estimates and subject to uncertainty and might materially differ from the actual results.

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In relation to the valuation of our level 3 financial assets and liabilities, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the investments in privately held companies and financial instruments without readily determinable fair value; (ii) engaged independent competent third-party valuer to appraise the fair value of certain investments that are significant; (iii) reviewed and agreed on the valuation approaches adopted and key assumptions used, based on the knowledge and understanding of the industrial data statistics and development, and the commercial strategies of the investee business; and (iv) approved the results if the procedures were deemed satisfactory. Based on the above procedures, our Directors are of the view that the valuation analysis performed by us is fair and reasonable, and the fair value measurements of level 3 financial assets and liabilities in our financial statements are properly prepared.

Details of the fair value measurement of level 3 financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, and reconciliation of level 3 measurements are disclosed in Note 30.4 to the Historical Financial Information for the Track Record Period as set out in the Accountants' Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on I-2 of Appendix I.

In relation to the fair value assessment of the financial liabilities and assets requiring level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes and disclosure in the Accountant's Report as contained in Appendix I to this document; (ii) discussing with the Company and the Reporting Accountants the valuation methodology, and the key basis and assumptions for the valuation of the financial liabilities and assets; (iii) obtaining and reviewing the credentials of the valuer involved in the valuation; and (iv) reviewing the valuation basis and methodologies adopted by the valuer on a sampled basis. Having considered the work done by the Company's management, the Directors and the Reporting Accountants, and the above due diligence work conducted by the Joint Sponsors, nothing material has come to the Joint Sponsors' attention that indicates that the Directors have not undertaken independent and sufficient investigation and due diligence, or that the Directors' reliance on the work products of the independent valuer is unreasonable or excessive.

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DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth our combined statements of profit or loss with line items in absolute amounts and as percentages of our revenue for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(Unaudited)									
Revenue	5,553,128	100.0	8,169,057	100.0	10,842,140	100.0	4,988,537	100.0	8,777,490	100.0
Cost of revenue	(4,172,630)	(75.1)	(6,190,099)	(75.8)	(8,029,868)	(74.1)	(3,656,862)	(73.3)	(6,559,923)	(74.7)
Gross profit	1,380,498	24.9	1,978,958	24.2	2,812,272	25.9	1,331,675	26.7	2,217,567	25.3
Fulfillment expenses	(636,150)	(11.5)	(927,877)	(11.4)	(1,169,654)	(10.8)	(521,170)	(10.4)	(911,008)	(10.4)
Selling and marketing expenses	(257,979)	(4.6)	(391,822)	(4.8)	(746,014)	(6.9)	(257,545)	(5.2)	(544,375)	(6.2)
Research and development expenses	(122,667)	(2.2)	(218,282)	(2.7)	(338,239)	(3.1)	(150,897)	(3.0)	(278,175)	(3.2)
General and administrative expenses	(107,417)	(1.9)	(133,855)	(1.6)	(124,922)	(1.2)	(66,311)	(1.3)	(84,648)	(1.0)
Other (losses)/gains	(221)	(0.0)	3,562	0.0	565	0.0	229	0.0	(1,887)	(0.0)
Finance income	4	0.0	84	0.0	31,783	0.3	27	0.0	60,327	0.7
Finance costs	(82)	(0.0)	(150)	(0.0)	(35,502)	(0.3)	(81)	(0.0)	(1,745)	(0.0)
Fair value changes of convertible preferred shares	—	—	—	—	(1,263,130)	(11.7)	—	—	(5,705,251)	(65.0)
Impairment losses under expected credit loss model, net of reversal	(7)	(0.0)	(4,386)	(0.1)	(1,859)	(0.0)	(938)	(0.0)	477	0.0
Share of results of a joint venture	—	—	—	—	—	—	—	—	(8,607)	(0.1)
Profit/(loss) before income tax	255,979	4.6	306,232	3.7	(834,700)	(7.7)	334,989	6.7	(5,257,325)	(59.9)
Income tax expense	(77,445)	(1.4)	(91,305)	(1.1)	(137,105)	(1.3)	(98,735)	(2.0)	(103,590)	(1.2)
Profit/(loss) for the year/period	178,534	3.2	214,927	2.6	(971,805)	(9.0)	236,254	4.7	(5,360,915)	(61.1)
Owners of the Company	178,534	3.2	214,927	2.6	(971,805)	(9.0)	236,254	4.7	(5,358,752)	(61.1)
Non-controlling interests	—	—	—	—	—	—	—	—	(2,163)	(0.0)
Non-IFRS Measure⁽¹⁾:										
Non-IFRS profit for the year/period (unaudited)	208,954	3.8	248,398	3.0	344,053	3.2	253,967	5.1	370,802	4.2

Note:

(1) See “—Non-IFRS Measure: Non-IFRS Profit For the Year/Period.”

Revenue

During the Track Record Period, we generated revenue from (i) sales of pharmaceutical and healthcare products and (ii) online marketplace, digital marketing and other services. Revenue from sales of pharmaceutical and healthcare products accounted for a substantial majority of our total revenue in each of 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020.

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

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(Unaudited)									
Product revenue:										
Sales of pharmaceutical and healthcare products	4,907,244	88.4	7,254,582	88.8	9,434,984	87.0	4,365,153	87.5	7,693,261	87.6
Service revenue:										
Marketplace	440,183	7.9	601,882	7.4	791,151	7.3	364,546	7.3	598,462	6.8
Digital marketing and other services	205,701	3.7	312,593	3.8	616,005	5.7	258,838	5.2	485,767	5.6
Total	5,553,128	100.0	8,169,057	100.0	10,842,140	100.0	4,988,537	100.0	8,777,490	100.0

We record revenue net of discounts, return allowances and value-added taxes.

Product revenue

Product revenue is generated from our direct sales of pharmaceutical and healthcare products. We primarily carry out such direct sales through *JD Pharmacy*. The pharmaceutical and healthcare products we sell primarily consist of drugs, health and wellness products, and medical devices and supplies. Our product revenue has grown significantly during the Track Record Period and we expect that it will continue to grow and be a material contributor to our total revenue in the foreseeable future as we attract more users to our platform.

Service revenue

Service revenue is mainly generated from provision of online marketplace and digital marketing services, for which we primarily charge (i) commissions and platform usage fees from third-party merchants on our online marketplace; and (ii) digital marketing services fees from suppliers and third-party merchants. For the third-party merchants who sell products on our online marketplace, we charge them a fixed rate commission fee based on the sales amount. We also render platform services through our platform to the merchants, including product tracking, and provision of recall and enforcement information. The platform usage fee collected from merchants shall be recognized as revenue over the service period. In addition, we provide digital marketing services to suppliers and third-party merchants and charge them digital marketing service fees. We recognize revenue from advertising placements ratably over the period during which the digital marketing services are provided, and recognize revenue from pay-for-performance marketing services based on display per thousand impression or per effective clicks.

Furthermore, we generate service revenue from providing online healthcare services to users and smart solutions to hospitals. See “Business—Online Healthcare Services” and “Business—Smart Healthcare Solutions and Other New Initiatives” for a detailed description of these services. During the Track Record Period, revenue from these services only accounted for a minimal portion of our service revenue.

Our service revenue increased significantly during the Track Record Period. We expect our service revenue, although currently not a material contribution to our total revenue, to grow in absolute amounts as we expand our online marketplace, omnichannel initiative, online healthcare services and smart solutions.

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Cost of Revenue

Our cost of revenue primarily consists of cost of purchasing pharmaceutical and healthcare products that we sell directly through *JD Pharmacy* and the related inbound logistics charges and inventory write-downs. The rebates and subsidies we receive from suppliers are treated as a reduction in the purchase price and are recorded as a reduction in cost of revenue when recognized in our combined statements of profit or loss. The subsidies we receive from suppliers are calculated based on the volume of products sold through our platform and are recorded as a reduction of cost of revenue when the sales have been completed and the amount is determinable. Our cost of revenue does not include other direct costs related to costs of product sales such as logistics and handling expense and depreciation expenses. Therefore, our cost of revenue may not be comparable to that of other companies, which include such expenses in their costs of revenue.

We expect our cost of revenue to continue to increase in absolute amounts due to the expected growth of product revenue in the foreseeable future.

Fulfillment Expenses

Our fulfillment expenses consist of (i) logistics and warehousing services expenses, (ii) employee benefit expenses for employees involved in fulfillment activities, (iii) expenses related to other support services allocated by JD Group, (iv) payment services expenses and (v) others, including customer service expenses.

Our fulfillment expenses increased significantly during the Track Record Period in line with our business expansion. We expect our fulfillment expenses to increase in absolute amount in the foreseeable future to meet our anticipated growth in sales volume and ensure satisfactory customer experience. We plan to continue to strengthen our supply chain capabilities and to extend delivery services of omnichannel initiative to more cities in China.

The following table sets forth a breakdown of our fulfillment expenses both in absolute amount and as a percentage of our total fulfillment expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(Unaudited)									
Logistics and warehousing services expenses*	472,941	74.3	660,943	71.2	818,932	70.0	372,091	71.4	591,328	64.9
Employee benefit expenses	40,645	6.4	76,085	8.2	121,182	10.4	42,042	8.1	127,546	14.0
Expenses related to other support services allocated by JD Group	32,810	5.2	32,459	3.5	5,791	0.5	5,791	1.1	—	—
Payment services expenses*	51,355	8.1	86,881	9.4	133,045	11.4	58,104	11.1	94,918	10.4
Others	38,399	6.0	71,509	7.7	90,704	7.7	43,142	8.3	97,216	10.7
Total	636,150	100.0	927,877	100.0	1,169,654	100.0	521,170	100.0	911,008	100.0

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See “—Material Related Party Transactions” for more details.

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Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses, (ii) expenses of technology and traffic support services allocated/provided by JD Group, (iii) expenses related to other support services allocated by JD Group, and (iv) employee benefit expenses for employees involved in marketing and business development activities.

Our selling and marketing expenses increased significantly during the Track Record Period. We expect our selling and marketing expenses to remain substantial in absolute amounts as we implement new business initiatives, such as deploying additional sales personnel to promote our online healthcare services, smart solutions and other value-added services. We plan to continue to conduct brand promotion and marketing activities to enhance our brand recognition and attract more purchases from new and existing customers.

The following table sets forth a breakdown of our selling and marketing expenses both in absolute amount and as a percentage of our total selling and marketing expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(Unaudited)									
Promotion and advertising expenses	63,191	24.5	140,570	35.9	456,681	61.2	135,834	52.7	319,751	58.7
Expenses of technology and traffic support services allocated/provided by JD Group*	116,489	45.2	164,075	41.9	265,404	35.6	113,068	43.9	201,751	37.1
Expenses related to other support services allocated by JD Group	78,181	30.3	86,763	22.1	8,114	1.1	8,114	3.2	—	—
Employee benefit expenses	118	0.0	414	0.1	14,903	2.0	529	0.2	20,256	3.7
Others	—	—	—	—	912	0.1	—	—	2,617	0.5
Total	257,979	100.0	391,822	100.0	746,014	100.0	257,545	100.0	544,375	100.0

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See “—Material Related Party Transactions” for more details.

Research and Development Expenses

Our research and development expenses primarily consist of (i) expenses of technology and traffic support services allocated/provided by JD Group, (ii) employee benefit expenses for our research and development personnel, (iii) expenses related to other support services allocated by JD Group, and (iv) others, primarily consisting of technology infrastructure related costs, including servers and other equipment depreciation, bandwidth and data center costs, rent, utilities and other expenses necessary to support our business operations.

Our research and development expenses increased significantly during the Track Record Period. We expect our research and development expenses to grow in absolute amounts as we expand our technology team, enhance our data analytics capabilities and develop new features and applications to better serve various participants in the healthcare ecosystem. In addition to leveraging JD Group’s technologies and technology infrastructure, we plan to continue to invest in our own technology and

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innovation to enhance user experience and expand value-added services to participants on our platform.

The following table sets forth a breakdown of our research and development expenses both in absolute amount and as a percentage of our total research and development expenses for the years/ periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(Unaudited)									
Expenses of technology and traffic support services allocated/provided by JD Group*	99,119	80.8	183,508	84.1	194,971	57.6	92,115	61.0	171,766	61.7
Employee benefit expenses	609	0.5	4,310	2.0	89,000	26.3	21,689	14.4	80,603	29.0
Expenses related to other support services allocated by JD Group	20,055	16.3	25,156	11.5	40,505	12.0	31,758	21.1	9,459	3.4
Others	2,884	2.4	5,308	2.4	13,763	4.1	5,335	3.5	16,347	5.9
Total	122,667	100.0	218,282	100.0	338,239	100.0	150,897	100.0	278,175	100.0

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See “—Material Related Party Transactions” for more details.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) expenses of technology and traffic support services allocated/provided by JD Group, (ii) employee benefit expenses for employees of general corporate functions, including accounting, finance and human resources, and (iii) expenses related to other support services allocated by JD Group.

Our general and administrative expenses increased during the Track Record Period. We expect our general and administrative expenses to continue to increase in absolute amounts in the foreseeable future, but to decrease as a percentage of our total revenue in the long run as we leverage the scale of our business. We plan to continue to hire additional qualified employees for our general corporate functions to support our business operations and planned expansion.

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The following table sets forth a breakdown of our general and administrative expenses both in absolute amount and as a percentage of our total general and administrative expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
	(Unaudited)									
Expenses of technology and traffic support services allocated/provided by JD Group*	60,875	56.7	77,288	57.7	67,779	54.3	34,693	52.3	50,607	59.8
Employee benefit expenses	28,714	26.7	32,604	24.4	46,943	37.6	22,384	33.8	25,663	30.3
Expenses related to other support services allocated by JD Group	17,828	16.6	23,955	17.9	8,415	6.7	8,415	12.7	—	—
Others	—	—	8	0.0	1,785	1.4	819	1.2	8,378	9.9
Total	107,417	100.0	133,855	100.0	124,922	100.0	66,311	100.0	84,648	100.0

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See “—Material Related Party Transactions” for more details.

Finance Income

Our finance income primarily consists of interest income on bank balance and term deposits. Our term deposits usually have original maturities over three months and are redeemable on maturity.

Fair Value Changes of Convertible Preferred Shares

We adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares issued by us. Please refer to note 23 to the Accountants’ Report included in Appendix I to this document for the key assumptions in determining the fair value of the convertible preferred shares.

Discount rate was estimated by weighted average cost of capital as of each valuation date. We estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date plus country risk spread. The discount for lack of marketability was estimated based on the option-pricing method. Under the option pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before respective valuation date and with similar span as time to expiration. In addition to the assumptions adopted above, our projections of future performance were also factored into the determination of the fair value of the Series A Preference Shares on each valuation date. Upon the completion of the Global Offering, the preferred shares will be automatically converted to our ordinary shares.

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Taxation

Cayman Islands

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

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

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

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

PRC

Under the PRC Enterprise Income Tax Law (the “EIT Law”), the standard enterprise income tax rate for PRC operating entities is 25%.

Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) (“Western Regions Catalog”), subject to certain general restrictions described in the EIT Law and the related regulations. During the Track Record Period, our online marketing service business that is subject to the spin-off from JD Group was operated by the entities qualified as the enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate. Therefore, the enterprise income tax (the “EIT”) of such online marketing service business was estimated by treating as separate tax payer using the tax rate of 15%.

Withholding tax on undistributed dividends

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a foreign investment enterprise (“FIE”) to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

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According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). Our Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during the Track Record Period. Therefore our Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities.

NON-IFRS MEASURE: NON-IFRS PROFIT FOR THE YEAR/PERIOD

To supplement our combined financial statements, which are presented in accordance with IFRSs, we also use non-IFRS profit as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. We believe non-IFRS profit facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items which our management considers non-indicative of our operating performance.

We believe non-IFRS profit provides useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, our presentation of non-IFRS profit may not be comparable to similarly titled measures presented by other companies. The use of non-IFRS profit has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

We define non-IFRS profit as profit/(loss) for the year/period, excluding share-based payment expenses and fair value changes of convertible preferred shares. We exclude these items because they are not expected to result in future cash payments that are recurring in nature and they are not indicative of our core operating results and business outlook. We account for the compensation cost from share-based payment transactions with employees based on the grant-date fair value of the equity instrument issued by JD.com, Inc. The grant-date fair value of the award is recognized as compensation expense, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. The reconciling item is non-cash and does not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with GL103-19. In addition, we account for the convertible preferred shares as financial liabilities at fair value through profit or loss. The fair value of convertible preferred shares has been determined by using the income approach and is affected primarily by the changes in our equity value. The convertible preferred shares will automatically convert into ordinary shares upon the completion of the Global Offering, and no further loss or gain on fair value changes is expected to be recognized afterwards. The reconciling item is non-cash, non-recurring and does not result in cash outflow, which complies with GL103-19.

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The following table reconciles our non-IFRS profit for the years/periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is profit/(loss) for the year/period:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	RMB	RMB	RMB	RMB	RMB
	(in thousands)				
Reconciliation of profit/(loss) to non-IFRS profit:					
Profit/(loss) for the year/period	178,534	214,927	(971,805)	236,254	(5,360,915)
Add:					
Share-based payment expenses	30,420	33,471	52,728	17,713	26,466
Fair value changes of convertible preferred shares	—	—	1,263,130	—	5,705,251
Non-IFRS profit for the year/period	<u>208,954</u>	<u>248,398</u>	<u>344,053</u>	<u>253,967</u>	<u>370,802</u>

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenue

Our revenue increased by 76.0% from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020. The increase in our total revenue was primarily due to the increase by 76.2% in product revenue from sales of pharmaceutical and healthcare products from RMB4.4 billion for the six months ended June 30, 2019 to RMB7.7 billion for the six months ended June 30, 2020, in line with the continuous growth of our direct sales GMV from RMB6.9 billion in the six months ended June 30, 2019 to RMB11.5 billion in the six months ended June 30, 2020. Such growth on both product revenue and GMV was primarily driven by the increase in the number of active user accounts and additional purchases from existing user accounts, partially due to the impact of COVID-19 in the first half of 2020, driven by the increasing online penetration of pharmaceutical and healthcare products sales, shift in user behaviors, and our rising brand awareness as we continue to invest in marketing activities. Our annual active user accounts increased from 53.5 million for the twelve months ended June 30, 2019 to 72.5 million for the twelve months ended June 30, 2020. Service revenue from online marketplace, digital marketing and other services increased by 73.9% from RMB623.4 million for the six months ended June 30, 2019 to RMB1,084.2 million for the six months ended June 30, 2020, primarily due to (i) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace, resulting in a growth of our online marketplace GMV from RMB12.9 billion in the six months ended June 30, 2019 to RMB22.4 billion in the six months ended June 30, 2020, and (ii) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth in our platform as reflected in the growth in GMV.

Cost of revenue

Our cost of revenue increased by 79.4% from RMB3.7 billion for the six months ended June 30, 2019 to RMB6.6 billion for the six months ended June 30, 2020. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business, driven by the increase in

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the number of active user accounts and additional purchases from existing user accounts, partially due to the impact of COVID-19 in the first half of 2020.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB1.3 billion for the six months ended June 30, 2019, representing a gross profit margin of 26.7%, and a gross profit of RMB2.2 billion for the six months ended June 30, 2020, representing a gross profit margin of 25.3%. The decrease in the gross profit margin was primarily due to increases in revenue from sales of pharmaceutical products and increased inventory impairment provision due to strategic stockpile in response to the COVID-19 outbreak.

Fulfillment expenses

Our fulfillment expenses increased by 74.8% from RMB521.2 million for the six months ended June 30, 2019 to RMB911.0 million for the six months ended June 30, 2020. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and increase in the number of warehouses leased, (ii) employee benefit expenses relating to fulfillment personnel, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, in line with the growth of our overall GMV and (iv) other fulfillment expenses, including customer service expenses, all of which were in line with the continued growth of our business. Fulfillment expenses as a percentage of revenue remained stable at 10.4% for the six months ended June 30, 2019 and for the six months ended June 30, 2020.

Selling and marketing expenses

Our selling and marketing expenses increased by 111.4% from RMB257.5 million for the six months ended June 30, 2019 to RMB544.4 million for the six months ended June 30, 2020. The increase was primarily due to (i) an increase in our promotion and advertising expenses from RMB135.8 million for the six months ended June 30, 2019 to RMB319.8 million for the six months ended June 30, 2020, which was primarily due to increased marketing efforts to promote our retail pharmacy business, online healthcare services and our experimental wholesale platform, and (ii) an increase in our expenses of technology and traffic support services allocated/provided by JD Group from RMB113.1 million for the six months ended June 30, 2019 to RMB201.8 million for the six months ended June 30, 2020. Selling and marketing expenses as a percentage of revenue increased from 5.2% for the six months ended June 30, 2019 to 6.2% for the six months ended June 30, 2020, primarily due to our increased efforts in promoting our brand.

Research and development expenses

Our research and development expenses increased by 84.3% from RMB150.9 million for the six months ended June 30, 2019 to RMB278.2 million for the six months ended June 30, 2020. The increase was primarily attributable to (i) an increase in expenses of technology and traffic support services allocated/provided by JD Group due to the increase in the value of fulfilled orders, and (ii) an increase in research and development headcount as we continued to invest in research and development personnel, who continuously contributed to the development of technology capabilities and new features of our platform. Research and development expenses as a percentage of revenue increased slightly from 3.0% for the six months ended June 30, 2019 to 3.2% for the six months ended June 30, 2020.

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General and administrative expenses

Our general and administrative expenses increased by 27.7% from RMB66.3 million for the six months ended June 30, 2019 to RMB84.6 million for the six months ended June 30, 2020, primarily attributable to (i) an increase in expenses of technology and traffic support services allocated/provided by JD Group due to the increase in the value of fulfilled orders, and (ii) an increase in employee benefit expenses for employees of general corporate functions, including accounting, finance and human resources, as a result of our business expansion. General and administrative expenses as a percentage of revenue decreased slightly from 1.3% for the six months ended June 30, 2019 to 1.0% for the six months ended June 30, 2020.

Finance income

Our finance income increased significantly to RMB60.3 million for the six months ended June 30, 2020, primarily due to increased interest earnings from bank balances and term deposits.

Fair value change of convertible preferred shares

We recorded a loss on fair value change of convertible preferred shares of RMB5.7 billion for the six months ended June 30, 2020. The change was primarily due to an increase in the fair value of Series A Preference Shares during the six months ended June 30, 2020, as a result of an increase in our Company's equity value.

Income tax expense

Our income tax expense increased by 4.9% from RMB98.7 million for the six months ended June 30, 2019 to RMB103.6 million for the six months ended June 30, 2020, primarily due to the increase in taxable income.

Profit/(loss) for the period

As a result of the foregoing, we generated a profit of RMB236.3 million for the six months ended June 30, 2019 and incurred a loss of RMB5.4 billion for the six months ended June 30, 2020, primarily due to a loss of RMB5.7 billion on fair value changes of convertible preferred shares for the six months ended June 30, 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 32.7% from RMB8.2 billion in 2018 to RMB10.8 billion in 2019. The increase in our total revenue was primarily due to the increase by 30.1% in product revenue from sales of pharmaceutical and healthcare products from RMB7.3 billion in 2018 to RMB9.4 billion in 2019, in line with the continuous growth of our direct sales GMV from RMB11.7 billion in 2018 to RMB14.7 billion in 2019. Such growth on products revenue and direct sales GMV was primarily driven by (i) our success in attracting new active user accounts and additional purchases from existing user accounts, resulting in an increase in our annual active user accounts from 50.5 million in 2018 to 56.1 million in 2019, and (ii) increase in average revenue per user (ARPU) from RMB143.8 in 2018 to RMB168.3 in 2019. Service revenue from online marketplace, digital marketing and other services increased by 53.9% from RMB914.5 million in 2018 to RMB1,407.2 million in 2019. The increase in

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our service revenue was primarily due to (i) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace, resulting in a growth of our online marketplace GMV from RMB18.0 billion in 2018 to RMB28.5 billion in 2019, and (ii) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth in our platform as reflected in the growth in GMV.

Cost of revenue

Our cost of revenue increased by 29.7% from RMB6.2 billion in 2018 to RMB8.0 billion in 2019. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB2.0 billion in 2018, representing a gross profit margin of 24.2%, and a gross profit of RMB2.8 billion in 2019, representing a gross profit margin of 25.9%. The increase in the gross profit margin was primarily due to an increase in our service revenue as a percentage of total revenue from 11.2% of total revenue in 2018 to 13.0% in 2019, which tends to have a relatively higher gross margin.

Fulfillment expenses

Our fulfillment expenses increased by 26.1% from RMB927.9 million in 2018 to RMB1.2 billion in 2019. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and the increase in the number of warehouses leased, (ii) employee benefit expenses for employees involved in fulfillment activities, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, in line with the growth of our overall GMV, and (iv) other fulfillment expenses, including customer service expenses, all of which were in line with the continued growth of our business. Fulfillment expenses as a percentage of revenue decreased from 11.4% in 2018 to 10.8% in 2019.

Selling and marketing expenses

Our selling and marketing expenses increased by 90.4% from RMB391.8 million in 2018 to RMB746.0 million in 2019. The increase was primarily due to (i) an increase in our promotion and advertising expenses from RMB140.6 million in 2018 to RMB456.7 million in 2019 which was primarily due to increased marketing efforts to promote our retail pharmacy business, online healthcare services and our experimental wholesale platform, and (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group from RMB164.1 million in 2018 to RMB265.4 million in 2019. Selling and marketing expenses as a percentage of revenue increased from 4.8% in 2018 to 6.9% in 2019 in line with our business expansion and our increased marketing efforts.

Research and development expenses

Our research and development expenses increased by 55.0% from RMB218.3 million in 2018 to RMB338.2 million in 2019. The increase was primarily attributable to (i) an increase in research and

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development headcount as we continued to invest in research and development personnel due to the continuous development of our online healthcare services and other new features of our platform, (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group, as a result of our continuously increasing fulfilled orders and (iii) an increase in expenses related to other support services allocated by JD Group due to our business expansion. Research and development expenses as a percentage of revenue increased from 2.7% in 2018 to 3.1% in 2019.

General and administrative expenses

Our general and administrative expenses decreased by 6.7% from RMB133.9 million in 2018 to RMB124.9 million in 2019, as a result of increased operational efficiency attributable to the Reorganization mainly caused by streamlining of functions in relation to our business. General and administrative expenses as a percentage of revenue decreased from 1.6% in 2018 to 1.2% in 2019.

Finance income

Our finance income increased significantly to RMB31.8 million in 2019, primarily due to increased interest earnings from bank balances and term deposits.

Finance cost

We recorded a finance cost of RMB35.5 million in 2019 due to the transactions costs we incurred in connection with the issuance of the Series A Preference Shares in 2019.

Fair value change of convertible preferred shares

Our fair value change of convertible preferred shares was nil in 2018. We recorded a loss of RMB1,263.1 million of fair value change of convertible preferred shares in 2019. The change was primarily due to an increase in the per share fair value of the Series A Preference Shares, as a result of an increase in our Company's equity value.

Income tax expense

Our income tax expense increased by 50.2% from RMB91.3 million in 2018 to RMB137.1 million in 2019, primarily due to the increase in taxable income.

Profit/(loss) for the year

As a result of the foregoing, we generated a profit of RMB214.9 million in 2018 and incurred a loss of RMB971.8 million in 2019, primarily due to a loss of RMB1.3 billion on fair value changes of convertible preferred shares in 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased by 47.1% from RMB5.6 billion in 2017 to RMB8.2 billion in 2018. The increase in our total revenue was primarily due to the increase by 47.8% in product revenue from sales of pharmaceutical and healthcare products from RMB4.9 billion in 2017 to RMB7.3 billion in 2018, in line with the continuous growth of our direct sales GMV from RMB8.0 billion in 2017 to RMB11.7

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billion in 2018. Such growth on products revenue and direct sales GMV was primarily driven by (i) our success in attracting new active user accounts and additional purchases from existing user accounts, resulting in an increase in our annual active user accounts from 43.9 million in 2017 to 50.5 million in 2018, and (ii) the increase in average revenue per user (ARPU) from RMB111.7 in 2017 to RMB143.8 in 2018. Service revenue from online marketplace, digital marketing and other services increased by 41.6% from RMB645.9 million in 2017 to RMB914.5 million in 2018. The increase in our service revenue was primarily due to (i) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace, resulting in a growth of our online marketplace GMV from RMB12.4 billion in 2017 to RMB18.0 billion in 2018, and (ii) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth in our platform as reflected in the growth in GMV.

Cost of revenue

Our cost of revenue increased by 48.4% from RMB4.2 billion in 2017 to RMB6.2 billion in 2018. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB1.4 billion in 2017, representing a gross profit margin of 24.9%, and a gross profit of RMB2.0 billion in 2018, representing a gross profit margin of 24.2%. The decrease in the gross profit margin was primarily due to the decrease in our service revenue as a percentage of total revenue from 11.6% in 2017 to 11.2% in 2018, which tends to have a relatively higher gross margin.

Fulfillment expenses

Our fulfillment expenses increased by 45.9% from RMB636.2 million in 2017 to RMB927.9 million in 2018. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and the number of warehouses leased, (ii) employee benefit expenses for employees involved in fulfillment activities, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, in line with the growth of our overall GMV, and (iv) other fulfillment expenses, including customer service expenses. The increase was in line with the growth of our sales volume. Fulfillment expenses as a percentage of revenue decreased slightly from 11.5% in 2017 to 11.4% in 2018.

Selling and marketing expenses

Our selling and marketing expenses increased by 51.9% from RMB258.0 million in 2017 to RMB391.8 million in 2018. The increase was primarily due to (i) an increase in our promotion and advertising expenses from RMB63.2 million in 2017 to RMB140.6 million in 2018, which was primarily due to our increased marketing efforts, and (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group from RMB116.5 million in 2017 to RMB164.1 million in 2018. Selling and marketing expenses as a percentage of revenue increased from 4.6% in 2017 to 4.8% in 2018.

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Research and development expenses

Our research and development expenses increased by 77.9% from RMB122.7 million in 2017 to RMB218.3 million in 2018, primarily attributable to an increase in expenses of technology and traffic support services allocated/provided by JD Group, mainly in relation to the development of our online healthcare services business. Research and development expenses as a percentage of revenue increased from 2.2% in 2017 to 2.7% in 2018.

General and administrative expenses

Our general and administrative expenses increased by 24.6% from RMB107.4 million in 2017 to RMB133.9 million in 2018 in line with our business expansion. General and administrative expenses as a percentage of revenue decreased from 1.9% in 2017 to and 1.6% in 2018.

Income tax expense

Our income tax expense increased by 17.9% from RMB77.4 million in 2017 to RMB91.3 million in 2018, primarily due to the increase in taxable income.

Profit for the year

As a result of the foregoing, we generated a profit of RMB178.5 million in 2017 and RMB214.9 million in 2018, respectively.

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DISCUSSION OF CERTAIN KEY ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Current Assets/Liabilities

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

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	(in thousands of RMB)				
Current assets:					
Inventories	884,047	1,115,295	1,278,339	1,999,886	1,866,719
Trade and note receivables	3,091	20,032	21,552	29,053	54,058
Prepayments, other receivables and other assets	6,606	10,933	957,749	1,410,765	1,220,160
Financial assets at fair value through profit or loss	—	—	—	1,012,396	3,820,038
Term deposits	—	—	1,395,240	2,831,800	2,724,040
Restricted cash	—	3,864	5,891	9,159	22,820
Cash and cash equivalents	7,401	16,213	4,965,272	3,200,320	9,722,252
Total current assets	901,145	1,166,337	8,624,043	10,493,379	19,430,087
Current liabilities:					
Trade payables	172,650	340,229	444,984	1,744,114	2,505,632
Contract liabilities	31,227	40,519	87,687	189,348	174,827
Lease liabilities	1,664	715	4,851	17,473	23,137
Financial liabilities at fair value through profit or loss	—	—	—	—	144,977
Accrued expenses and other payables	41,604	49,052	1,007,354	1,494,882	3,812,072
Total current liabilities	247,145	430,515	1,544,876	3,445,817	6,660,645
Net current assets	654,000	735,822	7,079,167	7,047,562	12,769,442

We had net current assets positions as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020. Our net current assets positions as of each of these dates was primarily attributable to our large balance of inventories, prepayments, other receivables and other assets, and cash and cash equivalents, partially offset by our trade payables and accrued expenses and other payables. Cash and cash equivalents account for a substantial portion of our current assets. See “—Liquidity and Capital Resources” for further details on change of the balance of our cash and cash equivalents.

Our net current assets decreased slightly from RMB7.1 billion as of December 31, 2019 to RMB7.0 billion as of June 30, 2020.

Inventories

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Inventories:				
Products	886,740	1,119,108	1,283,133	2,079,345
Less: impairment provision	(2,693)	(3,813)	(4,794)	(79,459)
Total	884,047	1,115,295	1,278,339	1,999,886

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Our inventories increased by 56.4% from RMB1.3 billion as of December 31, 2019 to RMB2.0 billion as of June 30, 2020. Our inventories increased by 14.6% from RMB1.1 billion as of December 31, 2018 to RMB1.3 billion as of December 31, 2019. Our inventories increased by 26.2% from RMB884.0 million as of December 31, 2017 to RMB1.1 billion as of December 31, 2018. The increases in inventories as of the dates presented were primarily due to growth of our product sales volume, partially offset by impairment provision for inventories. The impairment provision for inventories increased from RMB4.8 million as of December 31, 2019 to RMB79.5 million as of June 30, 2020, primarily due to our strategic stockpile in response to the COVID-19 outbreak.

The following table sets forth the turnover days of our inventory for the years/period indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
Inventory turnover days ⁽¹⁾	61.8	58.1	53.7	45.0

Note:

(1) Inventory turnover days for a period equals the average of the opening and closing inventory balance divided by cost of revenue for the relevant period and multiplied by 180 days or 360 days, as applicable.

Our inventory turnover days decreased from 61.8 days in 2017 to 58.1 days in 2018, and further decreased to 53.7 days in 2019. Our inventory turnover days further decreased to 45.0 days for the six months ended June 30, 2020. The decreases in inventory turnover days during the periods presented were primarily due to enhanced inventory turnover control and more efficient supply chain management.

As of September 30, 2020, RMB1,580.6 million, or 79.0%, of our inventory balance as of June 30, 2020 had been sold or utilized.

Trade and Note Receivables

Our trade and note receivables consist of outstanding amounts payable by third parties. The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade receivables	3,098	17,472	27,080	30,713
Less: allowance for expected credit loss	(7)	(4,393)	(6,252)	(5,775)
Note receivables	—	6,953	724	4,115
Total	3,091	20,032	21,552	29,053

Our trade and note receivables increased by 34.8% from RMB21.6 million as of December 31, 2019 to RMB29.1 million as of June 30, 2020. Our trade and note receivables increased by 7.6% from RMB20.0 million as of December 31, 2018 to RMB21.6 million as of December 31, 2019 and increased from RMB3.1 million as of December 31, 2017 to RMB20.0 million as of December 31, 2018.

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Our trading terms with some of our customers are on credit. We primarily allow a credit period of 30 days. Trade receivables are generally settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade receivables:				
Within three months	3,098	7,815	13,921	21,503
Three to six months	—	2,858	3,799	2,480
Six months to one year	—	6,799	8,791	3,623
Over one year	—	—	569	3,107
	<u>3,098</u>	<u>17,472</u>	<u>27,080</u>	<u>30,713</u>
Less: loss allowance	(7)	(4,393)	(6,252)	(5,775)
Total	<u><u>3,091</u></u>	<u><u>13,079</u></u>	<u><u>20,828</u></u>	<u><u>24,938</u></u>

During the Track Record Period, we use non-IFRS trade receivables as an additional financial measure, which is not required by, or presented in accordance with, IFRSs, to measure the size of trade receivables attributable to our business and evaluate how effectively we manage these receivables. We define non-IFRS trade receivables as the sum of (i) our trade receivables, net of allowance for expected credit loss, and (ii) trade receivables of JD Group that are attributable to our business. We believe non-IFRS trade receivables are more indicative of our trade receivables position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS trade receivables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS trade receivables as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is trade receivables, net of allowance for expected credit loss, as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of trade receivables to non-IFRS trade receivables:				
Trade receivables, net of allowance for expected credit loss	3,091	13,079	20,828	24,938
Trade receivables of JD Group attributable to our business . .	<u>7,165</u>	<u>12,564</u>	<u>17,136</u>	<u>18,753</u>
Non-IFRS trade receivables	<u><u>10,256</u></u>	<u><u>25,643</u></u>	<u><u>37,964</u></u>	<u><u>43,691</u></u>

The following table sets forth the turnover days of our trade receivables, net of allowance for expected credit loss, and our non-IFRS trade receivables for the years/period indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
Trade receivables turnover days ⁽¹⁾ . . .	0.1	0.4	0.6	0.5
Non-IFRS trade receivables turnover days ⁽²⁾	0.3	0.8	1.1	0.8

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Notes:

- (1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables balance divided by total revenue during the relevant period and multiplied by 180 days or 360 days, as applicable.
- (2) Non-IFRS trade receivables turnover days for a period equals the average of the opening and closing non-IFRS trade receivables balance divided by total revenue during the relevant period and multiplied by 180 days or 360 days, as applicable.

Our trade receivables turnover days were 0.1 days in 2017, 0.4 days in 2018, 0.6 days in 2019, and 0.5 days in the six months ended June 30, 2020.

Our non-IFRS trade receivables turnover days were 0.3 days in 2017, 0.8 days in 2018, 1.1 days in 2019, and 0.8 days in the six months ended June 30, 2020.

As of September 30, 2020, approximately RMB24.1 million, or 82.8%, of our trade and note receivables as of June 30, 2020 had been settled.

Prepayments, Other Receivables and Other Assets

Our current prepayments, other receivables and other assets primarily consist of amounts due from related parties, advance to our suppliers, recoverable value-added tax and estimated return of products sold. The majority of the amounts due from JD Group will be settled prior to the Listing.

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Current prepayments, other receivables and other assets:				
Amounts due from related parties	34	307	929,665	1,175,379
Advance to suppliers	531	515	11,140	70,914
Receivable from cancellation of investments	—	—	—	102,803
Prepaid expense	978	394	822	2,403
Recoverable value-added tax	2,036	6,676	5,905	10,192
Estimated return of products sold	2,945	2,962	2,396	3,272
Interest receivable	—	17	7,721	45,058
Others	82	62	100	744
Total	6,606	10,933	957,749	1,410,765

Our current prepayments, other receivables and other assets increased by 47.3% from RMB957.7 million as of December 31, 2019 to RMB1,410.8 million as of June 30, 2020, primarily due to the increase in amounts due from related parties and in receivable from cancellation of investments, which represents the amount to be received from a third party we planned to invest in previously. The receivable from cancellation of investments was settled in September 2020. Our current prepayments, other receivables and other assets increased significantly from RMB10.9 million as of December 31, 2018 to RMB957.7 million as of December 31, 2019, primarily due to an increase in amounts due from related parties. Our current prepayments, other receivable and other assets increased by 65.5% from RMB6.6 million as of December 31, 2017 to RMB10.9 million as of December 31, 2018, primary due to an increase in recoverable value-added tax.

During the Track Record Period, we use non-IFRS current prepayments, other receivables and other assets as additional financial measures, which is not required by, or presented in accordance with,

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IFRSs, to measure the size of current prepayments, other receivables and other assets attributable to our business and evaluate how effectively we manage these current prepayments, other receivables and other assets. We define non-IFRS current prepayments, other receivables and other assets as the sum of (i) our current prepayments, other receivables and other assets and (ii) current employee loans of JD Group that are attributable to our business. We believe non-IFRS current prepayments, other receivables and other assets are more indicative of our position in current prepayments, other receivables and other assets during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS current prepayments, other receivables and other assets has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS current prepayments, other receivables and other assets as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are current prepayments, other receivables and other assets as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of current prepayments, other receivables and other assets to non-IFRS current prepayments, other receivables and other assets:				
Current prepayments, other receivables and other assets	6,606	10,933	957,749	1,410,765
Current employee loans of JD Group attributable to our business	1,224	6,102	12,896	10,439
Non-IFRS current prepayments, other receivables and other assets	7,830	17,035	970,645	1,421,204

Financial Assets at Fair Value Through Profit or Loss

Our current financial assets at fair value through profit or loss primarily consist of the wealth management products. The wealth management products we purchased are structured products with the expected rates of return indexed to foreign exchange rate or interest rate ranging from 3.00% to 3.65% for the six months ended June 30, 2020. We managed and evaluated the performance of investments on a fair value basis in accordance with our risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

In assessing a proposal to invest in wealth management products, a number of criteria must be met, including, but not limited to: (i) investment in high risk products are prohibited; (ii) the primary objectives of investment activities are safety, liquidity and reasonable yield; (iii) the proposed investment must not interfere with our business operations or capital expenditures; and (iv) the wealth management products should be issued by a reputable bank.

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Current financial assets at fair value through profit or loss:				
Wealth management products	—	—	—	1,012,396
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,012,396</u>

Our current financial assets at fair value through profit or loss was nil as of December 31, 2017, 2018 and 2019. We had current financial assets at fair value through profit or loss of RMB1,012.4 million as of June 30, 2020 due to purchase of wealth management products.

Term Deposits

Our term deposits represent bank deposits with original maturities over three months and redeemable on maturity. The following table sets forth our term deposits by currencies as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
USD term deposits	—	—	1,395,240	2,831,800

We had term deposits of RMB1.4 billion and RMB2.8 billion denominated in U.S. dollars as of December 31, 2019 and June 30, 2020, respectively. We deposited our previous equity financing proceeds with banks and the weighted-average interest rates of such term deposits were 2.70% and 2.65% per annum for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively. We had no term deposits denominated in other currencies during the Track Record Period.

Trade Payables

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade Payables	172,650	340,229	444,984	1,744,114

Our trade payables increased by 291.9% from RMB445.0 million as of December 31, 2019 to RMB1,744.1 million as of June 30, 2020. Our trade payables increased by 30.8% from RMB340.2 million as of December 31, 2018 to RMB445.0 million as of December 31, 2019 and increased by 97.1% from RMB172.7 million as of December 31, 2017 to RMB340.2 million as of December 31, 2018. The increases in trade payables as of the dates presented were primarily due to the increase in the outstanding amounts payable to our suppliers as a result of our overall business expansion. In particular, the significant increase in trade payables was primarily due to our business growth and replacement of counterparty of business contracts with suppliers to us.

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The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade payables:				
Within three months	172,650	340,229	444,984	1,744,114
Total	172,650	340,229	444,984	1,744,114

During the Track Record Period, we use non-IFRS trade payables as an additional financial measure, which is not required by, or presented in accordance with, IFRSs, to measure the size of trade payables attributable to our business and evaluate how effectively we manage these trade payables. We define non-IFRS trade payables as the sum of (i) our trade payables and (ii) trade payables of JD Group that are attributable to our business. We believe non-IFRS trade payables are more indicative of our trade payables position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS trade payables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS trade payables as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is trade payables as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of trade payables to non-IFRS trade payables:				
Trade payables	172,650	340,229	444,984	1,744,114
Trade payables of JD Group attributable to our business	917,163	1,401,920	1,387,190	846,098
Non-IFRS trade payables	1,089,813	1,742,149	1,832,174	2,590,212

Our non-IFRS trade payables increased by 41.4% from RMB1,832.2 million as of December 31, 2019 to RMB2,590.2 million as of June 30, 2020, primarily due to growth of our product procurement as a result of the expansion of our overall business.

The following table sets forth the turnover days of our trade payables and our non-IFRS trade payables for the years/period indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
Trade payables turnover days ⁽¹⁾	8.9	14.9	17.6	30.0
Non-IFRS trade payables turnover days ⁽²⁾	79.9	82.3	80.1	60.7

Notes:

- (1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of revenue for the relevant period and multiplied by 180 days or 360 days, as applicable.
- (2) Non-IFRS trade payables turnover days for a period equals the average of the opening and closing non-IFRS trade payables balance divided by cost of revenue for the relevant period and multiplied by 180 days or 360 days, as applicable.

Our trade payables turnover days increased from 8.9 days in 2017 to 14.9 days in 2018 and increased to 17.6 days in 2019. Our trade payables turnover days further increased from 17.6 days in 2019 to 30.0 days for the six months ended June 30, 2020.

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Our non-IFRS trade payables turnover days increased from 79.9 days in 2017 to 82.3 days in 2018 and decreased to 80.1 days in 2019. Our non-IFRS trade payables turnover days further decreased from 80.1 days in 2019 to 60.7 days for the six months ended June 30, 2020. The decrease in non-IFRS trade payables turnover days in the first half of 2020 was primarily due to accelerated settlements of trade payables since the outbreak of COVID-19.

As of September 30, 2020, approximately RMB1,259.4 million, or 72.2%, of our trade payables as of June 30, 2020 had been settled.

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

Contract Liabilities

Contract liabilities represent our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Our contract liabilities increased by 115.9% from RMB87.7 million as of December 31, 2019 to RMB189.3 million as of June 30, 2020, primarily due to an increase in payments received in advance from our users and third-party merchants, which was in line with our business growth. Our contract liabilities increased by 116.4% from RMB40.5 million as of December 31, 2018 to RMB87.7 million as of December 31, 2019 and increased by 29.8% from RMB31.2 million as of December 31, 2017 to RMB40.5 million as of December 31, 2018, primarily due to increase in payments received in advance from our users and third-party merchants, which was in line with our business growth.

Accrued Expenses and Other Payables

Accrued expenses and other payables primarily consist of amounts due to a related party, deposits from third-party merchants, salary and welfare, tax payable and deposits to be returned to former investor. The following table sets forth our accrued expenses and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Accrued expenses and other payables:				
Amounts due to a related party	15,653	14,676	925,850	1,238,610
Deposits received	5,160	8,480	11,378	19,123
Deposits to be returned to former investor	—	—	—	83,270
Salary and welfare payables	8,223	11,388	53,931	74,901
Liabilities for return allowances	2,624	3,109	2,295	3,392
Tax payable	2,352	2,778	3,344	59,135
Others	7,592	8,621	10,556	16,451
Total	41,604	49,052	1,007,354	1,494,882

Our accrued expenses and other payables increased by 48.4% from RMB1,007.4 million as of December 31, 2019 to RMB1,494.9 million as of June 30, 2020, primarily due to the increase in amounts due to a related party and deposits to be returned to former investor. Deposits to be returned to former investor represents the amount to be paid to a third party with which we established an investment holding company for future investment. However, such investment arrangement was terminated and we obtained the ownership of the investment holding company and are obligated to return the investment deposits received from the third party. The deposits was returned to the former investor in September 2020. Our accrued expenses and other payables increased by 17.9% from

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RMB41.6 million as of December 31, 2017 to RMB49.1 million as of December 31, 2018, and further increased significantly to RMB1,007.4 million as of December 31, 2019, primarily due to the increases in amounts due to a related party, deposits received and salary and welfare payables.

During the Track Record Period, we use non-IFRS accrued expenses and other payables as additional financial measures, which is not required by, or presented in accordance with, IFRSs, to measure the size of accrued expenses and other payables attributable to our business and evaluate how effectively we manage these accrued expenses and other payables. We define non-IFRS accrued expenses and other payables as the sum of (i) our accrued expenses and other payables; (ii) deposits received by JD Group that are attributable to our business and (iii) advances from customers of JD Group that are attributable to our business. We believe non-IFRS accrued expenses and other payables are more indicative of our position in accrued expenses and other payables during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS accrued expenses and other payables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS accrued expenses and other payables as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are accrued expenses and other payables as of the year/period:

	As of December 31,			As of
	2017	2018	2019	June 30,
	(in thousands of RMB)			2020
Reconciliation of accrued expenses and other payables to non-IFRS accrued expenses and other payables:				
Accrued expenses and other payables	41,604	49,052	1,007,354	1,494,882
Deposits received of JD Group attributable to our business	387,685	498,175	629,012	733,116
Advances from customers of JD Group attributable to our business	<u>13,663</u>	<u>51,821</u>	<u>93,129</u>	<u>131,293</u>
Non-IFRS accrued expenses and other payables	<u>442,952</u>	<u>599,048</u>	<u>1,729,495</u>	<u>2,359,291</u>

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Non-Current Assets/Liabilities

The following table sets forth our non-current assets and non-current liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Non-current assets:				
Intangible assets	5,720	2,760	600	804
Property and equipment	797	1,344	5,628	8,979
Investment in a joint venture	—	—	—	658,838
Financial assets at fair value through profit or loss	—	7,409	7,450	143,934
Right-of-use assets	2,965	3,025	10,567	59,905
Deferred tax assets	673	953	1,198	19,865
Prepayments, other receivables and other assets	63	319	27,191	9,220
Total non-current assets	10,218	15,810	52,634	901,545
Non-current liabilities:				
Convertible preferred shares	—	—	7,584,420	13,609,415
Financial liabilities at fair value through profit or loss	—	—	—	135,906
Lease liabilities	1,594	2,411	6,412	36,100
Total non-current liabilities	1,594	2,411	7,590,832	13,781,421

Investment in a Joint Venture

In April 2020, we entered into a series of agreements with Tangshan Hongci Healthcare Management Co., Ltd., or Tangshan Hongci, and its shareholder, pursuant to which we injected approximately RMB668 million in cash to Tangshan Hongci in exchange for a 49% equity interest in Tangshan Hongci in June 2020.

Financial Assets at Fair Value Through Profit or Loss

Our non-current financial assets at fair value through profit or loss consist of our equity investments in a private company (not Tangshan Hongci) and the call option granted to us associated with the investment in Tangshan Hongci.

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Non-current financial assets at fair value through profit or loss:				
Equity investments in a private company	—	7,409	7,450	7,569
Call option ⁽¹⁾	—	—	—	136,365
Total	—	7,409	7,450	143,934

Note:

(1) In connection with our equity investments in Tangshan Hongci, we are entitled to a call option to acquire an additional equity interest in Tangshan Hongci at a pre-determined schedule with the consideration calculated based on a pre-determined formula. Upon initial recognition, our call option was classified as a financial asset measured at fair value through profit or loss. See Note 14 to the Accountants' Report included in Appendix I of this document for how the fair value of the call option is estimated.

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Our non-current financial assets at fair value through profit or loss increased from RMB7.5 million as of December 31, 2019 to RMB143.9 million as of June 30, 2020, primarily due to the call option granted to us in connection with our equity investments in Tangshan Hongci. Our non-current financial assets at fair value through profit or loss remained stable at RMB7.5 million as of December 31, 2019 and at RMB7.4 million as of December 31, 2018. We had nil non-current financial assets at fair value through profit or loss as of December 31, 2017.

Right-of-use Assets

Our right-of-use assets represent carrying amounts of leased properties. Our right-of-use assets increased significantly by 466.9% from RMB10.6 million as of December 31, 2019 to RMB59.9 million as of June 30, 2020, primarily due to the new leases in line with the expansion of our business. Our right-of-use assets increased significantly by 249.3% from RMB3.0 million as of December 31, 2018 to RMB10.6 million as of December 31, 2019, primarily due to the new leases in line with the expansion of our business. Our right-of-use assets remained stable at RMB3.0 million as of December 31, 2017 and 2018.

Prepayments, Other Receivables and Other Assets

Our non-current prepayments, other receivables and other assets primarily consist of prepayments for investments in equity investees. The following table sets forth our non-current prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Non-current prepayments, other receivables and other assets:				
Prepayments for investments in equity investees	—	—	26,760	8,000
Others	63	319	431	1,220
Total	63	319	27,191	9,220

Our non-current prepayments, other receivables and other assets decreased by 66.1% from RMB27.2 million as of December 31, 2019 to RMB9.2 million as of June 30, 2020, primarily due to a decrease in prepayments for investments in equity investees. Our non-current prepayments, other receivables and other assets increased significantly from RMB0.3 million as of December 31, 2018 to RMB27.2 million as of December 31, 2019, primarily due to an increase in prepayments for investment in equity investees for our new business initiatives. Our non-current prepayments, other receivables and other assets increased from RMB0.1 million as of December 31, 2017 to RMB0.3 million as of December 31, 2018.

During the Track Record Period, we use non-IFRS non-current prepayments, other receivables and other assets as additional financial measures, which is not required by, or presented in accordance with, IFRSs, to measure the size of non-current prepayments, other receivables and other assets attributable to our business and evaluate how effectively we manage these non-current prepayments, other receivables and other assets. We define non-IFRS non-current prepayments, other receivables and other assets as the sum of (i) our non-current prepayments, other receivables and other assets and (ii) non-current employee loans of JD Group that are attributable to our business. We believe non-IFRS non-current prepayments, other receivables and other assets are more indicative of our position in non-

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current prepayments, other receivables and other assets during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS non-current prepayments, other receivables and other assets has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS non-current prepayments, other receivables and other assets as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are non-current prepayments, other receivables and other assets as of the year/period:

	As of December 31,			As of
	2017	2018	2019	June 30, 2020
	(in thousands of RMB)			
Reconciliation of non-current prepayments, other receivables and other assets to non-IFRS non-current prepayments, other receivables and other assets:				
Non-current prepayments, other receivables and other assets	63	319	27,191	9,220
Non-current employee loans of JD Group attributable to our business	306	352	2,741	3,891
Non-IFRS non-current prepayments, other receivables and other assets	369	671	29,932	13,111

Convertible Preferred Shares

During the Track Record Period, we issued certain convertible preferred shares to our investors. See “History, Reorganization and Corporate Structure” of this document and note 23 to the Accountants’ Report in Appendix I to this document for details of the convertible preferred shares. We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted option pricing method and equity allocation model to determine the fair value of the convertible preferred shares. See note 23 to the Accountants’ Report in Appendix I to this document for the key assumptions used to determine the fair value of the convertible preferred shares.

Financial Liabilities at Fair Value Through Profit or Loss

Our financial liabilities at fair value through profit or loss consist of the put option granted by us to the existing shareholder of Tangshan Hongci in connection with our equity investments in Tangshan Hongci. Pursuant to the put option, the existing shareholder of Tangshan Hongci has the right to request us to purchase the shares of Tangshan Hongci held by such shareholder at a pre-determined schedule with put price calculated based on a pre-determined formula when Tangshan Hongci achieves certain pre-determined operating targets. Upon initial recognition, the put option was classified as financial liability measured at fair value through profit or loss.

We had financial liabilities at fair value through profit or loss of nil as of December 31, 2017, 2018 and 2019 and had financial liabilities at fair value through profit or loss of RMB135.9 million as of June 30, 2020.

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KEY FINANCIAL RATIOS

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
Gross profit of product revenue (RMB in thousands)	746,920	1,076,817	1,422,492	716,929	1,154,587
Gross profit of service revenue (RMB in thousands) . .	633,578	902,141	1,389,780	614,746	1,062,980
Total revenue growth (%)	—	47.1	32.7	—	76.0
Gross margin of product revenue (%)	15.2	14.8	15.1	16.4	15.0
Gross margin of service revenue (%)	98.1	98.7	98.8	98.6	98.0
Total gross margin (%)	24.9	24.2	25.9	26.7	25.3
Non-IFRS net margin (%) ⁽¹⁾	3.8	3.0	3.2	5.1	4.2

Note:

(1) Non-IFRS net margin represents non-IFRS profit for the year/period as a percentage of total revenue of such year/period. For details of the non-IFRS profit of the year/period, see “—Non-IFRS Measure: Non-IFRS Profit For the Year/Period.”

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from cash generated from operating activities and capital contribution from shareholders and financing through issuances of convertible preferred shares in private placement transactions. Our cash and cash equivalents represents cash and bank balances. We had cash and cash equivalents of RMB7.4 million, RMB16.2 million, RMB5.0 billion and RMB3.2 billion as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

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

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(in thousands of RMB)				
Net cash generated from operating activities	36,116	187,226	409,470	460,372	359,667
Net cash used in investing activities	(8,623)	(13,689)	(1,448,623)	(454)	(3,097,063)
Net cash (used in)/generated from financing activities	(33,299)	(2,924)	6,509,119	983,849	907,651
Net (decrease)/increase in cash and cash equivalents	(5,806)	170,613	5,469,966	1,443,767	(1,829,745)
Net contribution from/(return to) JD Group	12,652	(161,801)	(561,887)	(561,887)	—
Cash and cash equivalents at the beginning of the year/period	555	7,401	16,213	16,213	4,965,272
Effects of foreign exchange rate changes on cash and cash equivalents	—	—	40,980	—	64,793
Cash and cash equivalents at the end of the year/period	7,401	16,213	4,965,272	898,093	3,200,320

In August 2020, we raised approximately US\$914 million by issuing Series B Preference Shares to investors. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any other plans for material additional external financing.

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Net Cash Generated from Operating Activities

Net cash generated from operating activities primarily comprises our profit/(loss) for the year/period and non-cash and non-operating items, and adjusted by changes in working capital.

For the six months ended June 30, 2020, net cash generated from operating activities was RMB359.7 million, which was primarily attributable to our loss of RMB5,360.9 million, as adjusted by (i) non-cash and non-operating items, which primarily consisted of fair value changes of convertible preferred shares of RMB5,705.3 million, impairment provision for inventories of RMB74.7 million and share-based payment expenses of RMB26.5 million; and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB1,292.7 million and an increase in contract liabilities of RMB101.7 million, partially offset by an increase in inventories of RMB782.4 million, a decrease in accrued expenses and other payables of RMB359.0 million and an increase in prepayments, other receivables and other assets of RMB299.8 million.

In 2019, net cash generated from operating activities was RMB409.5 million. Our cash generated from operations was primarily attributable to our loss of RMB971.8 million, as adjusted by (i) non-cash and non-operating items, which primarily consisted of fair value changes of convertible preferred shares of RMB1,263.1 million and share-based payment expenses of RMB52.7 million; and (ii) changes in working capital, which primarily resulted from an increase in accrued expenses and other payables of RMB203.2 million, an increase in trade payables of RMB104.8 million and an increase in contract liabilities of RMB47.2 million, partially offset by an increase in prepayments, other receivables and other assets of RMB160.1 million and an increase in inventories of RMB164.0 million.

In 2018, net cash generated from operating activities was RMB187.2 million. Our cash generated from operations was primarily attributable to our profit of RMB214.9 million, as adjusted by (i) non-cash and non-operating items, which primarily comprised share-based payment expenses of RMB33.5 million; and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB167.6 million, partially offset by an increase in inventories of RMB232.4 million.

In 2017, net cash generated from operating activities was RMB36.1 million. Our cash generated from operations was primarily attributable to our profit of RMB178.5 million, as adjusted by (i) non-cash and non-operating items, which primarily comprised share-based payment expenses of RMB30.4 million; and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB138.1 million and an increase of accrued expenses and other payables of RMB19.0 million, partially offset by an increase in inventories of RMB337.9 million.

See “—Discussion of Certain Key Items of Combined Statements of Financial Position” for primary reasons relating to the underlying causes for our operating cash flow changes.

Net Cash Used in Investing Activities

For the six months ended June 30, 2020, net cash used in investing activities was RMB3.1 billion, which was primarily attributable to purchase of term deposits of RMB1.4 billion, payments for wealth management products classified as financial assets at fair value through profit or loss of RMB1.0 billion and payments for acquisition of investments in a joint venture of RMB667.9 million.

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In 2019, net cash used in investing activities was RMB1.4 billion, which was primarily attributable to purchase of term deposits of RMB1.4 billion, purchase of property and equipment of RMB5.2 million and prepayments to investments in equity investees of RMB26.7 million.

In 2018, net cash used in investing activities was RMB13.7 million, which was primarily attributable to placement of restricted cash of RMB12.9 million.

In 2017, net cash used in investing activities was RMB8.6 million, which was primarily attributable to purchase of intangible assets of RMB7.1 million.

Net Cash (Used in)/Generated from Financing Activities

For the six months ended June 30, 2020, net cash generated from financing activities was RMB 907.7 million, which was primarily attributable to proceeds from issuance of convertible preferred shares of RMB168.9 million and advance from JD Group of RMB755.0 million.

In 2019, net cash generated from financing activities was RMB6.5 billion, which was primarily attributable to proceeds from issuance of convertible preferred shares of RMB6.3 billion and advance from JD Group of RMB202.2 million, partially offset by payments for lease liabilities of RMB1.8 million.

In 2018, net cash used in financing activities was RMB2.9 million, which primarily consisted of payments for lease liabilities.

In 2017, net cash used in financing activities was RMB33.3 million, which primarily consisted of payment to JD Group.

INDEBTEDNESS

Borrowings

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, we did not have any bank borrowings.

Amounts due to JD Group

As of September 30, 2020, we had unsecured and unguaranteed amounts due to JD Group of RMB2,772.3 million. The amounts due to JD Group primarily represent the funds utilized by the Remaining Listing Business in JD Group on behalf of us since January 1, 2017 or the funds support to our PRC Operating Entities provided by JD Group. These intra-group arrangements were non-trade in nature, unsecured, interest-free and repayable on demand. As of September 30, 2020, we also had amounts due from JD Group of RMB1,013.2 million, which primarily represent the profits generated by the Remaining Listing Business in JD Group on behalf of us. We plan to settle all these amounts with JD Group before the Listing.

Convertible Preferred Shares

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, our convertible preferred shares had fair values of nil, nil, RMB7.6 billion, RMB13.6 billion and RMB25.6

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billion, respectively. For further information regarding the preferred shares, see note 23 to the Accountants' Report in Appendix I to this document. In August 2020, we issued 130,319,819 Series B Preference Shares for a cash consideration of approximately US\$914 million (equivalent to RMB6,314 million). All of these convertible preferred shares are unsecured and unguaranteed.

Lease Liabilities

Our lease liabilities are in relation to properties that we lease primarily for our offline pharmacies, offices, warehouses and staff quarters, certain of which were secured by the rental deposits and all of which were unguaranteed. The following table sets forth the present value of our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	(in thousands of RMB)				
Current	1,664	715	4,851	17,473	23,137
Non-current	1,594	2,411	6,412	36,100	53,032
Total	<u>3,258</u>	<u>3,126</u>	<u>11,263</u>	<u>53,573</u>	<u>76,169</u>

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

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Within one year	1,694	729	4,940	17,957
One to two years	253	1,672	3,454	14,562
Two to five years	1,530	958	3,477	26,194
Over five years	—	—	263	432
Total	<u>3,477</u>	<u>3,359</u>	<u>12,134</u>	<u>59,145</u>
Less: Amount due for settlement within 12 months shown under current liabilities	(1,694)	(729)	(4,940)	(17,957)
Amount due for settlement after 12 months shown under non-current liabilities	1,783	2,630	7,194	41,188

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured as of September 30, 2020.

CONTINGENT LIABILITIES OR GUARANTEES

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, we did not have any material contingent liabilities or guarantees.

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CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

The following table sets forth our capital expenditures for the years/periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(in thousands of RMB)				
Payments for property and equipment	842	2,013	5,186	2,248	6,640
Payments for intangible assets	7,077	403	503	—	395
Investment in a joint venture	—	—	—	—	667,904
Total	7,919	2,416	5,689	2,248	674,939

Our capital expenditure in 2017 was RMB7.9 million, primarily attributable to purchase of intangible assets of RMB7.1 million. Our capital expenditure in 2018 was RMB2.4 million, primarily attributable to purchase of property and equipment of RMB2.0 million. Our capital expenditure in 2019 was RMB5.7 million, primarily attributable to purchase of property and equipment of RMB5.2 million. Our capital expenditure for the six months ended June 30, 2020 was RMB674.9 million, primarily attributable to our equity investments in Tangshan Hongci of RMB667.9 million and purchase of property and equipment of RMB6.6 million.

We expect that our capital expenditures in 2020 will primarily consist of purchase of property and equipment and intangible assets. We intend to fund our future capital expenditures and long-term investments with our existing cash balance, cash generated from operating activities, and proceeds from the Global Offering. See the section headed “Use of Proceeds” for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Except for the capital commitments to our joint venture as disclosed in note 13 to the Accountants’ Report in Appendix I to this document, we had no other material capital commitments as of December 31, 2017, 2018 and 2019 and June 30, 2020.

Operating Lease Commitments

Our commitments primarily relate to the leases of warehouses and offline pharmacies under non-cancellable operating lease agreements. Our future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Within 1 year	1,694	729	4,940	17,957
Between 1 and 2 years	253	1,672	3,454	14,562
Between 2 and 5 years	1,530	958	3,477	26,194
Over 5 years	—	—	263	432

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

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MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to our Remaining Listing Business were carved out from the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Closing Date of Series A Preferred Shares financing, these transactions have been recorded in our combined statements of profit or loss based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to be specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were our revenue and expenses and therefore, the disclosure of significant transactions with related parties set out below have not included these transactions.

After the Closing Date of the Series A Preferred Share financing, based on the terms stipulated in the Series A Share Subscription Agreements, terms and pricing policies of these transactions entered into by JD Group for our Group or between JD Group and our Group were established.

We had the following transactions during the Track Record Period with JD Group, a related party of our Company:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(in thousands of RMB)				
	<i>(Unaudited)</i>				
Services provided to a related party:					
Marketing services provided to JD Group	—	—	59,707	—	98,099
Services and products received from a related party:					
Logistics and warehousing services received from JD Group	—	—	446,841	—	591,328
Technology and traffic support services received from JD Group	—	—	288,279	—	424,124
Payment services received from JD Group	—	—	74,941	—	94,918
Shared services received from JD Group	—	—	34,659	—	58,427
Share-based compensation received from JD Group to pay our employees for the services provided	30,420	33,471	52,728	17,713	26,466
Loyalty program services received from JD Group	—	—	14,205	—	24,033
Others	—	—	161	—	543

The historical amounts of related party transactions between us and JD Group were different with the amounts as set out in the section headed “Connected Transactions” for the reason that the historical amounts of relevant connected transactions which were allocated based on JD Group’s respective expenses actually incurred before the Closing Date of Series A Preferred Shares financing were presented as if the arrangement of related party transactions between us and JD Group existed throughout the Track Record Period.

Services and Products Provided to a Related Party

We provide marketing services to JD Group. We charge JD Group marketing service fees calculated in accordance with the underlying standard marketing service agreements.

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Services and Products Received from a Related Party

- JD Group provides various logistics services to us in exchange for service fees, including but not limited to warehouse operation and storage services, delivery services, standard and special packaging services and other value-added logistics services from time to time. The logistics service fees are determined after arm's length negotiations, and are charged based on a variety of factors including storage space taken and the weights and the delivery distances of the packages.
- JD Group provides us with technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding activities, operational support and advertisement access for our merchants and suppliers. JD Group charges commissions by applying a fixed rate on the fulfilled orders of healthcare products and services generated through JD Group's online platforms.
- We, through JD Group, use certain payment services through payment channels purchased by JD Group from third party payment service providers or self-owned channels to JD Group, and the related costs are first settled by JD Group and later settled in full (on a cost basis of JD Group) by us. This allows us to utilize the payment services to enable efficient, safe and prompt real-time payment for our online transactions.
- JD Group provides certain back-office administrative support services to us, including but not limited to cloud service, provision of servers, and maintenance and related customer services. We pay JD Group the actual costs incurred during the service process.
- JD Group grants its service-based RSUs and share options to our eligible employees under JD Group Share Incentive Plan.
- Given that our businesses are operated on JD Group's platforms, our customers participate in the customer loyalty programs of JD Group and use such loyalty points across the platforms of both JD Group and us for the purchase of products and services. We pay JD Group based on the amount of loyalty points that were generated through customers' purchases from our Company, and the unit cost incurred by JD Group for each loyalty point granted.

The below table sets forth the balances with the related party as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Amounts due to JD Group	15,653	14,676	925,850	1,238,610
Amounts due from JD Group	—	—	928,098	1,163,629

Prior to the Closing Date of Series A Preference Shares financing, the amounts due to JD Group represents the funds support provided by JD Group to Yinchuan JD Online Hospital and Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd, two wholly-owned domestic companies of JD Group, and their subsidiaries established in the PRC. After the Series A Preference Shares financing, the amounts due from/due to JD Group mainly represent the profits and funds generated/funds utilized by the portion of our business operated on behalf of our Company by certain subsidiaries and consolidated affiliated entities of JD Group since January 1, 2017.

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The amounts due to/due from JD Group are non-trade in nature, unsecured, non-interest bearing and repayable on demand, which will be settled before the Listing.

Amounts due from other related parties included in prepayments, other receivables and other assets are trade in nature, unsecured and non-interest bearing, which will be settled before the Listing.

Our Directors believe that our transactions with the related party during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risks (such as foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Foreign Exchange Risk

The functional currency of our entities incorporated in the Cayman Islands, British Virgin Islands and Hong Kong is US\$. Our PRC subsidiaries and Consolidated Affiliated Entities determined their functional currency to be RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of our entities.

During the Track Record Period, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant.

Interest Rate Risk

Our interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose our Company to cash flow interest rate risk, whereas fixed rate instruments expose our Company to fair value interest risk. Our Company's cash flow interest rate risk primarily arose from cash and cash equivalents and restricted cash, details of which have been disclosed in note 20 to the Accountants' Report in Appendix I to this document. Our Company's fair value interest risk primarily arose from term deposits and lease liabilities, details of which have been disclosed in notes 19 and 15 to the Accountants' Report in Appendix I to this document.

If the interest rate had been 50 basis points higher/lower, the profit/(loss) before income tax for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020 would have been approximately nil, nil, RMB9 million and RMB10 million higher/lower, respectively, mainly as a result of higher or lower interest income on floating-rate cash and cash equivalents and restricted cash.

Credit Risk

Our credit risk is mainly associated with cash and cash equivalents, restricted cash, term deposits, trade receivables and other receivables. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

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Our cash and cash equivalents, restricted cash and term deposits are mainly deposited in state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of default in relation to these financial institutions. We consider these financial assets having a low credit risk, as they have a low risk of default and each related counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant during the Track Record Period. We consider that there is no significant credit risk and would not generate any material losses due to the default of other parties.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet our liquidity requirements.

The table below analyzes our non-derivative financial liabilities into relevant maturity groups based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(in thousands of RMB)				
As of December 31, 2017					
Trade payables	172,650	—	—	—	172,650
Lease liabilities	1,694	253	1,530	—	3,477
Financial liabilities included in accrued expenses and other payables	<u>26,805</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,805</u>
	201,149	253	1,530	—	202,932
As of December 31, 2018					
Trade payables	340,229	—	—	—	340,229
Lease liabilities	729	1,672	958	—	3,359
Financial liabilities included in accrued expenses and other payables	<u>31,777</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>31,777</u>
	372,735	1,672	958	—	375,365
As of December 31, 2019					
Trade payables	444,984	—	—	—	444,984
Lease liabilities	4,940	3,454	3,477	263	12,134
Financial liabilities included in accrued expenses and other payables	<u>947,787</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>947,787</u>
Convertible preferred shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,313,002</u>	<u>6,313,002</u>
	1,397,711	3,454	3,477	6,313,265	7,717,907
As of June 30, 2020					
Trade payables	1,744,114	—	—	—	1,744,114
Lease liabilities	17,957	14,562	26,194	432	59,145
Financial liabilities included in accrued expenses and other payables	<u>1,357,328</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,357,328</u>
Convertible preferred shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,481,864</u>	<u>6,481,864</u>
	3,119,399	14,562	26,194	6,482,296	9,642,451

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received

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from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. We had positive cash flows from operations during the Track Record Period. Our cash generated from operations was RMB114.2 million, RMB278.7 million, RMB522.7 million and RMB458.9 million, respectively, in 2017, 2018 and 2019 and for the six months ended June 30, 2020. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

DISTRIBUTABLE RESERVES

As of June 30, 2020, we did not have any distributable reserves.

LISTING EXPENSE

Based on the mid-point Offer Price of HK\$66.69, the total estimated listing expenses in relation to the Global Offering is approximately RMB402.2 million. No listing expense was incurred during the Track Record Period. We estimate that we will further incur listing expenses of RMB402.2 million, of which RMB73.6 million will be charged to our combined statements of profit or loss for 2020. The balance of approximately RMB328.6 million, which mainly includes underwriting commission, is expected to be accounted for as a deduction from equity upon the completion of the Global Offering.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS ATTRIBUTABLE TO OWNERS OF OUR COMPANY

The unaudited pro forma statement of our adjusted combined net tangible assets attributable to owners of our Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on our audited combined tangible assets less liabilities attributable to owners of our Company as of June 30, 2020, as if the Global Offering had taken place on that date.

The unaudited pro forma statement of our adjusted combined net tangible assets attributable to owners of our Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our combined net tangible assets, had the Global Offering been completed as of June 30, 2020 or at any future dates.

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The following unaudited pro forma statement of our adjusted combined net tangible assets attributable to owners of our Company is prepared based on our audited combined tangible assets less liabilities attributable to owners of our Company as of June 30, 2020 as derived from the Accountants' Report in Appendix I to this document, and adjusted as described below.

	Audited combined tangible assets less liabilities of the Company attributable to owners of the Company as of June 30, 2020	Estimated net proceeds from Global Offering	Unaudited pro forma adjusted combined net tangible assets of the Company attributable to owners of the Company as of June 30, 2020	Unaudited pro forma adjusted combined net tangible assets of the Company attributable to owners of the Company as of June 30, 2020 per Share	Unaudited pro forma adjusted combined net tangible assets of the Company attributable to owners of the Company as of June 30, 2020 per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 4)
Based on an Offer Price of HK\$62.80 per Offer Share.	(5,831,926)	19,908,567	14,076,641	5.56	6.57
Based on an Offer Price of HK\$70.58 per Offer Share	(5,831,926)	22,384,523	16,552,597	6.54	7.73

Notes:

- (1) Our audited combined tangible assets less liabilities attributable to owners of our Company as of June 30, 2020 is derived from the Accountants' Report in Appendix I to this, which is based on our audited combined net liabilities attributable to owners of our Company as of June 30, 2020 of RMB(5,831,926,000) with adjustments for intangible assets attributable to owners of our Company of RMB740,000.
- (2) The estimated net proceeds from the Global Offering are based on 381,900,000 Offer Shares to be issued at the Offer Price of HK\$62.80 and HK\$70.58 per Offer Share, being the low-end and the high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated listing expenses and share issue costs (including underwriting fees and other related expenses) expected to be incurred by us subsequent to June 30, 2020 and does not take into account conversion of our convertible preferred shares, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of this document. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.
- (3) Our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as of June 30, 2020 per Share is calculated based on 2,531,153,732 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account conversion of our convertible preferred shares, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.
- (4) Our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of this document. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as of June 30, 2020 to reflect any operating result or other transactions of us entered into subsequent to June 30, 2020. In particular, the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as shown on the table above have not been adjusted to illustrate the effect of the issuance of Series B Preference Shares in August 2020 (the "Issuance") and the conversion of Series A Preference Shares and Series B Preference Shares into Shares upon the completion of the Global Offering (the "Conversion"). As of June 30, 2020, the carrying amount of 372,552,238 Series A Preference Shares of us was RMB13,609 million and recognized as financial liabilities. The Series A Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1. In August 2020, we issued 130,319,819 Series B Preference Shares for a cash consideration of US\$914 million (equivalent to RMB6,314 million). The Series B Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1.

FINANCIAL INFORMATION

Had the Issuance and the Conversion been assumed to take place as at June 30, 2020, the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as at June 30, 2020 per Share is calculated based on 3,034,025,789 Shares and the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company would be adjusted as described below.

	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 <u>RMB'000</u>	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share <u>RMB</u>	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share <u>HKS</u>
Based on an Offer Price of HK\$62.80 per Offer Share	34,000,261	11.21	13.24
Based on an Offer Price of HK\$70.58 per Offer Share	36,476,217	12.02	14.21

Note:

For the purpose of calculating the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company per Share, the translation of Hong Kong dollars into Renminbi or Renminbi into Hong Kong dollars was made at the exchange rate of HK\$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2020, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document, and there is no event since June 30, 2020 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$66.69 per Share (being the mid-point of the Offer Price Range of between HK\$62.80 and HK\$70.58 per Share), we estimate that we will receive net proceeds of approximately HK\$24,994 million from the Global Offering after deducting the underwriting commissions and other estimated expenses paid and payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately 40% of the net proceeds, or approximately HK\$9,997 million, is expected to be used for business expansion in the next 36 to 60 months, including:
 - further developing our retail pharmacy business and online healthcare services, including (i) continuing to strengthen our retail pharmacy business by procuring more drug SKUs and introducing more novel drugs from a larger base of quality suppliers for our direct sales business; (ii) increasing the number of drug warehouses that we utilize through collaboration with JD Group, which will enhance our supply chain capabilities; (iii) cooperating with more offline pharmacies to enrich the product categories and expand the urgent delivery services of our omnichannel initiative to more cities in China with enhanced efficiency and coverage; (iv) continuing to invest in the development of our healthcare services network and the expansion of our healthcare service offerings to satisfy all-round demand from users with serious, acute and/or chronic diseases, by recruiting more in-house doctors and cooperating with more external doctors and providing them with attractive compensation packages and training and collaboration opportunities, collaborating with more top industry experts to build specialist medical centers and expanding our consumer healthcare services to more categories; and (v) investing in new initiatives such as developing and purchasing more advanced technology infrastructures to help digitalize the transaction process between upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies;
 - enhancing user growth and engagement, including (i) strengthening our supply chain capabilities through expanding our supply chain human resources and investments in relevant technologies for logistics to achieve economies of scale and operating efficiency and enable us to offer more diversified delivery options and competitive pricing, improving user experience; (ii) continuing to improve user experience of our online healthcare services by expanding the breadth and depth of our service offerings, such as expanding the types and numbers of offerings in dental services and aesthetic medicines of our consumer healthcare services; and (iii) investing in the technology to improve the capability of our mobile apps and the development of data-driven and personalized services based on insights into user preferences, backed by our data analytics capabilities and the use of AI in analyzing user behaviors, for example, to recommend related or similar non-drug healthcare products based on users’ search and purchase history;

USE OF PROCEEDS

- consistently promoting brand awareness through increasing our online and offline marketing and promotional activities, such as TV branding, news feed ads, advertisements through major search engines and web portals, and seasonal and holiday promotional campaigns; and
- approximately 30% of the net proceeds, or approximately HK\$7,498 million, is expected to be used for research and development in the next 24 to 36 months, including (i) further developing our digital infrastructure and new initiatives with continuous investments in our healthcare services platforms, AI-assisted prescription verification, and big data and cloud computing technologies, to consistently optimize our service process, improve user experience, boost operation efficiency and expand the scope of Internet and technology related solutions offered to participants in the healthcare value chain; (ii) continuously attracting, through offering competitive compensation packages, and cultivating world-class software engineers, data scientists, artificial intelligence experts and other research and development talents, and expanding our portfolio of intelligent assets; and (iii) investing in smart healthcare solutions for offline hospitals and other medical institutions, such as software, IOT systems and integrated platform solutions designed for various scenarios based on their specific needs to further improve patient monitoring and management, enhance daily operation efficiency of hospitals and position them for greater integration with online service offerings;
- approximately 20% of the net proceeds, or approximately HK\$4,999 million, is expected to be used for our potential investments and acquisitions or strategic alliances. We are interested in healthcare companies with advanced technologies and services, companies with complementary business lines and companies that have synergies with our current business. We have no intention to use any portion of the net proceeds to settle the payments for the minority investments or the acquisitions referred to in the section headed “Waivers from Strict Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.” As of the Latest Practicable Date, we have not identified any other target of potential acquisition; and
- approximately 10% of the net proceeds, or approximately HK\$2,499 million, is expected to be used for working capital and general corporate purposes.

In the event that the Offer Price is set at the Maximum Offer Price or the Minimum Offer Price of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$1,463 million, respectively. If we make an Upward or Downward Offer Price Adjustment to set the final Offer Price to be above or below the mid-point of the Offer Price Range, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro rata basis.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$3,982 million (assuming an Offer Price of HK\$70.58 per Share, being the Maximum Offer Price), (ii) HK\$3,763 million (assuming an Offer Price of HK\$66.69 per Share, being the mid-point of the Offer Price Range) and (iii) HK\$3,543 million (assuming an Offer Price of HK\$62.80 per Share, being the Minimum Offer Price).

To the extent that the net proceeds from the Global Offering (including the net proceeds from the exercise of the Over-allotment Option) are either more or less than expected, we may adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

USE OF PROCEEDS

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS

Merrill Lynch (Asia Pacific) Limited
Haitong International Securities Company Limited
UBS AG Hong Kong Branch
China Renaissance Securities (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.
CLSA Limited
Jefferies Hong Kong Limited
ICBC International Securities Limited
BOCI Asia Limited
CCB International Capital Limited
BOCOM International Securities Limited
ABCI Securities Company Limited
CMB International Capital Limited
Guotai Junan Securities (Hong Kong) Limited
DBS Asia Capital Limited
Mizuho Securities Asia Limited
Futu Securities International (Hong Kong) Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 19,095,000 Hong Kong Offer Shares and the International Offering of initially 362,805,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on November 25, 2020. Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the application forms and the Hong Kong Underwriting Agreement at the Offer Price.

UNDERWRITING

Subject to (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange and such approval not having been withdrawn and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the application forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Representatives, for themselves and on behalf of the Hong Kong Underwriters, may in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (i) there develops, occurs, exists or comes into force:
 - (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the Cayman Islands, Hong Kong, the PRC or the United States (each a “**Relevant Jurisdiction**”); or
 - (b) any change or development, or any event or series of events likely to result in or representing a change or development, in local, national, regional or international financial, political, economic, currency market, fiscal or regulatory conditions or any monetary or trading settlement system (including, without limitation, conditions in stock markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting any Relevant Jurisdiction; or
 - (c) any event or series of events in the nature of force majeure (including, without limitation, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, acts of war (whether declared or not), acts of terrorism (whether or not responsibility has been claimed), acts of God; or
 - (d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in whatever form in or directly or indirectly affecting any Relevant Jurisdiction; or
 - (e) trading in securities generally on the Stock Exchange, the New York Stock Exchange or the NASDAQ Global Market shall have been suspended or materially limited; or

UNDERWRITING

- (f) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent governmental Authority), New York (imposed at Federal or New York State level or other competent governmental Authority), or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (g) any contravention by the Company, any Major Subsidiary or any of their respective directors or supervisors or senior management (if applicable) of the Companies Ordinance, the Company Law of the PRC or the Listing Rules; or
- (h) a prohibition on the Company for whatever reason from allotting, issuing or selling the Offer Shares (including any additional Shares which the Company may be required to issue upon exercise of the Over-allotment Option) pursuant to the terms of the Global Offering,

which, in any such case individually or in the aggregate, in the reasonable opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters:

- (a) is or will be or is likely to materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Group; or
 - (b) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
 - (c) makes or will make it or is likely to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus, the Green Application Form, the formal notice, the preliminary offering circular or the final offering circular; or
 - (d) would have or is likely to have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (ii) there has come to the notice of the Joint Sponsors, the Joint Representatives or any of the Hong Kong Underwriters:
- (a) that any statement contained in this prospectus, the Green Application Form and the formal notice in connection with the Hong Kong Public Offering (the "**Hong Kong Public Offering Documents**"), the preliminary offering circular was or has become untrue, incorrect or misleading in a material respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the foregoing documents are not fair and honest in a material respect, when taken as a whole; or

UNDERWRITING

- (b) any material breach of any of the obligations (including the representations, warranties and undertakings given by the Company) of the Company under the Hong Kong Underwriting Agreement; or
- (c) any person (other than the Joint Sponsors) has withdrawn its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or
- (d) the grant or agreement to grant by the Stock Exchange of the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange (the “**Admission**”) is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (e) an order or a petition being presented for the winding-up or liquidation of the Company or any Major Subsidiary, or the Company or any Major Subsidiary making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of the Company or any Major Subsidiary or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of the Company or any Major Subsidiary or anything analogous thereto occurs in respect of the Company or any Major Subsidiary; or
- (f) any material adverse change in the earnings, results of operations, business, business or management prospects, financial or trading position or conditions (financial or otherwise) of the Group taken as a whole; or
- (g) the Company has withdrawn the Hong Kong Public Offering Documents (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

LOCK-UP ARRANGEMENTS

Undertakings by the Company and the Controlling Shareholders to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued by the Company or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of (i) the Over-allotment Option, (ii) the options granted under the Pre-IPO ESOP, (iii) the options which may be granted under the Post-IPO Share Option Scheme, and the shares which may be granted under the Post-IPO Share Award Scheme) and (b) under any of the other circumstances provided under Rule 10.08 of the Listing Rules.

UNDERWRITING

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that, except pursuant to any lending of Shares (including pursuant to the Stock Borrowing Agreement), it will not and will procure that the relevant registered holder(s) will not without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirement of the Listing Rules:

- (1) in the period commencing on the date by reference to which disclosure of its holding of Shares is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; or
- (2) in the period of six months commencing from the expiry of the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any such Shares referred to in (1) above immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that during the First Six-Month Period and six months following the First Six-Month Period:

- (1) if it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, it will immediately inform the Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (2) if it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, it will immediately inform the Company of such indications.

Undertakings by the Company pursuant to the Hong Kong Underwriting Agreement

The Company hereby undertakes to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Representatives and the Hong Kong Underwriters that except for (i) issuance of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and (ii) issuance of any Shares pursuant to the Pre-IPO ESOP, Post-IPO Share Aware Scheme and Post-IPO Share Option Scheme, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six Month Period**”), it will not, without the prior written consent of Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over,

UNDERWRITING

either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company or any interest in any of the foregoing), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts; or

- (ii) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or
- (iv) offer to, or agree to, or effect any transaction specified in paragraphs (i), (ii) or (iii) above or announce any intention to do so,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other equity securities of the Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or equity securities will be completed within the First Six-Month Period).

Hong Kong Underwriters' Interests in the Company

Save as disclosed in this prospectus, and save for their respective obligations under the Hong Kong Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement.

International Offering

International Underwriting Agreement

In connection with the International Offering, the Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers or purchasers for, or themselves to subscribe for or purchase, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See the section headed "Structure of the Global Offering—The International Offering."

UNDERWRITING

Over-allotment Option

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to issue up to an aggregate of 57,285,000 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any. See the section headed “Structure of the Global Offering—Over-allotment Option.”

Commissions and Expenses

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) will receive an underwriting commission of equal to 1.25% of the aggregate Offer Price payable in respect of all of the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering), out of which the Hong Kong Underwriters will pay any sub-underwriting commissions payable. In respect of the International Offering, we expect to pay an underwriting commission of equal to 1.25% of the aggregate Offer Price payable in respect of all International Offer Shares (including any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). In addition, the Company may, in its discretion, pay to the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) an incentive fee of up to 0.25% of the aggregate Offer Price payable in respect of all of the Offer Shares.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK\$66.69 per Offer Share (which is the mid-point of the indicative Offer Price range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) will be approximately HK\$427.7 million.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$533.0 million (assuming an Offer Price of HK\$66.69 per Offer Share (which is the mid-point of the Offer Price range), the full payment of the discretionary incentive fee and the exercise of the Over-allotment Option in full) and will be paid by the Company.

Indemnity

The Company has agreed to indemnify the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any material breach by any of the Company of the Hong Kong Underwriting Agreement.

UNDERWRITING

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering”. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to

UNDERWRITING

the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking, lending and other services to the Company and each of its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

381,900,000 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 19,095,000 Shares (subject to reallocation) in Hong Kong as described in the paragraph headed “—The Hong Kong Public Offering” below; and
- (b) the International Offering of initially 362,805,000 Shares (subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in paragraph headed “—The International Offering” below.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 12.21% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 13.79% of the total Shares in issue immediately following the completion of the Global Offering (excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme).

References in this prospectus to applications, application forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 19,095,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 5% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.61% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme).

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed “—Conditions of the Global Offering” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 9,547,500 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules to the effect as further described below. 19,095,000 Offer Shares are initially available in the Hong Kong Public Offering, representing 5% of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 14 times or more but less than 49 times, (b) 49 times or more but less than 98 times and (c) 98 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 34,371,000 Offer Shares (in the case of (a)), 38,190,000 Offer Shares (in the case of (b)) and 42,009,000 Offer Shares (in the case of (c)), representing approximately 9%, 10% and 11% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option and excluding any shares to be issued under the Pre-IPO ESOP).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

In addition, the Joint Representatives may allocate Offer Shares from the International Offer Shares to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such allocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 38,190,000 Shares).

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$70.58 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$3,564.57 for one board lot of 50 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed “—Pricing and Allocation” below, is less than the maximum Offer Price of HK\$70.58 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares”.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 362,805,000 Shares, representing approximately 95% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 11.60% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme).

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “—Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares and/or hold or sell its Offer Shares after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “—The Hong Kong Public Offering—Reallocation” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to issue up to an aggregate of 57,285,000 additional Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 1.80% of the total Shares in issue immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option (excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme). If the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as the best interest of the Company, (b) may be discontinued at any time and (c) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) or (b) above, (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (f) offering or attempting to do anything as described in paragraph (b), (c), (d) or (e) above.

STRUCTURE OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) as a result of effecting transactions to stabilize or maintain the market price of the Shares, the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Thursday, December 31, 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- (e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price or through the Stock Borrowing Agreement as detailed below or a combination of these means.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations, if any, in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 57,285,000 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from JD Jiankang, pursuant to the stock borrowing agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and JD Jiankang on or about the Price Determination Date (the “**Stock Borrowing Agreement**”).

If the Stock Borrowing Agreement with JD Jiankang is entered into, the borrowing of Shares will only be effected by the Stabilizing Manager (or any person acting for it) for the settlement of over-allocations in the International Offering and such borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set out in Rule 10.07(3) of the Listing Rules, being that the Stock Borrowing Agreement will be for the sole purpose

STRUCTURE OF THE GLOBAL OFFERING

of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, are complied with.

The same number of Shares so borrowed must be returned to JD Jiankang or its nominees, as the case may be, on or before the third business day following the earlier of (a) the last day for exercising the Over-allotment Option and (b) the day on which the Over-allotment Option is exercised in full.

The Shares borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to JD Jiankang by the Stabilizing Manager (or any person acting for it) in relation to such Shares borrowing arrangement.

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Tuesday, December 1, 2020 and, in any event, no later than Monday, December 7, 2020, by agreement between the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$70.58 per Offer Share and is expected to be not less than HK\$62.80 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK\$70.58 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$3,564.57 for one board lot of 50 Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the lower end of the price range stated in this prospectus.**

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of the Company, reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Company and the Stock Exchange at <https://ir.jdhealth.com> and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Representatives (for themselves and on behalf of the Underwriters), the Company, will be fixed within such revised Offer Price range.

STRUCTURE OF THE GLOBAL OFFERING

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received, and all unconfirmed applications will not be valid.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for Hong Kong Offer Shares—Publication of Results”.

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, the Joint Representatives (for themselves and on behalf of the Underwriters) and the Company agreeing on the Offer Price.

The Company and the Controlling Shareholders expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting”.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering on the Main Board of the Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- (b) the Offer Price having been agreed between the Joint Representatives (for themselves on behalf of the Underwriters) and the Company;
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) on or before Monday, December 7, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company on the websites of the Company and the Stock Exchange at <https://ir.jdhealth.com> and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares—Refund of Application Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Tuesday, December 8, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, December 8, 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, December 8, 2020.

The Shares will be traded in board lots of 50 Shares each and the stock code of the Shares will be 6618.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at <https://ir.jdhealth.com>. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8690 (i) from 9:00 a.m. to 9:00 p.m. on Thursday, November 26, 2020, Friday, November 27, 2020 and Monday, November 30, 2020; (ii) from 9:00 a.m. to 6:00 p.m. on Saturday, November 28, 2020 and Sunday, November 29, 2020; (iii) from 9:00 a.m. to 12:00 noon on Tuesday, December 1, 2020.

A. APPLICATIONS FOR HONG KONG OFFER SHARES

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk; or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Center by completing an input request.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If an application is made by a person under a power of attorney, we and the Joint Representatives, as our agents, may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;
- you are our Director or chief executive and/or a director or chief executive officer of our subsidiaries;
- you are a close associate of any of the above persons;
- you are a core connected person of the Company or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or
- you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Items Required for the Application

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorize us and/or the Joint Representatives (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Law;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, or the Relevant Persons, and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “—Personal Collection” below to collect the Share certificate(s) and/or refund check(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that we, our Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the White Form eIPO service or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 50 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
50	3,564.57	900	64,162.12	9,000	641,621.11	400,000	28,516,493.86
100	7,129.12	1,000	71,291.24	10,000	712,912.35	500,000	35,645,617.33
150	10,693.69	1,500	106,936.85	20,000	1,425,824.69	600,000	42,774,740.80
200	14,258.25	2,000	142,582.47	30,000	2,138,737.04	700,000	49,903,864.26
250	17,822.81	2,500	178,228.08	40,000	2,851,649.39	800,000	57,032,987.73
300	21,387.37	3,000	213,873.71	50,000	3,564,561.73	900,000	64,162,111.19
350	24,951.94	3,500	249,519.32	60,000	4,277,474.08	1,000,000	71,291,234.66
400	28,516.49	4,000	285,164.94	70,000	4,990,386.43	2,000,000	142,582,469.32
450	32,081.06	4,500	320,810.56	80,000	5,703,298.77	3,000,000	213,873,703.98
500	35,645.61	5,000	356,456.18	90,000	6,416,211.12	4,500,000	320,810,555.97
600	42,774.74	6,000	427,747.40	100,000	7,129,123.47	6,000,000	427,747,407.96
700	49,903.86	7,000	499,038.64	200,000	14,258,246.93	7,500,000	534,684,259.95
800	57,032.98	8,000	570,329.88	300,000	21,387,370.40	9,547,500 ⁽¹⁾	680,653,062.92

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in “—Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

If you have any question on how to apply through the **White Form eIPO** service for Hong Kong Offer Shares, you may call the enquiry hotline of the **White Form eIPO** Service Provider at +852 2862 8690 which is available (i) from 9:00 a.m. to 9:00 p.m. on Thursday, November 26, 2020, Friday, November 27, 2020 and Monday, November 30, 2020; (ii) from 9:00 a.m. to 6:00 p.m. on Saturday, November 28, 2020 and Sunday, November 29, 2020; (iii) from 9:00 a.m. to 12:00 noon on Tuesday, December 1, 2020.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Thursday, November 26, 2020 until 11:30 a.m. on Tuesday, December 1, 2020 and the latest time for completing full payment of application monies in respect of such applications will be

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12:00 noon on Tuesday, December 1, 2020, the last day for applications, or such later time as described in “—C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “JD Health International Inc.” **White Form eIPO** application submitted via at www.eipo.com.hk to support sustainability.

6. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Center by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Sponsor, the Joint Representatives and the Hong Kong Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant’s stock account on your behalf or your CCASS Investor Participant’s stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

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- undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
- confirm that you understand that we, our Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and dispatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Law; and
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, November 26, 2020 — 9:00 a.m. to 8:30 p.m.

Friday, November 27, 2020 — 8:00 a.m. to 8:30 p.m.

Monday, November 30, 2020 — 8:00 a.m. to 8:30 p.m.

Tuesday, December 1, 2020 — 8:00 a.m. to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, November 26, 2020 until 12:00 noon on Tuesday, December 1, 2020 (24 hours daily, except on the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, December 1, 2020, the last day for applications, or such later time as described in “—C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

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Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;

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- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. **Warning for Electronic Applications**

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

8. **How Many Applications Can You Make**

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares

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applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$70.58 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 50 Hong Kong Offer Shares, you will pay HK\$3,564.57.

You must pay the maximum Offer Price, together with brokerage, SFC transaction levy and Stock Exchange trading fee, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 50 Hong Kong Offer Shares. If you make an electronic application instruction for more than 50 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section “—4. Minimum Application Amount and Permitted Numbers”.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering—Pricing and Allocation.”

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C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, December 1, 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, December 1, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made on our website at <https://ir.jdhealth.com> and the website of the Stock Exchange at www.hkexnews.hk.

D. PUBLICATION OF RESULTS

We expect to announce the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Monday, December 7, 2020 on our website at <https://ir.jdhealth.com> and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Stock Exchange at <https://ir.jdhealth.com> and www.hkexnews.hk, respectively, by no later than Monday, December 7, 2020;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Monday, December 7, 2020 to 12:00 midnight on Sunday, December 13, 2020; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Monday, December 7, 2020, Tuesday, December 8, 2020, Wednesday, December 9, 2020 and Thursday, December 10, 2020.

If we accept your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

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You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS eIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or
- if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;

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- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- you apply for more than 9,547,500 Hong Kong Offer Shares, being 50% of the 19,095,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Representatives believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering—Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Monday, December 7, 2020.

G. DISPATCH/COLLECTION OF SHARE CERTIFICATES/E-REFUND PAYMENT INSTRUCTIONS/REFUND CHECKS

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the Share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on dispatch/collection of Share certificates and refund checks as mentioned below, any refund checks and Share certificate(s) are expected to be posted on or before Monday, December 7, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, December 8, 2020, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

- ***If you apply through White Form eIPO service:***
 - If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, December 7, 2020, or any other place or date notified by us.
 - If you do not personally collect your Share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
 - If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, December 7, 2020 by ordinary post and at your own risk.
 - If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address specified in your application instructions in the form of refund check(s) by ordinary post and at your own risk.

- ***If you apply through CCASS EIPO service:***

Allocation of Hong Kong Offer Shares

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, December 7, 2020 or on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "—Publication of Results" above on Monday, December 7, 2020. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, December 7, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have instructed your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, December 7, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Monday, December 7, 2020.

H. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-84, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD HEALTH INTERNATIONAL INC. AND MERRILL LYNCH FAR EAST LIMITED, HAITONG INTERNATIONAL CAPITAL LIMITED AND UBS SECURITIES HONG KONG LIMITED

Introduction

We report on the historical financial information of JD Health International Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-84, which comprises the combined statements of financial position of the Group as of December 31, 2017, 2018 and 2019 and June 30, 2020, the statements of financial position of the Company as of December 31, 2018 and 2019 and June 30, 2020, and the combined statements of profit or loss, the combined statements of comprehensive income/(loss), the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-84 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 26, 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as of December 31, 2017, 2018 and 2019 and June 30, 2020, of the Company's financial position as of December 31, 2018 and 2019 and June 30, 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board (the "IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 28 to the Historical Financial Information which states that no dividend was declared or paid by the Company or its subsidiaries in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
November 26, 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Group and the financial statements of the Remaining Listing Business as defined in the Note 1.2 to the Historical Financial Information for the Track Record Period (collectively the "Underlying Financial Statements"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") and were audited by us in accordance with International Standards on Auditing issued by the IAASB.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	5,553,128	8,169,057	10,842,140	4,988,537	8,777,490
Cost of revenue		(4,172,630)	(6,190,099)	(8,029,868)	(3,656,862)	(6,559,923)
Gross profit		1,380,498	1,978,958	2,812,272	1,331,675	2,217,567
Fulfillment expenses		(636,150)	(927,877)	(1,169,654)	(521,170)	(911,008)
Selling and marketing expenses		(257,979)	(391,822)	(746,014)	(257,545)	(544,375)
Research and development expenses		(122,667)	(218,282)	(338,239)	(150,897)	(278,175)
General and administrative expenses		(107,417)	(133,855)	(124,922)	(66,311)	(84,648)
Other (losses)/gains		(221)	3,562	565	229	(1,887)
Finance income	7	4	84	31,783	27	60,327
Finance costs		(82)	(150)	(35,502)	(81)	(1,745)
Fair value changes of convertible preferred shares	23	—	—	(1,263,130)	—	(5,705,251)
Impairment losses under expected credit loss model, net of reversal		(7)	(4,386)	(1,859)	(938)	477
Share of results of a joint venture		—	—	—	—	(8,607)
Profit/(loss) before income tax	6	255,979	306,232	(834,700)	334,989	(5,257,325)
Income tax expense	11	(77,445)	(91,305)	(137,105)	(98,735)	(103,590)
Profit/(loss) for the year/period		178,534	214,927	(971,805)	236,254	(5,360,915)
Profit/(loss) for the year/period attributable to:						
Owners of the Company		178,534	214,927	(971,805)	236,254	(5,358,752)
Non-controlling interests		—	—	—	—	(2,163)
		178,534	214,927	(971,805)	236,254	(5,360,915)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) for the year/period	178,534	214,927	(971,805)	236,254	(5,360,915)
Other comprehensive income/(loss)					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign operations	33,584	(35,617)	(9,809)	9,835	1,686
<i>Items that may not be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation from functional currency to reporting currency	(33,584)	35,617	34,920	(9,835)	(41,555)
Other comprehensive income/(loss) for the year/period	—	—	25,111	—	(39,869)
Total comprehensive income/(loss) for the year/ period	178,534	214,927	(946,694)	236,254	(5,400,784)
Total comprehensive income/(loss) for the year/ period attributable to:					
Owners of the Company	178,534	214,927	(946,694)	236,254	(5,398,621)
Non-controlling interests	—	—	—	—	(2,163)
	178,534	214,927	(946,694)	236,254	(5,400,784)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31,			As of June 30,
		2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Intangible assets		5,720	2,760	600	804
Property and equipment		797	1,344	5,628	8,979
Investment in a joint venture	13	—	—	—	658,838
Financial assets at fair value through profit or loss	14	—	7,409	7,450	143,934
Right-of-use assets	15	2,965	3,025	10,567	59,905
Deferred tax assets	11	673	953	1,198	19,865
Prepayments, other receivables and other assets	16	63	319	27,191	9,220
Total non-current assets		<u>10,218</u>	<u>15,810</u>	<u>52,634</u>	<u>901,545</u>
Current assets					
Inventories	17	884,047	1,115,295	1,278,339	1,999,886
Trade and note receivables	18	3,091	20,032	21,552	29,053
Prepayments, other receivables and other assets	16	6,606	10,933	957,749	1,410,765
Financial assets at fair value through profit or loss	14	—	—	—	1,012,396
Term deposits	19	—	—	1,395,240	2,831,800
Restricted cash	20	—	3,864	5,891	9,159
Cash and cash equivalents	20	7,401	16,213	4,965,272	3,200,320
Total current assets		<u>901,145</u>	<u>1,166,337</u>	<u>8,624,043</u>	<u>10,493,379</u>
Total assets		<u>911,363</u>	<u>1,182,147</u>	<u>8,676,677</u>	<u>11,394,924</u>
Equity					
Paid-in capital/share capital	25	2,000	2,000	7	7
Reserves		714,669	841,991	909,753	896,350
Accumulated losses		(54,045)	(94,770)	(1,368,791)	(6,727,543)
Equity attributable to owners of the Company		<u>662,624</u>	<u>749,221</u>	<u>(459,031)</u>	<u>(5,831,186)</u>
Non-controlling interests		<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,128)</u>
Total equity		<u>662,624</u>	<u>749,221</u>	<u>(459,031)</u>	<u>(5,832,314)</u>
Liabilities					
Non-current liabilities					
Convertible preferred shares	23	—	—	7,584,420	13,609,415
Financial liabilities at fair value through profit or loss	24	—	—	—	135,906
Lease liabilities	15	1,594	2,411	6,412	36,100
Total non-current liabilities		<u>1,594</u>	<u>2,411</u>	<u>7,590,832</u>	<u>13,781,421</u>
Current liabilities					
Trade payables	21	172,650	340,229	444,984	1,744,114
Contract liabilities	5	31,227	40,519	87,687	189,348
Lease liabilities	15	1,664	715	4,851	17,473
Accrued expenses and other payables	22	41,604	49,052	1,007,354	1,494,882
Total current liabilities		<u>247,145</u>	<u>430,515</u>	<u>1,544,876</u>	<u>3,445,817</u>
Total liabilities		<u>248,739</u>	<u>432,926</u>	<u>9,135,708</u>	<u>17,227,238</u>
Total equity and liabilities		<u>911,363</u>	<u>1,182,147</u>	<u>8,676,677</u>	<u>11,394,924</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As of December 31,		As of June 30,
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary		—*	—*	—*
Total non-current assets		—*	—*	—*
Current assets				
Prepayments, other receivables and other assets	16	—*	787,594	1,499,741
Term deposits	19	—	1,395,240	2,831,800
Cash and cash equivalents	20	—	4,961,023	3,151,829
Total current assets		—*	7,143,857	7,483,370
Total assets		—*	7,143,857	7,483,370
Equity				
Share capital	25	—*	7	7
Reserves	26	2,166	811,802	771,887
Accumulated losses		(2,166)	(1,252,372)	(6,902,008)
Total equity		—*	(440,563)	(6,130,114)
Liabilities				
Non-current liabilities				
Convertible preferred shares	23	—	7,584,420	13,609,415
Total non-current liabilities		—	7,584,420	13,609,415
Current liabilities				
Accrued expenses and other payables		—*	—	4,069
Total current liabilities		—*	—	4,069
Total liabilities		—*	7,584,420	13,613,484
Total equity and liabilities		—*	7,143,857	7,483,370

* less than RMB1,000.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Paid-in capital/ Notes share capital	Contribution reserves	Other reserves **	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2017	2,000	461,442	—	(22,424)	441,018	—	441,018
Profit for the year	—	—	—	178,534	178,534	—	178,534
Total comprehensive income for the year	—	—	—	178,534	178,534	—	178,534
Share-based payments expenses	27	—	30,420	—	30,420	—	30,420
Net contribution from/(return to) JD Group***	—	222,807	—	(210,155)	12,652	—	12,652
As of December 31, 2017	2,000	684,249	30,420	(54,045)	662,624	—	662,624
Profit for the year	—	—	—	214,927	214,927	—	214,927
Total comprehensive income for the year	—	—	—	214,927	214,927	—	214,927
Issuance of ordinary shares by the Company	25	—*	—	—	—*	—	—*
Share-based payments expenses	27	—	33,471	—	33,471	—	33,471
Net contribution from/(return to) JD Group***	—	93,851	—	(255,652)	(161,801)	—	(161,801)
As of December 31, 2018	2,000	778,100	63,891	(94,770)	749,221	—	749,221
Loss for the year	—	—	—	(971,805)	(971,805)	—	(971,805)
Other comprehensive income for the year	—	—	25,111	—	25,111	—	25,111
Total comprehensive income/(loss) for the year	—	—	25,111	(971,805)	(946,694)	—	(946,694)
Issuance of ordinary shares by the Company	25	7	—	—	7	—	7
Share-based payments expenses	27	—	52,728	—	52,728	—	52,728
Net return to JD Group***	—	(259,671)	—	(302,216)	(561,887)	—	(561,887)
Effect arising from reorganization	25	(2,000)	—	—	(2,000)	—	(2,000)
Effect arising from Series A Preferred Shares financing****	—	249,594	—	—	249,594	—	249,594
As of December 31, 2019	7	768,023	141,730	(1,368,791)	(459,031)	—	(459,031)
As of January 1, 2020	7	768,023	141,730	(1,368,791)	(459,031)	—	(459,031)
Loss for the period	—	—	—	(5,358,752)	(5,358,752)	(2,163)	(5,360,915)
Other comprehensive loss for the period	—	—	(39,869)	—	(39,869)	—	(39,869)
Total comprehensive loss for the period	—	—	(39,869)	(5,358,752)	(5,398,621)	(2,163)	(5,400,784)
Share-based payments expenses	27	—	26,466	—	26,466	—	26,466
Acquisition of a non-wholly owned subsidiary	—	—	—	—	—	1,035	1,035
As of June 30, 2020	7	768,023	128,327	(6,727,543)	(5,831,186)	(1,128)	(5,832,314)
(Unaudited)							
As of January 1, 2019	2,000	778,100	63,891	(94,770)	749,221	—	749,221
Profit for the period	—	—	—	236,254	236,254	—	236,254
Total comprehensive income for the period	—	—	—	236,254	236,254	—	236,254
Issuance of ordinary shares by the Company	25	7	—	—	7	—	7
Share-based payments expenses	27	—	17,713	—	17,713	—	17,713
Net return to JD Group***	—	(259,671)	—	(302,216)	(561,887)	—	(561,887)
Effect arising from Series A Preferred Shares financing****	—	249,594	—	—	249,594	—	249,594
As of June 30, 2019	2,007	768,023	81,604	(160,732)	690,902	—	690,902

* less than RMB1,000.

** Other reserves consist of share-based payment expenses from the deemed contribution of JD.com, Inc. and exchange differences on foreign currency translation recognized in other comprehensive income/(loss).

COMBINED STATEMENTS OF CHANGES IN EQUITY—continued

- *** The net contribution from/(return to) JD Group represents the funding and assets provided by JD Group or the retained profits returned to JD Group arising from the Listing Business prior to the Closing Date of Series A Preferred Shares financing (as defined in Note 1.2).
- **** The effect arising from Series A Preferred Shares financing represents the profits generated/funds utilized by the Remaining Listing Business as defined in Note 1.2 in JD Group and was recognized as the amounts due from/due to related parties after the Closing Date of Series A Preferred Shares financing.

COMBINED STATEMENTS OF CASH FLOWS

As detailed and defined in Note 1.2, during the Track Record Period, the Listing Business were carried out by the PRC Operating Entities and certain subsidiaries and consolidated affiliated entities of JD Group other than the PRC Operating Entities. No separate bank accounts were maintained by the Remaining Listing Business (as defined in Note 1.2). The treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group. The net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group. Prior to the Closing Date of Series A Preferred Share financing as set out in Note 1.2, the Group was not able to receive and retain the profits arising from the Remaining Listing Business. Accordingly, the funds generated or utilized by JD Group were presented as movements in the equity while there are no cash and cash equivalents balance for the Remaining Listing Business and there were no cash received/paid directly by the Group in relation to the operation of the Remaining Listing Business. After the Closing Date of Series A Preferred Share financing, the Group was eligible to receive and retain the profits arising from the Remaining Listing Business accumulated in JD Group since January 1, 2017. Accordingly, the profits and funds generated or utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017 were recognized as the amounts due from/to related parties without any cash flow from/to the Remaining Listing Business.

For the purpose of presenting a completed set of financial information of the Group, the following comprises the information of cash inflow/outflow of the Group and cash inflow/outflow of the Remaining Listing Business which was received/paid via JD Group prior to completion of the Reorganization and the Spin-off.

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Operating activities						
Cash generated from operations	31	114,230	278,744	522,741	559,273	458,934
Interest received		4	67	24,079	35	22,990
Income tax paid		(78,118)	(91,585)	(137,350)	(98,936)	(122,257)
Net cash generated from operating activities		<u>36,116</u>	<u>187,226</u>	<u>409,470</u>	<u>460,372</u>	<u>359,667</u>
Investing activities						
Withdrawal of restricted cash		—	9,055	7,275	5,205	6,772
Placement of restricted cash		—	(12,919)	(9,302)	(3,411)	(10,040)
Placement of term deposits		—	—	(1,414,160)	—	(1,401,880)
Purchase of financial assets at fair value through profit or loss		—	(7,409)	—	—	(1,012,220)
Payments for investment in a joint venture		—	—	—	—	(667,904)
Prepayments for investments in equity investees		—	—	(26,747)	—	(773)
Net cash outflow on acquisition of a non-wholly owned subsidiary		—	—	—	—	(3,501)
Purchases of property and equipment		(842)	(2,013)	(5,186)	(2,248)	(6,640)
Purchases of intangible assets		(7,077)	(403)	(503)	—	(395)
Payments for right-of-use assets		(704)	—	—	—	(482)
Net cash used in investing activities		<u>(8,623)</u>	<u>(13,689)</u>	<u>(1,448,623)</u>	<u>(454)</u>	<u>(3,097,063)</u>

COMBINED STATEMENTS OF CASH FLOWS—continued

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Financing activities					
Repayment for borrowings	—	—	—	—	(5,000)
Principal portion of lease payments	(290)	(1,797)	(1,530)	(548)	(10,488)
Interest paid	(82)	(150)	(243)	(81)	(686)
(Payment to)/advance from JD Group	(32,927)	(977)	202,234	90,760	754,963
Proceeds from issuance of ordinary shares	—	—	7	7	—
Net proceeds from issuance of convertible preferred shares	—	—	6,310,651	893,711	168,862
Payment for reorganization	—	—	(2,000)	—	—
Net cash (used in)/ generated from financing activities	<u>(33,299)</u>	<u>(2,924)</u>	<u>6,509,119</u>	<u>983,849</u>	<u>907,651</u>
Net (decrease)/increase in cash and cash equivalents	<u>(5,806)</u>	<u>170,613</u>	<u>5,469,966</u>	<u>1,443,767</u>	<u>(1,829,745)</u>
Net contribution from/(return to) JD Group	12,652	(161,801)	(561,887)	(561,887)	—
Cash and cash equivalents at the beginning of the year/period	555	7,401	16,213	16,213	4,965,272
Effects of foreign exchange rate changes on cash and cash equivalents	—	—	40,980	—	64,793
Cash and cash equivalents at the end of the year/period	<u>7,401</u>	<u>16,213</u>	<u>4,965,272</u>	<u>898,093</u>	<u>3,200,320</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. General information, reorganization and basis of preparation and presentation of Historical Financial Information****1.1 General information**

The Company was incorporated in the Cayman Islands in November 2018 as an exempted company registered under the laws of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section “Corporate Information” of the prospectus. The Company acts as an investment holding company and its subsidiaries, as set out in Note 33 (collectively the “Group”), engage in a comprehensive “Internet + healthcare” ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management, intelligent healthcare solutions to the customers, and a variety of marketing services to the business partners (collectively the “Listing Business”). The Group’s principal operations and geographic markets are in the People’s Republic of China (the “PRC”).

JD Jiankang Limited is the immediate parent company of the Company and owned by JD.com, Inc., which is the Company’s ultimate parent company. JD.com, Inc., its subsidiaries and consolidated affiliated entities, excluding the Group, are collectively referred to as “JD Group”.

1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information

The Historical Financial Information has been prepared based on the accounting policies set out in Note 2, which conform with IFRSs issued by the IASB and the conventions applicable for the Reorganization (details are set out below).

Historically and up to the completion of the equity transfers of the relevant entities as mentioned below and the spin-off as defined below, the Listing Business was carried out by (1) Yinchuan JD Online Hospital Co., Ltd. (“Yinchuan JD Online Hospital”) and Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd., two wholly-owned domestic companies of JD Group, and their subsidiaries established in the PRC (collectively the “PRC Operating Entities”) and (2) certain subsidiaries and consolidated affiliated entities of JD Group (collectively the “Remaining JD Group”, and the portion of the Listing Business carried out by the Remaining JD Group is referred to as “Remaining Listing Business”).

The Group underwent a reorganization (the “Reorganization”) that involves equity transfers of the PRC Operating Entities to the Company and its subsidiaries, which principally involved the following:

On November 30, 2018, the Company was incorporated in the Cayman Islands with an authorized share capital of United States dollars (“USD”) 50,000 divided into 50,000 shares at USD1.00 each, of which 1 share was allotted to and subscribed by JD Jiankang Limited.

In December 2018, JD Health (Cayman), Inc. (“JD Health Cayman”) was incorporated in the Cayman Islands and 1 share was allotted to and subscribed by the Company. Since then, JD Health Cayman is wholly owned by the Company.

In January 2019, JD Health (HK) Limited (“JD Health HK”) was incorporated in Hong Kong and 1 share was allotted to and subscribed by JD Health Cayman. Since then, JD Health HK is wholly owned by JD Health Cayman.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued****1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued**

In June 2019, Beijing Jingdong Jiankang Co., Ltd. (“Beijing Jingdong Jiankang”) was incorporated in the PRC as a wholly foreign-owned subsidiary of JD Health HK.

In June 2019, Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (“Suqian Jingdong Tianning”) was incorporated in the PRC by three of the JD Group’s management members (“Nominee Shareholders”). In the same month, Beijing Jingdong Jiankang, Suqian Jingdong Tianning and its Nominee Shareholders entered into a series of agreements, which enables Beijing Jingdong Jiankang to obtain control over Suqian Jingdong Tianning and its subsidiaries. See the section headed “Contractual Arrangements” below for further details.

Subsequently in July 2019, all the equity interests of the PRC Operating Entities were transferred to Suqian Jingdong Tianning at a cash consideration of RMB2 million. Upon the completion of the transfer, the PRC Operating Entities became the subsidiaries of Suqian Jingdong Tianning and the Reorganization was completed. As both Suqian Jingdong Tianning and the PRC Operating Entities were under the common control of JD Group, the transfers of the PRC Operating Entities have been accounted for as business combination involving entities under common control using the principle of merger accounting.

Upon the completion of the Reorganization, the Company became the holding company of the PRC Operating Entities.

The Company is in the process of a spin-off for the Remaining Listing Business, which includes the transfer of relevant management and employees, operating assets and liabilities, retained profits, as well as the replacement of the business contracts of counter parties to the Group (the “Spin-off”). Upon the completion of the Spin-off, the entire Listing Business will be operated and controlled by the Group.

Prior to the completion of Reorganization, the Company and those companies newly set up during the Reorganization do not involve in any other business and the Reorganization has not resulted in any change of economic substance and their operations do not meet the definition of a business. The Reorganization are merely the recapitalization of the PRC Operating Entities with no change in management of such business and its ultimate owners. The Group resulting from the Reorganization and the Spin-off is regarded as a continuation of the Listing Business under JD Group. The Historical Financial Information has been prepared on the basis as if the Company had always been the holding company of the Listing Business. For the purpose of this report, the Historical Financial Information has been prepared and presented using the carrying value of the Listing Business for all periods presented as if the Reorganization had been completed before the Track Record Period.

The combined statements of profit or loss, combined statements of comprehensive income/(loss), combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group and the Remaining Listing Business as if the current group structure had been in existence and the Listing Business had been operated by the Group throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued****1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued**

The combined statements of financial position of the Group as of December 31, 2017, 2018, 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the companies now comprising the Group and the Remaining Listing Business at the carrying amounts shown in the financial statements of the relevant entities, as if the current group structure had been in existence and the Listing Business had been operated by the Group at those dates taking into account their respective dates of incorporation.

Throughout the Spin-off, to the extent the assets, liabilities, income and expenses that are specifically identified to the Listing Business, such items are included in the Historical Financial Information throughout the Track Record Period. To the extent the assets, liabilities, income and expenses that are impracticable to identify specifically, these items are allocated to the Listing Business on the basis set out below (such items include certain fulfillment expenses, selling and marketing expenses, research and development expenses, general and administrative expenses and income tax expense). Items that do not meet the criteria above are not included in the Historical Financial Information of the Group.

Where the balances with JD Group do not meet the definition of financial assets or financial liabilities with the Remaining JD Group under the IFRSs, they are classified as an equity component and presented in the manner of equity, typically aggregated with the retained profits of the Remaining Listing Business, as “net contribution from/(return to) JD Group”.

In May 2019, the Company entered into a subscription agreement for the series A preferred shares (the “Series A Preferred Shares”) financing with certain third-party investors (the “Series A Share Subscription Agreement”), details are set out in Note 23. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between JD Group and the Group were established and became effective since the end of June 2019 (the “Closing Date”), which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and others. Such arrangements of the related party transactions affected the Historical Financial Information as below.

Prior to the Closing Date Series A Preferred Shares financing, expenses which are impracticable to be specifically identified to the Listing Business are determined on the following basis: (1) items included in selling and marketing expenses, research and development expenses, general and administrative expenses that are impracticable to be specifically identified were allocated from the JD Group’s respective expenses based on proportion of the fulfilled order volume of the Listing Business to that of the Listing Business and JD Group; (2) order processing fees (payment fees) generated from orders of the Listing Business included in fulfillment expenses were allocated based on the percentage of the fulfilled order volume of the Listing Business to that of the Listing Business and JD Group; (3) income tax expense was calculated based on the tax rate of the entities that the Listing Business were spun off from, as if the Listing Business was a separate tax reporting entity.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued****1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued**

After the Closing Date of Series A Preferred Shares financing, revenue or expenses that were generated from/charged by JD Group in accordance with the related party transactions listed out in Series A Share Subscription Agreement were recognized by the Group directly in accordance to terms stipulated on the Series A Share Subscription Agreement. Other items of expenses which are impracticable to be specifically identified to the Listing Business are determined as same as before the Series A Share Subscription Agreement became effective.

The directors of the Company believe that the method of the allocation and the recognition of the above expense items form a reasonable basis of presenting the operating results of the Listing Business on a stand-alone basis for the Track Record Period. Other than those items mentioned above, all other items of assets and liabilities, income and expenses of the Listing Business are specifically identified.

No financial statements have been prepared for the Company since the Company is incorporated in a jurisdiction where there is no statutory audit requirement.

Contractual Arrangements

In June 2019, to comply with the relevant laws and regulations in the PRC which prohibit or restrict foreign ownership of the companies engaged in retail pharmaceutical product business and the online hospital service carried out by the Group, Beijing Jingdong Jiankang entered into a series of contractual arrangements (collectively, the “Contractual Arrangements”) with Suqian Jingdong Tianning and its Nominee Shareholders, including loan agreement, exclusive purchase option agreement, exclusive technology consulting and services agreement, equity pledge agreement, powers of attorney, and business operation agreement. These Contractual Arrangements can be extended at Beijing Jingdong Jiankang’s options prior to the expiration date.

The Contractual Arrangements enable Beijing Jingdong Jiankang to control Suqian Jingdong Tianning by:

- Irrevocably exercising equity holders’ voting rights of Suqian Jingdong Tianning;
- Exercising effective financial and operational control over of Suqian Jingdong Tianning;
- Receiving substantially all of the economic interest returns generated by Suqian Jingdong Tianning in consideration for the technology consulting and services provided by Beijing Jingdong Jiankang. Beijing Jingdong Jiankang has obligation to grant interest-free loans to the relevant Nominee Shareholders of Suqian Jingdong Tianning with the sole purpose of providing funds necessary for the capital contribution to Suqian Jingdong Tianning;
- Obtaining an irrevocable and exclusive right which Beijing Jingdong Jiankang may exercise at any time to purchase all or part of the equity interests in Suqian Jingdong Tianning from the Nominee Shareholders at a minimum purchase price permitted under the PRC laws and regulations; and

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued****1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued**

- Obtaining a pledge over the entire equity interests of Suqian Jingdong Tianning from its Nominee Shareholders as collateral security for all of Suqian Jingdong Tianning's payments due to Beijing Jingdong Jiankang and to secure performance of Suqian Jingdong Tianning's obligation under the Contractual Arrangements.

In April 2020, two of the Nominee Shareholders have been changed to another two management members of the Group. The original Contractual Arrangements were terminated and replaced with a separate series of the Contractual Arrangements which were terminated and replaced with the current set of the Contractual Arrangements in September 2020. No substantial terms of the Contractual Arrangements were modified.

As of June 30, 2020, the Group had net liabilities of RMB5,832.3 million and accumulated loss of RMB6,727.5 million, primarily due to the significant fair value changes of convertible preferred shares. The convertible preferred shares can be automatically converted into ordinary shares upon the initial public offering. The details of these convertible preferred shares are set out in Note 23. Under any circumstances, no significant cash flow impact is expected in the next twelve months from the date of the report for the convertible preferred shares. In addition, the Group has performed a working capital forecast for the next twelve months. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital in the next twelve months from the date of the report. The directors of the Company consider that it is appropriate that the Historical Financial Information is prepared on a going concern basis.

2. Summary of significant accounting policies**2.1 Application of IFRSs**

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with the International Accounting Standards ("IASs"), the IFRSs, amendments to IFRSs and the related interpretations issued by the IASB, including IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments*, throughout the Track Record Period, except that the Group has early adopted the amendment to IFRS 16 *COVID-19—Related Rental Concessions* on January 1, 2020.

The application of amendment to IFRS 16 *COVID-19—Related Rental Concessions* from January 1, 2020 has had no material impact on the Group's financial positions and performances during the Track Record Period or on the disclosures set out in the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.1 Application of IFRSs—continued

New and amended standards not yet adopted by the Group

New standards and amendments to existing standards that have been issued but not yet effective for the financial year beginning January 1, 2020 and not been early adopted by the Group during the Track Record Period are as follows:

Standards/Amendments	Content	Effective for annual periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform—Phase 2	January 1, 2021
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 37	Onerous Contracts—Cost of Fulfilling a Contract	January 1, 2022
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
IFRS 17	Insurance Contracts and related Amendments	January 1, 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group expects that amendments listed above are unlikely to have any material impact on the Group's consolidated financial statements in the future.

The Historical Financial Information has been prepared in accordance with accounting policies which conform with IFRSs issued by IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these combined financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.1 Application of IFRSs—continued**

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

2.2 Basis of Combination

The Historical Financial Information incorporates the financial statements of the Company and entities (including affiliated entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.2 Basis of Combination—continued**

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the combined statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.3 Merger accounting for business combination involving business under common control

The Historical Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.3 Merger accounting for business combination involving business under common control—continued**

The combined statements of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

2.4 Investments in subsidiaries

Investments in subsidiaries are stated in the statements of financial position of the Company at cost less identified impairment loss, if any.

2.5 Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, and assets and liabilities of joint ventures are incorporated in these combined financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognized in the combined statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.5 Investment in a joint venture—continued**

its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognized in the Group's combined financial statements only to the extent of interests in the joint venture that are not related to the Group.

2.6 Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

The Group mainly through its and JD Group's mobile apps and www.jd.com website engages primarily in the sale of pharmaceutical and healthcare products sourced from manufacturers and distributors in the PRC, offers an online marketplace that enables third-party merchants to sell their products to consumers, and provides internet healthcare, health management and intelligent healthcare solutions services to its customers. Customers place orders for those products or services online primarily through the Group's and JD Group's mobile apps and www.jd.com website. Payment for the purchased products or services is generally made either before delivery or upon delivery.

The Group evaluates whether it is appropriate to record the gross amounts of product sales or services provided and related costs, or the net amount earned as commissions. When the Group is a

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.6 Revenue from contracts with customers—continued**

principal, that the Group obtains control of the specified goods or services before they are transferred to the customers, the revenue should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When the Group is an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, in which case the Group does not control the specified goods or services provided by third parties before those goods or services are transferred to the customer, the revenue should be recognized in the net amount for the amount of commission which the Group earns in exchange for arranging for the specified goods or services to be provided by other parties.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price (“SSP”) basis. The SSP of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If an SSP is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Product Revenue

The Group primarily sells pharmaceutical and healthcare products through online direct sales. The Group recognizes the product revenue from the online direct sales on a gross basis as the Group is acting as a principal in these transactions and is responsible for fulfilling the promise to provide the specified goods. Product revenue is recognized at the point of delivery of products, net of discounts and return allowances.

Service Revenue

The service revenue primarily consists of commission fees charged to third-party merchants for participating in the online marketplace mainly through the Group’s and JD Group’s mobile apps and www.jd.com website. The Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants a fixed rate commission fee based on the sales amount, net of discounts and return allowances. Commission fee revenue is recognized on a net basis at the point of delivery of products.

The Group provides online marketing services to advertisers including third-party merchants and suppliers on its and JD Group’s various website channels and third-party marketing affiliate’s websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which third-party merchants and suppliers are charged based on display per thousand impressions or per effective click on their products or service listings. The Group recognizes revenue from pay for performance marketing services at point of time when each effective click is generated. The Group recognizes revenue from advertising placements ratably

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.6 Revenue from contracts with customers—continued**

over time as the customer simultaneously receives and consumes the benefits throughout the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions.

The Group provides internet healthcare, health management and intelligent healthcare solutions services to customers on the Group's and JD Group's mobile apps and www.jd.com website. The services mainly include online consultation, hospital or doctor referral, health check-ups, genetic testing and beauty care. The Group recognizes revenue overtime during the service period or at point in time when such services are rendered. Revenue from such services is recognized on a gross basis when the Group has the ability to determine the pricing and nature of the services, and is responsible for the services provided as the Group is acting as a principal and obtains control of the specified services before they are transferred to the customers. Revenue is recognized on a net basis when the Group charges commissions from such services as the Group is acting as an agent.

The Group also renders platform services through its platform to the platform merchants, such as order management, client management, and other merchants operational and maintenance supports. The platform usage fee collected from platform merchants shall be recognized as revenue over the service period as the platform merchants simultaneously receive the relevant services throughout the period.

2.7 Contract balances

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

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

Timing of revenue recognition may differ from the timing of invoicing to customers. Trade receivables represent amounts invoiced and revenue recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional right to payment.

For online retail business with return conditions, the Group estimates the possibility of return based on the historical experience. Changes in judgements on these assumptions and estimates could materially impact the amount of revenue recognized, liabilities and assets estimated for return allowances. Liabilities for return allowances are included in "Accrued expenses and other payables". The estimated return of product sold associated with the Group's liabilities for return allowances are the Group's assets, which are included in "Prepayments, other receivables and other assets".

The Group applied a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. The Group has no material incremental costs of obtaining contracts with customers that the Group expects the benefit of those costs to be longer than one year which need to be recognized as assets.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.8 Cost of revenue**

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

The Group periodically receives considerations from certain vendors, representing rebates for products sold and subsidies for the sales of the vendors' products over a period of time. The rebates are not sufficiently separable from the Group's purchase of the vendors' products and they do not represent a reimbursement of costs incurred by the Group to sell vendors' products. The Group accounts for the rebates received from its vendors as a reduction to the prices it pays for the products purchased and therefore the Group records such amounts as a reduction of cost of revenue when recognized in the combined statements of profit or loss.

2.9 Fulfillment expenses

Fulfillment expenses consist primarily of (i) expenses incurred in the Group's sales and procurement operations, including personnel cost and miscellaneous expenses, (ii) expenses charged by JD Group for warehousing and logistic services, payment services and customer services, and (iii) lease expenses of warehouses and physical stores.

2.10 Research and development expenses

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2017, 2018 and 2019 and June 30, 2020.

2.11 Leases**Definition of a lease**

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.11 Leases—continued****The Group as a lessee***Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless such allocation cannot be made reliably. Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the combined statements of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.11 Leases—continued**

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the combined statements of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.12 Foreign currency translation**

The Group's reporting currency is RMB. The functional currency of the Company is USD as its key activities and transactions are denominated in USD. The functional currency of the Group's subsidiaries incorporated in Cayman Islands, BVI and Hong Kong is USD. The Group's PRC subsidiaries and consolidated affiliated entities determined their functional currency to be RMB.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the combined financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of reserve (attributed to non-controlling interests as appropriate).

2.13 Employee benefits*Employee leave entitlement*

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

Pension obligations and other social welfare benefits

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries, including consolidated affiliated entities of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.13 Employee benefits—continued***Bonus plan*

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonuses as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonuses are expected to be settled within one year and are measured at the amounts expected to be paid when they are settled.

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave) after deducting any amount already paid.

2.14 Share-based payments

Share-based awards to the Group's employees are granted under a share incentive plan of JD Group ("JD Group Share Incentive Plan"). The combined financial statements include allocation of the expenses recorded at JD Group based on the Group's employees participating under JD Group Share Incentive Plan. JD Group grants its service-based restricted share units ("RSUs") and share options to the Group's eligible employees, which are treated as deemed contribution from JD Group and recorded in other reserves in the Group's combined statements of financial position.

Equity-settled share-based payment transactions

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

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

When share options are exercised, the amount previously recognized in other reserves will continue to be held in other reserves. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will continue to be held in other reserves.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.14 Share-based payments—continued**

When RSUs granted are vested, the amount previously recognized in other reserves will continue to be held in other reserves.

2.15 Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.15 Taxation—continued**

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

2.16 Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Electronic equipment	3-5 years
Office equipment	5 years
Vehicles	5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.17 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.17 Intangible assets—continued**

The estimated useful lives of intangible assets are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Domain names	15 years
Licenses	2 years
Software	3-5 years

2.18 Impairment on property and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.19 Inventories

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost of inventory is determined using the weighted average method.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.19 Inventories—continued**

Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased, but has arrangements to return unsold goods with certain vendors. Write downs are recorded in cost of revenue in the combined statements of profit or loss.

2.20 Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade and note receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(a) Financial assets*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.20 Financial instruments—continued****(a) Financial assets—continued**

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in “other (losses)/gains”.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and note receivables, other receivables, term deposit, restricted cash, cash and cash equivalent), which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group’s historical credit loss

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.20 Financial instruments—continued****(a) Financial assets—continued**

experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade and note receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.20 Financial instruments—continued****(a) Financial assets—continued**

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.20 Financial instruments—continued****(a) Financial assets—continued**

probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the directors of the Company to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and note receivables and other receivables where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.20 Financial instruments—continued****(b) Financial liabilities and equity***Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at amortized cost

Financial liabilities including trade payables and other payables are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(c) Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortized cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**2. Summary of significant accounting policies—continued****2.20 Financial instruments—continued****(c) Derivative financial instruments—continued**

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

(d) Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the combined statements of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(e) Convertible preferred shares

Series A Preferred Shares issued by the Company are convertible at the option of the holders of Series A Preferred Shares or automatically converted under certain events. Series A Preferred Shares are not redeemable, but the Company is required to pay dividends to the holders of Series A Preferred Shares up to the purchase price of Series A Preferred Shares when certain conditions are met. The details of these convertible preferred shares are set out in Note 23.

Each Series A Preferred Shares shall be convertible, at the option of the holder of the Series A Preferred Shares, at any time after the date of issuance of such Series A Preferred Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preferred Shares purchase price by the conversion price then applicable to such Series A Preferred Shares. The conversion price is subject to adjustments when any equity securities of the Company are issued at a price per share lower than the purchase price of Series A Preferred Shares.

The convertible preferred shares include contractual obligation to deliver dividend up to the purchase price to holders of Series A Preferred Shares, and when the convertible preferred shares are converted to fully paid and non-assessable ordinary shares of the Company, the number of ordinary shares to be converted is not fixed due to the potential adjustments aforementioned to the conversion price under certain circumstances. The convertible preferred shares are initially recognized at fair value. The Group does not account for the embedded derivatives separately from the host contract and designates the entire convertible preferred shares as financial liabilities at FVTPL with fair value change recognized in “fair value changes of convertible preferred shares” in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

3. Critical accounting estimates and judgements

The preparation of the Historical Financial Information requires the directors of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenue and expenses during the Track Record Period in the combined financial statements and accompanying notes.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**3. Critical accounting estimates and judgements—continued**

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the Group's financial position and results of operation are addressed below:

Consolidation of affiliated entities

The Group obtained control over a PRC domestic company, Suqian Jingdong Tianning, by entering into a series of the Contractual Arrangements with the PRC domestic company and its respective Nominee Shareholders. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the PRC domestic company and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC domestic company. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Beijing Jingdong Jiankang, Suqian Jingdong Tianning and its respective Nominee Shareholders are in compliance with the relevant PRC Laws and are legally enforceable.

Impairment of inventories

Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment.

Rebates and subsidies

Rebates are earned upon reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on the Group's past experiences and current forecasts, a portion of the rebates is recognized as the Group makes progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through the Group and are recorded as a reduction of cost of revenue when the sales have been completed and the amount is determinable.

Estimation of the fair value of the convertible preferred shares

The convertible preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions and key inputs such as the timing of the liquidation, redemption or Initial Public Offerings ("IPO") event as well as the probability of the various scenarios were based on the Group's best estimates. Further details are included in Note 23.

Estimation of the fair value of the call option and put option

The fair value of the call option and put option associated with the investment in a joint venture of the Group, in the absence of an active market, is estimated by using appropriate valuation

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Critical accounting estimates and judgements—continued

techniques. The Group applied the Black-Scholes model to determine the fair value of the options. Key assumptions and key inputs such as the timing of expiration and volatility were based on the Group's best estimates and subject to uncertainty and might materially differ from the actual results. Further details are included in Note 14 and Note 24.

4. Segment information

The Group operates a comprehensive "Internet + healthcare" ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management and intelligent healthcare solutions to the customers. The Group does not distinguish revenue, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole.

The Group's chief operating decision maker, who has been identified as the Chief Executive Officer ("CEO"), reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reports. As the Group's non-current assets are all located in the PRC and most of all the Group's revenue are derived from the PRC, no geographical information is presented. During the Track Record Period, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue.

5. Revenue

(a) Disaggregation of revenue from contracts with customers:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Type of goods or services:					
Product revenue:					
Sales of pharmaceutical and healthcare products	4,907,244	7,254,582	9,434,984	4,365,153	7,693,261
Service revenue:					
Marketplace, advertising and other services	645,884	914,475	1,407,156	623,384	1,084,229
Total	<u>5,553,128</u>	<u>8,169,057</u>	<u>10,842,140</u>	<u>4,988,537</u>	<u>8,777,490</u>
Timing of revenue recognition:					
A point in time	5,405,314	8,020,266	10,673,558	4,901,825	8,682,679
Over time	147,814	148,791	168,582	86,712	94,811
Total	<u>5,553,128</u>	<u>8,169,057</u>	<u>10,842,140</u>	<u>4,988,537</u>	<u>8,777,490</u>

The Group applies the practical expedient of not disclosing the transaction price allocated to the remaining performance obligation as the original expected duration of all the contracts of the Group are within one year or less.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. Revenue—continued

(b) Contract liabilities

The Group collected payments in advance from customers primarily for sales of pharmaceutical and healthcare products and marketplace service fees. The Group has recognized the following liabilities related to contracts with customers under “contract liabilities”:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities	<u>31,227</u>	<u>40,519</u>	<u>87,687</u>	<u>189,348</u>

As of January 1, 2017, contract liabilities amounted to RMB23 million.

The directors of the Company expect that all of the contract liabilities as of June 30, 2020 will be recognized as revenue within one year.

(c) Revenue recognized in relation to contract liabilities

The following table shows the amount of the revenue recognized during the Track Record Period relates to carried-forward contract liabilities:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year/period:	<u>22,554</u>	<u>31,227</u>	<u>40,519</u>	<u>40,519</u>	<u>87,687</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. Profit/(loss) before income tax

Profit/(loss) before income tax has been arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold	4,158,973	6,176,645	8,011,511	3,647,419	6,464,009
Provision for impairment of inventories	1,351	1,120	981	805	74,665
Expenses of logistics and warehousing services allocated/provided by JD Group*	472,941	660,943	818,932	372,091	591,328
Expenses of technology and traffic support services allocated/provided by JD Group*	276,483	424,871	528,154	239,876	424,124
Expenses related to other support services allocated by JD Group*	148,874	168,333	62,825	54,078	9,459
Promotion and advertising expenses	63,191	140,570	456,681	135,834	319,751
Employee benefit expenses (Note 8)	70,086	113,413	272,028	86,644	254,068
Expenses of payment services allocated/provided by JD Group*	51,355	86,881	133,045	58,104	94,918
Depreciation of property and equipment and right-of-use assets and amortization of intangible assets	3,087	6,266	7,423	3,491	8,591
Auditor's remuneration	—	—	708	—	—

* Prior to the Closing Date of Series A Preferred Shares financing, the expenses of logistics and warehousing services, the expenses of technology and traffic support services, the expenses related to other support services and expenses of payment services were allocated on the basis as set out in Note 1.2. After the Closing Date of Series A Preferred Shares financing, the expenses aforesaid were charged by JD Group in accordance with the terms and pricing policies of the related party transactions listed out in Series A Share Subscription Agreement and are set out in Note 32, except for the expenses related to other support services which are allocated on the basis as set out in Note 1.2.

7. Finance income

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest income from term deposits and bank balances	4	84	31,783	27	60,327

8. Employee benefit expenses

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and bonuses	30,199	61,072	168,849	52,673	187,874
Share-based payments expenses (Note 27)	30,420	33,471	52,728	17,713	26,466
Welfare, medical and other benefits	9,467	18,870	50,451	16,258	39,728
Total	70,086	113,413	272,028	86,644	254,068

The employee benefit expenses include the remuneration of directors and the CEO during the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Directors' and the CEO's emoluments

Directors' and the CEO's remuneration for the Track Record Period, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

(a) The remuneration of directors and the CEO is set out below:

Name	For the year ended December 31, 2017				Total RMB'000
	Salaries and bonuses	Share-based compensation expenses	Pension costs—defined contribution plans	Welfare, medical and other benefits	
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	
CEO: Lijun Xin ¹	<u>1,398</u>	<u>23,258</u>	<u>51</u>	<u>267</u>	<u>24,974</u>

Name	For the year ended December 31, 2018				Total RMB'000
	Salaries and bonuses	Share-based compensation expenses	Pension costs—defined contribution plans	Welfare, medical and other benefits	
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	
CEO: Lijun Xin ¹	<u>1,870</u>	<u>23,751</u>	<u>55</u>	<u>273</u>	<u>25,949</u>
Non-executive director: Nani Wang ^{2/6}	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,870</u>	<u>23,751</u>	<u>55</u>	<u>273</u>	<u>25,949</u>

Name	For the year ended December 31, 2019				Total RMB'000
	Salaries and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Welfare, medical and other benefits	
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	
Executive director and CEO: Lijun Xin ¹	<u>2,594</u>	<u>16,421</u>	<u>51</u>	<u>279</u>	<u>19,345</u>
Non-executive directors: Nani Wang ^{2/6}	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Lei Xu ^{3/6}	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Sidney Xuande Huang ^{3/6}	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Jingyang Wu ⁴	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Guiyong Cui ⁵	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>2,594</u>	<u>16,421</u>	<u>51</u>	<u>279</u>	<u>19,345</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Directors' and the CEO's emoluments—continued

(a) The remuneration of directors and the CEO is set out below:—continued

Name	For the six months ended June 30, 2019 (unaudited)				
	Salaries and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Lijun Xin ¹	1,233	7,055	28	138	8,454
Non-executive directors:					
Nani Wang ^{2/6}	—	—	—	—	—
Lei Xu ^{3/6}	—	—	—	—	—
Sidney Xuande Huang ^{3/6}	—	—	—	—	—
	<u>1,233</u>	<u>7,055</u>	<u>28</u>	<u>138</u>	<u>8,454</u>

Name	For the six months ended June 30, 2020				
	Salaries and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Lijun Xin ¹	2,355	4,511	23	141	7,030
Non-executive directors:					
Lei Xu ^{3/6}	—	—	—	—	—
Sidney Xuande Huang ^{3/6}	—	—	—	—	—
Jingyang Wu ⁴	—	—	—	—	—
Guiyong Cui ⁵	—	—	—	—	—
	<u>2,355</u>	<u>4,511</u>	<u>23</u>	<u>141</u>	<u>7,030</u>

Notes:

1. Appointed as the person in charge of the Group (similar to the CEO) since January 2017, and appointed as executive director since June 2019 and CEO since July 2019.
2. Appointed as non-executive director since November 2018 and resigned in June 2019.
3. Appointed as non-executive director since June 2019.
4. Appointed as non-executive director since July 2019.
5. Appointed as non-executive director since October 2019.
6. These non-executive directors served as senior management in JD Group and their emoluments are borne and paid by JD Group.

No emoluments were paid or payable to the non-executive directors of the Company during the Track Record Period.

The emoluments of the executive director and the CEO shown above were mainly for his management services rendered to the Company and the Group.

(b) Benefits and interests of directors

Except for directors disclosed above, there is no other benefits offered to the other directors.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Directors' and the CEO's emoluments—continued

(c) Directors' termination benefits

No director's termination benefit subsisted at the end of the period or at any time during the Track Record Period.

(d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the period or at any time during the Track Record Period.

(e) Information about loans, quasi-loans and other dealings in favor of directors, their controlled bodies and connected entities

No loans, quasi-loans and other dealings in favor of directors, their controlled bodies corporate and connected entities subsisted at the end of the period or at any time during the Track Record Period.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the Track Record Period.

10. Five highest paid employees

The five highest paid employees include one director whose remuneration is set out in Note 9 during the Track Record Period. The emoluments payable to the remaining four individuals, who are neither a director nor the CEO of the Company, during the Track Record Period, were as follows:

	Year ended December 31,			Six months ended June 30,	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Salaries and bonuses	2,463	3,281	4,714	2,308	3,821
Share-based payments expenses	4,258	6,803	13,239	5,730	7,627
Pension costs—defined contribution plans	184	204	182	105	94
Welfare, medical and other benefits	222	496	513	255	258
Total	<u>7,127</u>	<u>10,784</u>	<u>18,648</u>	<u>8,398</u>	<u>11,800</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10. Five highest paid employees—continued

The number of the highest paid employees whose emoluments fell within the following bands:

	Number of individuals				
	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Emolument bands (in Hong Kong dollars (“HKD”))					
Nil to HKD3,000,000	3	3	2	2	2
HKD3,000,001 to HKD6,000,000	1	—	—	2	2
HKD6,000,001 to HKD9,000,000	—	1	2	—	—
Total	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of office. None of directors, the CEO and employees waived or agreed to waive any emoluments during the Track Record Period.

11. Income tax expense***Income tax****Cayman Islands*

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

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HKD2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HKD2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HKD2 million.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

PRC

Under the PRC Enterprise Income Tax Law (the “EIT Law”), the standard enterprise income tax rate for PRC operating entities is 25%.

Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) (“Western Regions Catalog”), subject to certain general restrictions described in the EIT Law and the related regulations. During the Track Record Period, the Group’s online marketing service business that is subject to the spin-off from JD Group, was operated by the entities qualified as the enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate. Therefore, the enterprise income tax (the “EIT”) of such online marketing service business was estimated by treating as separate tax payer using the tax rate of 15%.

Withholding tax on undistributed dividends

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

The income tax expense of the Group is analyzed as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current income tax:					
PRC EIT	78,118	91,585	137,350	98,936	122,257
Deferred income tax	(673)	(280)	(245)	(201)	(18,667)
Total	<u>77,445</u>	<u>91,305</u>	<u>137,105</u>	<u>98,735</u>	<u>103,590</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

The income tax expense for the year/period can be reconciled to the profit/(loss) before income tax per the combined statements of profit or loss as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before income tax	255,979	306,232	(834,700)	334,989	(5,257,325)
Tax calculated at PRC statutory income tax rate of 25%	63,995	76,558	(208,675)	83,747	(1,314,331)
Tax effects of:					
—Expenses that are not deductible in determining taxable profit	7,662	8,384	9,082	2,666	5,532
—Super deduction for research and development expenses	(44)	(553)	(10,767)	(2,651)	(10,984)
—Utilization of tax losses not previously recognized	(48)	(189)	(370)	(4)	(8,445)
—Different tax rates available to different jurisdictions	—	—	311,980	1,773	1,412,268
—Preferential income tax rates applicable to subsidiaries and consolidated affiliated entities	(1,807)	(1,994)	(7,517)	(3,166)	(3,876)
—Share of results of a joint venture	—	—	—	—	2,152
—Tax losses/deductible temporary differences not recognized	7,687	9,099	43,372	16,370	21,274
Total income tax expense	<u>77,445</u>	<u>91,305</u>	<u>137,105</u>	<u>98,735</u>	<u>103,590</u>

Deferred tax

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As of December 31,			As of
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Deferred tax assets	<u>673</u>	<u>953</u>	<u>1,198</u>	<u>19,865</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

The following is the deferred tax assets recognized and movements thereon during the Track Record Period:

	Provision for impairment of inventories
	RMB'000
As of January 1, 2017	—
Credited to profit or loss	673
As of December 31, 2017	673
Credited to profit or loss	280
As of December 31, 2018	953
Credited to profit or loss	245
As of December 31, 2019	1,198
Credited to profit or loss	18,667
As of June 30, 2020	19,865

As of December 31, 2017, 2018 and 2019 and June 30, 2020, the Group had deductible temporary differences of RMB7,000, RMB6,437,000, RMB7,311,000 and RMB6,834,000, respectively, from certain PRC entities. No deferred tax assets have been recognized in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, the Group had unused tax losses of RMB50 million, RMB79 million, RMB251 million and RMB303 million, respectively, from certain PRC entities. Due to the unpredictability of future profit streams, no deferred tax asset had been recognized for these unused tax losses. As of June 30, 2020, these unrecognized tax losses will expire from 2020 to 2025.

12. Earnings/(loss) per share

Earnings/(loss) per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Spin-off and the combined basis of presentation of Historical Financial Information of the Group as disclosed in Note 1.2.

13. Investment in a joint venture

	As of June 30, 2020
	RMB'000
At the beginning of the period	—
Cost of investment in an unlisted joint venture	667,445
Share of post-acquisition loss and other comprehensive income/(loss)	(8,607)
At the end of the period	658,838

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Investment in a joint venture—continued

In April 2020, the Group entered into a series of agreements with Tangshan Hongci Healthcare Management Co., Ltd.* (“Tangshan Hongci”) (唐山弘慈醫療管理有限公司) and its shareholders, pursuant to which the Group injected approximately RMB668 million in cash to Tangshan Hongci for an equity interest of 49% on June 1, 2020. The Group accounts for the investee as a joint venture due to the veto rights that the Group entitled in making significant decisions in the board and shareholder meetings, which enable the Group to share the control with the existing shareholder of Tangshan Hongci. In addition, the Group entered into a loan agreement with Tangshan Hongci, pursuant to which the Group shall provide a three-year interest-bearing loan of approximately RMB227 million to Tangshan Hongci. As of June 30, 2020, the loan has not been paid by the Group.

Associated with the investment into Tangshan Hongci, the Group is entitled to a call option to acquire additional equity interest of 21% or above in Tangshan Hongci at a pre-determined schedule with the consideration calculated based on a pre-determined formula. Upon initial recognition, the Group’s call option was classified as financial asset measured at FVTPL. Further details are set out in Note 14. The Group did not consider the call option may provide a potential voting power since it is not substantive as the option was out-of-the-money.

In addition, the Group has granted a put option to the existing shareholder of Tangshan Hongci, by which the existing shareholder shall have the right to request the Group to buy out their shares at a pre-determined schedule with put price calculated based on a pre-determined formula when the joint venture achieved certain pre-determined operating targets. Upon initial recognition, the put option granted by the Group was classified as financial liability measured at FVTPL. Further details are set out in Note 24.

The details of the investment in the joint venture as of June 30, 2020 are as follows:

<u>Name of entity</u>	<u>Place of incorporation and principal place of operation</u>	<u>Principal activities</u>	<u>Percentage of equity interest</u>	<u>Percentage of voting rights</u>
Tangshan Hongci	Mainland China	Healthcare enterprise management services	49%	49%

Set out below is the summarized financial information of the joint venture.

	<u>As of June 30, 2020</u>
	<u>RMB'000</u>
Summarized consolidated statement of financial position	
Non-current assets	2,831,311
Current assets	1,051,061
Non-current liabilities	2,123,895
Current liabilities	342,001
Equity attributable to owners of Tangshan Hongci	869,780
Non-controlling interest	546,696

* The English name of the joint venture is translated from its registered Chinese name for identification only.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Investment in a joint venture—continued

	As of June 30, 2020
	RMB'000
Reconciliation to carrying amount	
Equity attributable to owners of Tangshan Hongci	869,780
Proportion of the Group's ownership interest in Tangshan Hongci	49%
Adjustment:	
—Goodwill, intangible asset, revaluation of property and land use right and others	232,646
Carrying amount	<u>658,838</u>
	For the period from June 1, 2020 to June 30, 2020
	RMB'000
Summarized consolidated statement of profit or loss and other comprehensive income/(loss)	
Revenue for the period	21,725
Loss and total comprehensive loss for the period	(26,660)

There are no contingent liabilities relating to the Group's interests in the joint venture.

14. Financial assets at FVTPL

	As of December 31,		As of June 30,
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Non-current:			
Equity investments in a private company	7,409	7,450	7,569
Call option*	—	—	136,365
	<u>7,409</u>	<u>7,450</u>	<u>143,934</u>
Current:			
Wealth management products**	—	—	1,012,396
	<u>7,409</u>	<u>7,450</u>	<u>1,156,330</u>

* Details are set out in Note 13.

** The wealth management products purchased by the Group are structured products with the expected rates of return indexed to foreign exchange rate or interest rate ranging from 3.00% to 3.65% for the six months ended June 30, 2020. The Group managed and evaluated the performance of investments on a fair value basis in accordance with the Group's risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

The fair value of call option was estimated as of the date of grant and June 30, 2020, using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

	As of the date of grant and June 30, 2020
Expected volatility	34.8%
Risk-free interest rate	2.04%

Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to expiration. The Group estimated the risk-free interest rate based on the yield of government bond with maturity

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. Financial assets at FVTPL—continued

matching the time to expiration as of the valuation date. In addition to the assumptions adopted above, projections of future performance were also factored into the determination of the fair value of the call option on valuation date.

15. Leases

The Group leases certain of its offline pharmacies, offices, warehouses and staff quarters under operating lease arrangements, which are negotiated for terms ranging from 1 to 6 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Track Record Period are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of the year/period	2,140	2,965	3,025	10,567
Additions	1,779	1,665	9,667	53,280
Depreciation charge	(954)	(1,605)	(2,125)	(3,942)
Carrying amount at the end of the year/period	<u>2,965</u>	<u>3,025</u>	<u>10,567</u>	<u>59,905</u>

(b) Lease liabilities

The carrying amounts of the Group's lease liabilities and the movements during the Track Record Period are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of the year/period	2,473	3,258	3,126	11,263
New leases	1,075	1,665	9,667	52,798
Accretion of interest recognized	82	150	243	643
Payments	(372)	(1,947)	(1,773)	(11,131)
Carrying amount at the end of the year/period	<u>3,258</u>	<u>3,126</u>	<u>11,263</u>	<u>53,573</u>
Analyzed as:				
Non-current	1,594	2,411	6,412	36,100
Current	1,664	715	4,851	17,473
	<u>3,258</u>	<u>3,126</u>	<u>11,263</u>	<u>53,573</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. Leases—continued

(b) Lease liabilities—continued

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of lease liability				
—within one year	1,664	715	4,851	17,473
—between 1 and 2 years	234	1,574	3,206	13,457
—between 2 and 5 years	1,360	837	3,012	22,313
—over 5 years	—	—	194	330
	<u>3,258</u>	<u>3,126</u>	<u>11,263</u>	<u>53,573</u>

The lease liabilities were measured at the present value of the lease payments that are not yet paid using incremental borrowing rates. The weighted average incremental borrowing rates are set out in Note 30. All leases are entered at fixed rates.

The maturity analysis of lease liabilities at each reporting date and total cash outflow for leases during the Track Record Period are set out in Note 30 and Note 31, respectively.

The expenses relating to short-term leases are set out in Note 6.

16. Prepayments, other receivables and other assets

The Group

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current:				
Amounts due from related parties	34	307	929,665	1,175,379
Receivable from cancellation of investments*	—	—	—	102,803
Advance to suppliers	531	515	11,140	70,914
Interest receivable	—	17	7,721	45,058
Recoverable value-added tax	2,036	6,676	5,905	10,192
Estimated return of products sold	2,945	2,962	2,396	3,272
Prepaid expense	978	394	822	2,403
Others	82	62	100	744
	<u>6,606</u>	<u>10,933</u>	<u>957,749</u>	<u>1,410,765</u>
Non-current:				
Prepayments for investments in equity investees	—	—	26,760	8,000
Others	63	319	431	1,220
	<u>63</u>	<u>319</u>	<u>27,191</u>	<u>9,220</u>

* Represents the amount to be received from a third party which the Group planned to invest in previously.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. Prepayments, other receivables and other assets—continued

The Company

	As of December 31, 2019 RMB'000	As of June 30, 2020 RMB'000
Current:		
Amounts due from related parties	779,885	1,454,756
Interest receivable	7,709	44,985
	<u>787,594</u>	<u>1,499,741</u>

17. Inventories

Inventories consist of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Products	886,740	1,119,108	1,283,133	2,079,345
Less: impairment provision	(2,693)	(3,813)	(4,794)	(79,459)
	<u>884,047</u>	<u>1,115,295</u>	<u>1,278,339</u>	<u>1,999,886</u>

18. Trade and note receivables

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from third parties	3,098	17,472	27,080	30,713
Less: allowance for ECL	(7)	(4,393)	(6,252)	(5,775)
Note receivables	—	6,953	724	4,115
	<u>3,091</u>	<u>20,032</u>	<u>21,552</u>	<u>29,053</u>

The Group applies the simplified approach under by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

As of January 1, 2017, trade and note receivables amounted to RMB0.5 million.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. Trade and note receivables—continued

The Group's trading terms with some of its customers are on credit. The Group primarily allows a credit period of 30 days. Trade receivables are settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,			As of
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Within 3 months	3,098	7,815	13,921	21,503
3 to 6 months	—	2,858	3,799	2,480
6 to 12 months	—	6,799	8,791	3,623
Over 12 months	—	—	569	3,107
	3,098	17,472	27,080	30,713
Less: allowance for ECL	(7)	(4,393)	(6,252)	(5,775)
	<u>3,091</u>	<u>13,079</u>	<u>20,828</u>	<u>24,938</u>

The Group held notes received for future settlement of trade receivables with insignificant amount. The Group continues to recognize their full carrying amounts at the end of each reporting period. All notes received by the Group are with a maturity period of less than one year.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, included in the Group's trade receivables balance were debtors with aggregate carrying amount of nil, RMB9 million, RMB11 million and RMB7 million, respectively, which were past due but not impaired as of the reporting date. The Group has not provided an impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

19. Term deposits

The Group and the Company

	As of	As of
	December 31,	June 30,
	2019	2020
	RMB'000	RMB'000
Term deposits in USD	<u>1,395,240</u>	<u>2,831,800</u>

The Group's term deposits are bank deposits with original maturities over three months and redeemable on maturity. The weight-average interest rates of the term deposits were 2.70% and 2.65% per annum for the years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Cash and cash equivalents and restricted cash

*Cash and cash equivalents***The Group**

	As of December 31,			As of
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Cash and bank balances	<u>7,401</u>	<u>16,213</u>	<u>4,965,272</u>	<u>3,200,320</u>

The Company

	As of		As of
	December 31,	2019	June 30,
	RMB'000	RMB'000	2020
Cash and bank balances	<u>4,961,023</u>	<u>4,961,023</u>	<u>3,151,829</u>

Restricted cash

Restricted cash represents deposits held in designated bank accounts for issuance of bank acceptance. The Group held restricted cash of nil, RMB4 million, RMB6 million and RMB9 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

21. Trade payables

Trade payables primarily consist of payables to suppliers.

The credit period of trade payables is ranging from 30 to 60 days. An aging analysis of the trade payables based on the invoice date at the end of each reporting period is as follows:

	As of December 31,			As of
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
Within 3 months	<u>172,650</u>	<u>340,229</u>	<u>444,984</u>	<u>1,744,114</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. Accrued expenses and other payables

Accrued expenses and other payables consists of the following:

The Group

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to a related party	15,653	14,676	925,850	1,238,610
Deposits to be returned to former investor**	—	—	—	83,270
Salary and welfare payables	8,223	11,388	53,931	74,901
Tax payable	2,352	2,778	3,344	59,135
Deposits received*	5,160	8,480	11,378	19,123
Liabilities for return allowances	2,624	3,109	2,295	3,392
Others	7,592	8,621	10,556	16,451
Total	<u>41,604</u>	<u>49,052</u>	<u>1,007,354</u>	<u>1,494,882</u>

* Mainly represents the deposits received from third-party merchants from the online marketplace business.

** Represents the amount to be paid to a third party with which the Group established an investment holding company for future investment. However, such investment arrangement was terminated and the Group obtained the ownership of the investment holding company and is obligated to return the investment deposits received from the third party.

23. Convertible preferred shares

In May 2019, the Company entered into Series A Share Subscription Agreement with a group of third-party investors. The Company issued 186,276,119 Series A Preferred Shares at USD5.00 (equivalent to RMB34.81) per share for a total cash proceed of approximately USD931 million (equivalent to RMB6,482 million), representing 13.5% of the ownership of the Company on a fully diluted basis. The Series A Preferred Shares are convertible at the option of the holders of Series A Preferred Shares or automatically converted under certain events.

In February 2020, the Company underwent a 1:2 share split, having 372,552,238 Series A Preferred Shares issued and outstanding with a par value of USD0.0000005 per share. All preferred shares and per share information were adjusted retrospectively for all periods presented to reflect the share split.

The rights, preferences and privileges of Series A Preferred Shares are as follows:

Dividend Rights

Dividends shall only be payable to the Series A Preferred Shares investors in cash on a pro rata basis for each Series A Preferred Share held by them at an annual simple rate (“Rate X”) of series A purchase price if a qualified IPO has not occurred by the fifth anniversary after the Closing Date.

For the period from the fifth anniversary of the Closing Date till the end of the fiscal year of 2024, the Company shall accrue, declare and pay dividends to the Series A Preferred Shares investors in cash on a pro rata basis for each Series A Preferred Share held by them at an annual simple rate (“Rate Y”) of series A purchase price, which is higher than the Rate X.

For each fiscal year from 2025 until the date of the earlier of the qualified IPO and all the dividends that have been accrued for a Series A Preferred Share has reached the purchase price of Series A Preferred Shares, the Company shall accrue, declare and pay dividends to holders of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**23. Convertible preferred shares—continued***Dividend Rights—continued*

Series A Preferred Shares in cash on a pro rata basis for each Series A Preferred Share held by them at Rate Y of series A purchase price per annum, after that no further obligation for the Company to accrue, declare and pay preferred dividends to the holders of the Series A Preferred Shares.

Upon the qualified IPO by the end of the fiscal year during which the seventh anniversary of the Closing Date occurs, any and all preferred dividends that have been accrued or declared prior to the qualified IPO shall be automatically and immediately canceled and terminated, and each holder of Series A Preferred Shares shall duly and unconditionally pay the Company an amount equal to the total amount of all the preferred dividends that the Company has paid to such holder before the consummation of the qualified IPO, and the Company will have no obligation to pay any of such preferred dividends.

However, the maximum amount of the preferred dividends can be paid is limited to an amount determined by the accumulated profit and the working capital of the Company.

Voting Rights

Each Series A Preferred Share shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Series A Preferred Shares. The holders of the Series A Preferred Shares and the holders of ordinary shares shall vote together and not as a separate class.

Liquidation Rights

In case of any liquidation event, all assets and funds of the Company legally available for distribution to the holders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the holders of the Company as follows:

The Series A Preferred Shares shareholders shall be entitled to receive the amount equal to one hundred percent of the applicable purchase price of such Series A Preferred Shares plus interest on such purchase price at Rate X and minus all declared and paid dividends on such Series A Preferred Shares.

Conversion Rights

Each of the Series A Preferred Shares shall be convertible, at the option of the holders of the Series A Preferred Shares, at any time after the date of issuance of such Series A Preferred Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preferred Shares purchase price by the conversion price then applicable to such Series A preferred share. The conversion price of each Series A Preferred Shares is the same as its original issuance price if no adjustments to conversion price have occurred. The conversion price is subject to adjustments when any equity securities of the Company are issued at a price per share lower than the purchase price of Series A Preferred Shares. As of June 30, 2020, each Series A Preferred Shares shall automatically be converted into ordinary shares at the conversion price then applicable to such Series A Preferred Shares, (i) upon the consummation of an IPO; or (ii) with respect to the Series A Preferred Shares, in the event that Series A Preferred Shares shareholders holding at least 70% of the Series A Preferred Shares in issue elect to convert the Series A Preferred Shares.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

23. Convertible preferred shares—continued

Conversion Rights—continued

The movements of the convertible preferred shares are set out as below:

	RMB'000
As of January 1, 2019	—
Issuance of Series A Preferred Shares	6,313,002
Change in fair value	1,263,130
Currency translation differences	8,288
As of December 31, 2019	7,584,420
Issuance of Series A Preferred Shares	168,862
Change in fair value	5,705,251
Currency translation differences	150,882
As of June 30, 2020	<u>13,609,415</u>

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions are set as below:

	As of December 31, 2019	As of June 30, 2020
Discount rate	15.0%	14.0%
Risk-free interest rate	2.28%	1.27%
Discount for lack of marketability (“DLOM”)	20%	20%
Volatility	30%	32%

Discount rate was estimated by weighted average cost of capital as of each valuation date. The Group estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date plus country risk spread. The DLOM was estimated based on the option-pricing method. Under the option pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before respective valuation date and with similar span as time to expiration. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of the Series A Preferred Shares on each valuation date.

24. Financial liabilities at FVTPL

	As of June 30, 2020
	RMB'000
Put option*	<u>135,906</u>

* Details are set out in Note 13.

The fair value of put option was estimated as of the date of grant and June 30, 2020, using a Black-Scholes model, taking into account the terms and conditions upon which the option is granted.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. Financial liabilities at FVTPL—continued

The following table lists the inputs to the model used:

	As of the date of grant and June 30, 2020
Expected volatility	37.8%
Risk-free interest rate	1.72%

Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to expiration. The Group estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date. In addition to the assumptions adopted above, projections of future performance were also factored into the determination of the fair value of the put option on valuation date.

25. Paid-in capital/share capital**The Group**

In July 2019, all the equity interests of PRC Operating Entities were transferred to Suqian Jingdong Tianning at an amount of RMB2,000,000. For the purpose of the presentation of the combined statements of financial position, the paid-in capital/share capital of the Group represents the paid-in capital of PRC Operating Entities as of December 31, 2017 prior to the incorporation of the Company, and the paid-in capital of PRC Operating Entities and the share capital of the Company as of December 31, 2018 prior to the transfer of the equity interest of PRC Operating Entities but post to the incorporation of the Company, and the share capital of the Company as of December 31, 2019 and June 30, 2020 upon completion of the transfer of equity interests of PRC Operating Entities.

The Company*Authorized*

The Company was incorporated in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands in November 2018 with an authorized share capital of USD50,000 divided into 50,000 shares of a par value of USD1.00 each. Upon incorporation of the Company, one share was issued at par value of USD1.00, equivalent to approximately RMB6.93.

In June 2019, each authorized and issued share at a par value of USD1.00 was subdivided into 1,000,000 shares at a par value of USD0.000001 each, such that the authorized shares of 50,000 of the Company was divided into 50,000,000,000 shares, out of which 49,781,223,881 shares were ordinary shares of a nominal or par value of USD0.000001 each and 218,776,119 shares were preferred shares at a nominal or par value of USD0.000001 each, of which 218,776,119 are designated as Series A Preferred Shares.

In February 2020, Company underwent another 1:2 share split to each authorized and issued shares, such that the share capital of the Company is USD50,000 divided into 99,562,447,762 Ordinary Shares of a nominal or par value of USD0.0000005 each and 437,552,238 preferred shares at a nominal or par value of USD0.0000005 each, of which 437,552,238 are designated as Series A Preferred Shares.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Paid-in capital/share capital—continued

The Company—continued

Issued

	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u>	<u>Nominal value of ordinary shares</u>
		USD	RMB
As of January 1, 2018	—	—	—
Issuance of ordinary shares ¹	<u>1</u>	<u>1</u>	<u>7</u>
As of December 31, 2018	1	1	7
Split of shares ²	999,999	—	—
Issuance of ordinary shares ²	<u>1,073,626,866</u>	<u>1,074</u>	<u>7,381</u>
As of December 31, 2019	1,074,626,866	1,075	7,388
Split of shares ³	<u>1,074,626,866</u>	—	—
As of June 30, 2020	<u>2,149,253,732</u>	<u>1,075</u>	<u>7,388</u>
	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u>	<u>Nominal value of ordinary shares</u>
		USD	RMB
(Unaudited)			
As of January 1, 2019	1	1	7
Split of shares ²	999,999	—	—
Issuance of ordinary shares ²	<u>1,073,626,866</u>	<u>1,074</u>	<u>7,381</u>
As of June 30, 2019	<u>1,074,626,866</u>	<u>1,075</u>	<u>7,388</u>
		<u>As of December 31,</u>	<u>As of June 30,</u>
		2018	2019
		RMB'000	RMB'000
Presented as		—*	7
		—	7

* less than RMB1,000.

Notes:

- The Company was incorporated on November 30, 2018 with an authorized share capital of USD1.00, consisting of 1 ordinary shares of USD1.00 par value each, of which 1 share had been issued. The issued ordinary share was fully paid in April 2019.
- In June 2019, the 1 ordinary share was subdivided by 1:1,000,000 and additional 1,073,626,866 new shares were issued at a par value of USD0.000001 per share to JD Jiankang Limited. The newly issued ordinary shares were fully paid in June 2019.
- In February 2020, the Company underwent another 1:2 share split, having 2,149,253,732 ordinary shares issued and outstanding with a par value of USD0.0000005 per share.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

26. Reserves

The Company

	<u>Reserves</u> <u>RMB'000</u>
As of January 1, 2018	—
Share-based payments expenses	2,166
As of December 31, 2018	2,166
Contribution from the Remaining Listing Business	768,023
Share-based payments expenses	16,422
Currency translation differences	25,191
As of December 31, 2019	811,802
Share-based payments expenses	4,511
Currency translation differences	(44,426)
As of June 30, 2020	<u>771,887</u>

27. Share-based payments

During the Track Record Period, the Group did not have its own share incentive plan. The employees of the Group are eligible for JD Group Share Incentive Plan, which includes share options and RSUs. Accordingly, the Group accounted for such plans by measuring the services received from the grantees in accordance with the requirement applicable to equity-settled share-based payment transactions, and recognized a corresponding increase in equity as a deemed contribution from JD Group in accordance with IFRS 2.

The table below sets forth share-based payments expenses for RSUs and share options during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
RSUs	28,459	29,908	51,380	16,770	25,881
Share options	1,961	3,563	1,348	943	585
	<u>30,420</u>	<u>33,471</u>	<u>52,728</u>	<u>17,713</u>	<u>26,466</u>

JD Group Share Incentive Plan

JD Group granted share-based awards to eligible employees and non-employees pursuant to the share incentive plan, which was adopted on November 13, 2014 and governed the terms of the awards.

The RSUs and share options are generally service-based and scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of JD Group Share Incentive Plan, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

JD Group Share Incentive Plan—continued

The Group recognizes share-based payments expenses in its combined statements of profit or loss based on awards ultimately expected to vest, after considering estimated forfeitures of the Group. Forfeitures are estimated based on JD Group's historical experience and revised in the subsequent periods if actual forfeitures differ from those estimates. The impact of the revision of the original estimates, if any, is recognized in the profit and loss over the remaining vesting period, with a corresponding adjustment to other reserves.

Share options

A summary of activities of the service-based share options is presented as follows:

	Number of share options	Weighted average exercise price USD	Weighted average remaining contractual term Year
Outstanding as of January 1, 2017	439,500	8.28	
Exercised	<u>(133,748)</u>	3.96	
Outstanding as of December 31, 2017	<u>305,752</u>	10.16	6.9
Exercised	<u>(8,748)</u>	3.96	
Outstanding as of December 31, 2018	<u>297,004</u>	10.35	6.0
Exercised	<u>(17,756)</u>	3.96	
Transfer*	<u>14,250</u>	3.96	
Outstanding as of December 31, 2019	<u>293,498</u>	10.42	5.0
Exercised	<u>(12,000)</u>	3.96	
Outstanding as of June 30, 2020	<u>281,498</u>	10.70	4.6
(Unaudited)			
Outstanding as of January 1, 2019	297,004	10.35	6.0
Exercised	<u>(17,256)</u>	3.96	
Transfer*	<u>1,000</u>	3.96	
Outstanding as of June 30, 2019	<u>280,748</u>	10.72	5.6

* The transfer represents the addition or deduction of share options that were previously granted to employees who transferred into or out of the Listing Business during the Track Record Period.

The number of exercisable share options as of December 31, 2017, 2018, 2019 and June 30, 2020 was 92,660, 161,500, 226,826 and 223,158, respectively.

The fair value of share options was estimated using the binominal option-pricing model. The determination of estimated fair value of share-based payment awards on the grant date is affected by the fair value of JD.com, Inc.'s ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include the expected volatility of the shares of JD.com, Inc. over the expected term of the awards, actual and projected employee share option exercise behaviors, a risk-free interest rate and expected dividends, if any.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

JD Group Share Incentive Plan—continued

RSUs

	Number of RSUs	Weighted-average grant-date fair value
		USD
Unvested as of January 1, 2017	1,571,067	12.53
Granted	113,000	15.76
Vested	(116,622)	11.17
Transfer*	<u>(13,531)</u>	12.02
Unvested as of December 31, 2017	<u>1,553,914</u>	12.87
Granted	270,900	19.56
Vested	(151,844)	11.89
Transfer*	<u>(61,428)</u>	14.48
Unvested as of December 31, 2018	<u>1,611,542</u>	14.03
Granted	454,140	14.67
Vested	(374,976)	13.65
Transfer*	1,485,538	14.61
Forfeited or canceled	<u>(22,456)</u>	16.06
Unvested as of December 31, 2019	<u>3,153,788</u>	14.43
Granted	394,410	19.80
Vested	(462,110)	14.85
Transfer*	(370,904)	11.03
Forfeited or canceled	<u>(21,934)</u>	17.34
Unvested as of June 30, 2020	<u>2,693,250</u>	15.59
(Unaudited)		
Unvested as of January 1, 2019	1,611,542	14.03
Granted	275,180	14.80
Vested	(243,576)	14.73
Transfer*	<u>332,648</u>	16.72
Unvested as of June 30, 2019	<u>1,975,794</u>	14.50

* The transfer represents the addition or deduction of RSUs that were previously granted to employees who transferred into or out of the Listing Business during the Track Record Period.

The estimated compensation cost of RSUs was based on the fair value of JD.com, Inc.'s ordinary shares on the date of the grant. The Group recognizes the compensation cost, net of estimated forfeitures, over the vesting term of the RSUs.

28. Dividends

No dividends had been paid or declared by the Company or its subsidiaries for the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Commitments

Except for the commitment of loan to the Group's joint venture as disclosed in Note 13, the Group had no other material commitments as of December 31, 2017, 2018 and 2019 and June 30, 2020.

30. Financial instruments**30.1 Financial instruments by categories****The Group**

	Notes	As of December 31,			As of June 30,
		2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets at fair value:					
Financial assets at FVTPL	14	—	7,409	7,450	1,156,330
Financial assets at amortized cost		10,671	40,814	7,325,872	7,395,536
Financial liabilities					
Financial liabilities at fair value:					
Convertible preferred shares	23	—	—	7,584,420	13,609,415
Financial liabilities at FVTPL	24	—	—	—	135,906
Financial liabilities at amortized cost		199,455	372,006	1,392,771	3,101,442

The Company

	Note	As of	As of
		December 31,	June 30,
		2019	2020
		RMB'000	RMB'000
Financial assets			
Financial assets at amortized cost.....		7,143,857	7,483,370
Financial liabilities			
Financial liabilities at fair value:			
Convertible preferred shares	23	7,584,420	13,609,415

30.2 Financial risk management

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the directors of the Company.

The Group's major financial instruments include financial assets at FVTPL, trade and note receivables and other receivables, term deposits, restricted cash, cash and cash equivalents, convertible preferred shares, lease liabilities, financial liabilities at FVTPL, trade payables and other payables. Details of the financial instruments are disclosed in respective notes. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(a) *Market risk*Foreign exchange risk

The functional currency of the Group's entities incorporated in Cayman Islands, BVI and Hong Kong is USD. The Group's PRC subsidiaries and consolidated affiliated entities determined their functional currency to be RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

During the Track Record Period, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant. The directors of the Company consider that any reasonable changes in foreign exchange rates of other currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest risk. The Group's cash flow interest rate risk primarily arose from cash and cash equivalents and restricted cash, details of which have been disclosed in Note 20. The Group's fair value interest risk primarily arises from term deposit and lease liabilities, details of which have been disclosed in Note 19 and Note 15.

If the interest rate had been 50 basis points higher/lower, the profit/(loss) before income tax for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020 would have been approximately nil, nil, RMB9 million and RMB10 million higher/lower, respectively, mainly as a result of higher or lower interest income on floating-rate cash and cash equivalents and restricted cash.

Price risk

The Group is exposed to price risk in respect of its equity investments in a private company and call option measured as financial assets at FVTPL, wealth management products, convertible preferred shares and put option measured as financial liability at FVTPL. The above financial instruments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**30. Financial instruments—continued****30.2 Financial risk management—continued****(a) Market risk—continued***Sensitivity analysis*

Fair value of convertible preferred shares are affected by changes in the Group's equity value, the sensitivity analysis of which has been disclosed in Note 30.4. The fair value change of call option, put option and equity investments in a private company is immaterial.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's credit risk is mainly associated with cash and cash equivalents, restricted cash, term deposits, trade and note receivables and other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's cash and cash equivalents, restricted cash and term deposits are mainly deposited in state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of default in relation to these financial institutions. The Group considers the instruments have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant during the Track Record Period. The Group considers that there is no significant credit risk and does not generate any material losses due to the default of the other parties.

In order to minimize credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and note receivables and other receivables and to categorize exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(b) Credit risk—continued

The table below set forth how the Group defines the credit risk grading of its counterparties and its accounting policies for recognition of ECL:

Category	Group definition of category	Basis for recognition of ECL	
	Trade receivables and other receivables	Trade receivables	Other receivables
Performing	The Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	Lifetime ECL - not credit-impaired	12m ECL. Where the expected lifetime of an asset is less than 12 months, ECL are measured at its expected lifetime
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired	
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired	
Write-off	There is evidence indicating that debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Asset is written off	

The directors of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

On that basis, the loss allowance as of December 31, 2017, 2018 and 2019 and June 30, 2020 was determined as follows for trade receivables:

As of December 31, 2017

<u>Provision on collective basis</u>	<u>Within 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Total</u>
Lifetime expected credit loss rate	0.23%	—	—	
Gross carrying amount	3,098	—	—	3,098
Loss allowance	(7)	—	—	(7)

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(b) Credit risk—continued

As of December 31, 2018

<u>Provision on collective basis</u>	<u>Within 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Total</u>
Lifetime expected credit loss rate	0.29%	10.32%	59.94%	
Gross carrying amount	7,815	2,858	6,799	17,472
Loss allowance	(23)	(295)	(4,075)	(4,393)

As of December 31, 2019

<u>Provision on collective basis</u>	<u>Within 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Total</u>
Lifetime expected credit loss rate	0.31%	9.61%	60.00%	
Gross carrying amount	13,921	3,799	8,791	26,511
Loss allowance	(43)	(365)	(5,275)	(5,683)

As of June 30, 2020

<u>Provision on collective basis</u>	<u>Within 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Total</u>
Lifetime expected credit loss rate	0.38%	12.38%	62.90%	
Gross carrying amount	21,503	2,480	3,623	27,606
Loss allowance	(82)	(307)	(2,279)	(2,668)

The following table shows the movement in lifetime ECL that has been recognized for trade and note receivables under the simplified approach.

	<u>Lifetime ECL (not credit- impaired)</u>	<u>Lifetime ECL (credit-impaired)</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
As of January 1, 2017	—	—	—
Impairment losses recognized	7	—	7
As of December 31, 2017	7	—	7
Impairment losses recognized	4,386	—	4,386
As of December 31, 2018	4,393	—	4,393
Impairment losses recognized	1,290	569	1,859
As of December 31, 2019	5,683	569	6,252
Impairment losses (reversed)/recognized	(3,015)	2,538	(477)
As of June 30, 2020	2,668	3,107	5,775

No allowance has been provided for note receivables since the balances are all with the banks which have low credit risks during the Track Record Period.

For other receivables, the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience, qualitative information that is reasonable. The Group believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the Track Record Period, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognized.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(b) Credit risk—continued

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, on which the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details remaining contractual maturity of the Group's financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities on the earliest date which the Group can be required to pay. The maturity dates are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

	Weighted average interest rate	The Group				
		Carrying amount	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2017						
Trade payables	—	172,650	172,650	—	—	172,650
Lease liabilities	4.75	3,258	1,694	253	1,530	3,477
Financial liabilities included in accrued expenses and other payables	—	26,805	26,805	—	—	26,805
		<u>202,713</u>	<u>201,149</u>	<u>253</u>	<u>1,530</u>	<u>202,932</u>
As of December 31, 2018						
Trade payables	—	340,229	340,229	—	—	340,229
Lease liabilities	4.75	3,126	729	1,672	958	3,359
Financial liabilities included in accrued expenses and other payables	—	31,777	31,777	—	—	31,777
		<u>375,132</u>	<u>372,735</u>	<u>1,672</u>	<u>958</u>	<u>375,365</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(c) Liquidity risk—continued

	Weighted average interest rate	The Group					Total
		Carrying amount	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	%						RMB'000
As of December 31, 2019							
Trade payables	—	444,984	444,984	—	—	—	444,984
Lease liabilities	4.71	11,263	4,940	3,454	3,477	263	12,134
Financial liabilities included in accrued expenses and other payables	—	947,787	947,787	—	—	—	947,787
Convertible preferred shares	—	7,584,420	—	—	—	6,313,002	6,313,002
		<u>8,988,454</u>	<u>1,397,711</u>	<u>3,454</u>	<u>3,477</u>	<u>6,313,265</u>	<u>7,717,907</u>
As of June 30, 2020							
Trade payables	—	1,744,114	1,744,114	—	—	—	1,744,114
Lease liabilities	4.63	53,573	17,957	14,562	26,194	432	59,145
Financial liabilities included in accrued expenses and other payables	—	1,357,328	1,357,328	—	—	—	1,357,328
Convertible preferred shares	—	13,609,415	—	—	—	6,481,864	6,481,864
		<u>16,764,430</u>	<u>3,119,399</u>	<u>14,562</u>	<u>26,194</u>	<u>6,482,296</u>	<u>9,642,451</u>

As of December 31, 2018, 2019 and June 30, 2020, there were no financial liabilities of the Company except for the convertible preferred shares.

Details of the description of convertible preferred shares and financial liabilities at FVTPL are presented in Note 23 and Note 24, respectively.

30.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and other reserves, convertible preferred shares on an as if converted basis) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends to pay to shareholders, capital to return to shareholders, new shares to issue, shares of the Company to repurchase and debts to raise/repay. In the opinion of the directors of the Company, the Group's capital risk is low.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**30. Financial instruments—continued****30.4 Fair value measurement of financial instruments***Determination of fair value and fair value hierarchy*

IFRS 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value.

The level of fair value calculation is determined by the lowest level input that is significant in the overall calculation. As such, the significance of the input should be considered from an overall perspective in the calculation of fair value.

For Level 2 financial instruments, valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyze and interpret information related to market transactions and other key valuation model inputs from multiple sources, and through the use of widely accepted internal valuation models, provide a theoretical quote on various securities.

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measurement within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.4 Fair value measurement of financial instruments—continued

Determination of fair value and fair value hierarchy—continued

The following tables provide the fair value measurement hierarchy of the Group's financial assets and liabilities:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2018				
Assets:				
Financial assets at FVTPL	—	—	7,409	7,409
As of December 31, 2019				
Assets:				
Financial assets at FVTPL	—	—	7,450	7,450
Liabilities:				
Convertible preferred shares	—	—	7,584,420	7,584,420
As of June 30, 2020				
Assets:				
Financial assets at FVTPL	—	1,012,396	143,934	1,156,330
Liabilities:				
Convertible preferred shares	—	—	13,609,415	13,609,415
Financial liabilities at FVTPL	—	—	135,906	135,906

As of December 31, 2018 and 2019 and June 30, 2020, there's no financial assets at FVTPL of the Company, and the financial liabilities with fair value measurement of the Company is convertible preferred shares in Level 3 fair value hierarchy.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the Track Record Period, there were no transfers among different levels of fair values measurement.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.4 Fair value measurement of financial instruments—continued

Determination of fair value and fair value hierarchy—continued

Reconciliation of Level 3 fair value measurements:

	Financial assets at FVTPL	Financial liabilities at FVTPL	Convertible preferred shares
	RMB'000	RMB'000	RMB'000
As of January 1, 2018	—	—	—
Purchases	7,409	—	—
As of December 31, 2018	7,409	—	—
Issuance	—	—	6,313,002
Changes in fair value			
— Fair value changes of equity investments in a private company measured as financial assets at FVTPL	41	—	—
— Fair value changes of convertible preferred shares	—	—	1,263,130
— Currency translation differences	—	—	8,288
As of December 31, 2019	7,450	—	7,584,420
Issuance	—	—	168,862
Addition	136,365	135,906	—
Changes in fair value			
— Fair value changes of equity investments in a private company measured as financial assets at FVTPL	119	—	—
— Fair value changes of convertible preferred shares	—	—	5,705,251
— Currency translation differences	—	—	150,882
As of June 30, 2020	<u>143,934</u>	<u>135,906</u>	<u>13,609,415</u>

Valuation techniques

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

As the investment in equity investments measured as financial assets at FVTPL are not traded in an active market, its fair values have been determined by using the market approach. The fair value change of the financial assets at FVTPL were not material for the years ended December 31, 2018 and 2019 and six months ended June 30, 2020.

During the Track Record Period, the fair value change arose from the financial assets at FVTPL and financial liabilities at FVTPL were insignificant. The directors of the Company consider that any

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**30. Financial instruments—continued****30.4 Fair value measurement of financial instruments—continued***Determination of fair value and fair value hierarchy—continued*

reasonable changes in the key assumptions as disclosed in Note 14 and Note 24, respectively, would not result in a significant change in the Group's results. Accordingly, no sensitivity analysis is presented.

As the convertible preferred shares are not traded in an active market, the Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Major assumptions used in the valuation for the convertible preferred shares are presented in Note 23.

Fair value of the convertible preferred shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the year ended December 31, 2019 and the six months ended June 30, 2020 would have been approximately RMB213 million and RMB1,100 million higher/lower, respectively.

The carrying amount of the Group's financial assets, including cash and cash equivalents, restricted cash, term deposits, trade and note receivables and other receivables and the Group's financial liabilities, including trade payables and accrued expenses and other payables, approximate their fair values.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. Note to combined statements of cash flows

(a) Reconciliation of profit/(loss) for the year/period to cash generated from operations:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) for the year/period	178,534	214,927	(971,805)	236,254	(5,360,915)
Adjustments for:					
Income tax expense	77,445	91,305	137,105	98,735	103,590
Depreciation and amortization	3,087	6,266	7,423	3,491	8,591
Share-based payments expenses	30,420	33,471	52,728	17,713	26,466
Fair value changes of convertible preferred shares	—	—	1,263,130	—	5,705,251
Fair value gains on financial assets at FVTPL	—	—	(41)	—	(296)
Finance income	(4)	(84)	(31,783)	(27)	(60,327)
Finance costs	82	150	35,502	81	1,745
Impairment losses under expected credit loss model, net of reversal	7	4,386	1,859	938	(477)
Impairment provision for inventories	1,351	1,120	981	805	74,665
Share of results of a joint venture	—	—	—	—	8,607
Changes in working capital:					
(Increase)/decrease in inventories	(337,858)	(232,368)	(164,025)	79,667	(782,406)
Increase in trade and note receivables	(2,631)	(21,327)	(3,379)	(1,002)	(1,082)
Increase in prepayments, other receivables and other assets	(2,030)	(4,400)	(160,080)	(5,590)	(299,751)
Increase in trade payables	138,148	167,579	104,755	66,833	1,292,655
Increase in contract liabilities	8,673	9,292	47,168	59,943	101,661
Increase/(decrease) in accrued expenses and other payables	19,006	8,427	203,203	1,432	(359,043)
Cash generated from operations	<u>114,230</u>	<u>278,744</u>	<u>522,741</u>	<u>559,273</u>	<u>458,934</u>

There were no material non-cash investing and financing activities for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 except disclosed elsewhere in this report.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. Note to combined statements of cash flows—continued

(b) Reconciliation of liabilities arising from financing activities

	Convertible preferred shares	Lease liabilities	Advance from/(payment to) JD Group	Total
	RMB'000	RMB'000 Note 15	RMB'000	RMB'000
Liabilities from financing activities as of January 1,				
2017	—	2,473	48,580	51,053
Financing cash flows	—	(372)	(32,927)	(33,299)
New leases entered	—	1,075	—	1,075
Finance costs	—	82	—	82
Liabilities from financing activities as of December 31,				
2017	—	3,258	15,653	18,911
Financing cash flows	—	(1,947)	(977)	(2,924)
New leases entered	—	1,665	—	1,665
Finance costs	—	150	—	150
Liabilities from financing activities as of December 31,				
2018	—	3,126	14,676	17,802
Financing cash flows	6,313,002	(1,773)	202,234	6,513,463
Funds utilized by the Remaining Listing Business	—	—	727,940	727,940
Offset the amounts due from JD Group	—	—	(19,000)	(19,000)
New leases entered	—	9,667	—	9,667
Finance costs	—	243	—	243
Fair value changes of convertible preferred shares	1,263,130	—	—	1,263,130
Currency translation differences	8,288	—	—	8,288
Liabilities from financing activities as of December 31,				
2019	7,584,420	11,263	925,850	8,521,533
Financing cash flows	168,862	(11,131)	754,963	912,694
Funds generated by the Remaining Listing Business	—	—	(435,120)	(435,120)
Offset the amounts due from JD Group	—	—	(7,083)	(7,083)
New leases entered	—	52,798	—	52,798
Finance costs	—	643	—	643
Fair value changes of convertible preferred shares	5,705,251	—	—	5,705,251
Currency translation differences	150,882	—	—	150,882
Liabilities from financing activities as of June 30,				
2020	13,609,415	53,573	1,238,610	14,901,598
(Unaudited)				
Liabilities from financing activities as of January 1,				
2019	—	3,126	14,676	17,802
Financing cash flows	893,711	(629)	90,760	983,842
Funds utilized by the Remaining Listing Business	—	—	518,436	518,436
Offset the amounts due from JD Group	—	—	(46)	(46)
New leases entered	—	3,453	—	3,453
Finance costs	—	81	—	81
Liabilities from financing activities as of June 30,				
2019	893,711	6,031	623,826	1,523,568

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**32. Related party transactions**

The following significant transactions are carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

<u>Name of related parties</u>	<u>Relationship</u>
JD.com, Inc.	Ultimate parent company of the Company
JD Jiankang Limited	Immediate parent company of the Company
JD Group	Controlled by JD.com, Inc.
Jingdong Digits Technology Holding Co., Ltd. and its subsidiaries (“JD Digits”)	Controlled by Mr. Richard Qiangdong Liu, the controlling shareholder of JD.com, Inc.

(b) Significant transactions with related parties

During the Track Record Period, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to the Remaining Listing Business were carved out from the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Closing Date of Series A Preferred Shares financing, details of which are set out in Note 23, these transactions have been recorded in the Historical Financial Information based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were the revenue and expenses of the Group and therefore, the disclosure of significant transactions with related parties set out below have not included these transactions.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions—continued

(b) Significant transactions with related parties—continued

After the Closing Date of the Series A Preferred Share financing, based on the terms stipulated in the Series A Share Subscription Agreements, terms and pricing policies of these transactions entered into by JD Group for the Group or between JD Group and the Group were established. Details of these transactions recorded with such terms and pricing policies since that date during the Track Record Period are separately shown as follows:

	Notes	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Services provided to a related party:						
Marketing services provided to JD Group		—	—	59,707	—	98,099
Services and products received from a related party:						
Logistics and warehousing services received from JD Group	i	—	—	446,841	—	591,328
Technology and traffic support services received from JD Group	ii	—	—	288,279	—	424,124
Payment services received from JD Group	iii	—	—	74,941	—	94,918
Shared services received from JD Group	iv	—	—	34,659	—	58,427
Share-based compensation received from JD.com, Inc. to pay the Group's employees for the services provided	v	30,420	33,471	52,728	17,713	26,466
Loyalty program services received from JD Group	vi	—	—	14,205	—	24,033
Others		—	—	161	—	543

Services provided to a related party

The Group provides marketing services to JD Group. The Group charges JD Group marketing service fees calculated in accordance with the underlying standard marketing service agreements.

Services and products received from a related party

- i. JD Group provides various logistics services to the Group in exchange for service fees, including but not limited to warehouse operation and storage services, domestic and international delivery services, customs registration and clearance services, standard and special packaging services and other value-added logistics services from time to time. The logistics service fees are determined after arm's length negotiations, and are charged based on a variety of factors including storage space taken and the weights and the delivery distances of the packages.
- ii. JD Group provides to the Group technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding activities, operational support and advertisement access for the Group's merchants and suppliers. JD Group charges commissions by applying a fixed rate on the fulfilled order volume of healthcare products and services generated through JD Group's online platforms.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions—continued

(b) Significant transactions with related parties—continued

Services and products received from a related party—continued

- iii. The Group, through JD Group, uses certain payment services through payment channels provided by third-party payment service providers to JD Group on a cost basis, as the related costs are first settled by JD Group and later settled in full (on a cost basis) by the Group. This allows the Group to utilize the payment services to enable efficient, safe and prompt real-time payment for its online transactions.
- iv. JD Group provides back-office administrative support services to the Group, including but not limited to cloud service, provision of servers, and maintenance and related customer services. The Group pays JD Group the actual costs incurred during the service process.
- v. JD Group grants RSUs and share options to the Group's eligible employees under JD Group Share Incentive Plan.
- vi. Given that the Group's businesses are operated on JD Group's platforms, the customers of the Group participate in the customer loyalty programs of JD Group and use such loyalty points across the platforms of both JD Group and the Group for the purchase of products and services. The Group pays JD Group based on the number of loyalty points it granted and unit cost.

(c) The Group had the following balances with the major related parties:

	As of December 31,			As of
	2017	2018	2019	June 30,
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Amounts due to JD Group	15,653	14,676	925,850	1,238,610
Amounts due from JD Group	—	—	928,098	1,163,629
Amounts due from JD Digits	34	307	1,567	11,750

Prior to the Closing Date of Series A Preferred Shares financing, the amounts due to JD Group represents the funds support to the PRC Operating Entities provided by JD Group. After the Closing Date of Series A Preferred Shares financing, the amounts due from/due to JD Group mainly represent the profits generated/funds utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017.

The amounts due to/due from JD Group, which are non-trade in nature, unsecured, non-interest bearing and repayable on demand and will be settled before the Listing.

The amounts due from JD Digits are trade in nature, unsecured and non-interest bearing, which will be settled before the Listing.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions—continued

(d) Key management personnel compensation

The remuneration of directors and other key management personnel is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and bonuses	2,399	3,138	3,898	1,859	3,320
Share-based payments	25,910	28,705	21,463	9,262	6,803
Pension costs—defined contribution plans	101	111	102	56	45
Welfare, medical and other benefits	304	511	521	258	263
	<u>28,714</u>	<u>32,465</u>	<u>25,984</u>	<u>11,435</u>	<u>10,431</u>

33. Particulars of principal subsidiaries and consolidated affiliated entities

Details of the principal subsidiaries directly and indirectly held by the Company are set out below:

Name of subsidiaries**	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company					Principal activities
			December 31,		June 30,		As of the date of this report	
			2017	2018	2019	2020		
JD Health (HK) Limited ..	Hong Kong, China	HKD10,000	—	100%	100%	100%	100%	Worldwide online shopping
Beijing Jingdong Jiankang	Mainland China	RMB100,000,000	—	—	100%	100%	100%	Online retail of healthcare products
Guanghan Jingdong Hongjian Jiankang Co., Ltd.	Mainland China	RMB1,000,000	—	—	100%	100%	100%	Online retail of healthcare products
Beijing Jingdong Hongjian Jiankang Co., Ltd.	Mainland China	RMB1,000,000	—	—	100%	100%	100%	Procurement and online retail of healthcare products
Guangxi Jingdong Tuoxian E-commerce Co., Ltd.	Mainland China	RMB2,000,000	—	—	100%	100%	100%	Technical and advertising services
Shenyang Jingdong Hongjian Trade Co., Ltd.	Mainland China	RMB1,000,000	—	—	—	100%	100%	Online retail of healthcare products
Guangzhou Jingdong Hongjian Trade Co., Ltd.	Mainland China	RMB1,000,000	—	—	—	100%	100%	Online retail of healthcare products

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33. Particulars of principal subsidiaries and consolidated affiliated entities—continued

Details of the principal consolidated affiliated entities of the Company are set out below:

Name of affiliated entities ^{*/**}	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company					Principal activities
			December 31,		June 30,		As of the date of this report	
			2017	2018	2019	2020		
Suqian Jingdong Tianning	Mainland China	RMB1,000,000	—	—	100%	100%	100%	Pharmaceutical products sales and healthcare services
Jingdong Pharmacy (Qingdao) Chain Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online retail of pharmaceutical products
Jingdong Pharmacy (Huizhou) Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online retail of pharmaceutical products
Jingdong Pharmacy Taizhou Chain Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online retail of pharmaceutical products
Yinchuan JD Online Hospital	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online hospital services

* As described in Note 1, the Company does not have directly or indirectly legal ownership in equity of these affiliated entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these affiliated entities, the Company and its legal owned subsidiaries have power over these affiliated entities, have rights to variable returns from its involvement with these affiliated entities and have the ability to affect those returns through their power over these affiliated entities and are considered to have control over these affiliated entities. Consequently, the Company regards these affiliated entities as its indirect subsidiaries.

** The English names of the subsidiaries and consolidated affiliated entities established in the PRC are translated from their registered Chinese names for identification only.

The above table lists the subsidiaries and consolidated affiliated entities of the Company that the directors of the Company believe to principally affect the results or assets of the Group. In the opinion of the directors of the Company, to give details of other subsidiaries would, result in particulars of excessive length.

The voting power of the subsidiaries and consolidated affiliated entities held by the Company are same with the ownership interest held by the Company.

No audited statutory financial statements have been prepared for the subsidiaries incorporated in the PRC listed above, since there are no statutory audit requirement. No audited statutory financial statements of JD Health (HK) Limited have been prepared, since it was incorporated in December 2018 and the statutory audit of the years ended December 31, 2018 and 2019 has not been completed.

None of the subsidiaries and consolidated affiliated entities had issued any debt securities during the Track Record Period.

34. Contingencies

The Group did not have any material contingent liabilities as of December 31, 2017, 2018 and 2019 and June 30, 2020.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued**35. Subsequent Events**

In August 2020, the Company entered into a series of definitive agreements with Hillhouse Capital and certain investors of Series A Preferred Shares to issue non-redeemable series B preferred shares. The total amount raised from such issuance was approximately USD914 million.

On September 14, 2020, a pre-IPO employee share incentive plan (the “Pre-IPO ESOP”) was conditionally approved and adopted by the board of the Company. The maximum aggregate number of underlying shares which may be issued pursuant to all awards under the Pre-IPO ESOP is 238,805,970 shares as of September 14, 2020 that are reserved under the Pre-IPO ESOP. The Pre-IPO ESOP commenced on September 14, 2020 and will expire on September 14, 2030. As of the date of this report, the Company has granted share options outstanding under the Pre-IPO ESOP to certain grantees to subscribe for an aggregate of 94,731,468 shares.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to June 30, 2020.

The information set out in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the three years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited combined tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2020, as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group, had the Global Offering been completed as of June 30, 2020 or at any future dates.

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company is prepared based on the audited combined tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2020 as derived from the Accountants' Report of the Group, as set out in Appendix I to this prospectus, and adjusted as described below.

	Audited combined tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2020 RMB'000 (Note 1)	Estimated net proceeds from Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 RMB'000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share RMB (Note 3)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share HK\$ (Note 4)
Based on an Offer Price of					
HK\$62.80 per Offer Share	(5,831,926)	19,908,567	14,076,641	5.56	6.57
Based on an Offer Price of					
HK\$70.58 per Offer Share	(5,831,926)	22,384,523	16,552,597	6.54	7.73

Notes:

- The audited combined tangible assets less liabilities of the Group attributable to owners of the Company as of June 30, 2020 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined net liabilities of the Group attributable to owners of the Company as of June 30, 2020 of RMB(5,831,926,000) with adjustments for intangible assets attributable to owners of the Company of RMB740,000.
- The estimated net proceeds from the Global Offering are based on 381,900,000 Offer Shares to be issued at the Offer Price of HK\$62.80 and HK\$70.58 per Offer Share, being the low-end and the high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated listing expenses and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Group subsequent to June 30, 2020 and does not take into account conversion of convertible preferred shares of the Company, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK\$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at June 30, 2020 per Share is calculated based on 2,531,153,732 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account conversion of convertible preferred shares of the Company, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP.
4. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into Hong Kong dollars at the rate of HK\$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
5. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 to reflect any operating result or other transactions of the Group entered into subsequent to June 30, 2020. In particular, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as shown on the table above have not been adjusted to illustrate the effect of the issuance of Series B Preference Shares in August 2020 (the "Issuance") and the conversion of Series A Preferred Shares and Series B Preferred Shares into Shares upon the completion of the Global Offering (the "Conversion").

As of June 30, 2020, the carrying amount of 372,552,238 Series A Preferred Shares of the Group was RMB13,609 million and recognized as financial liabilities. The Series A Preferred Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1.

In August 2020, the Company issued 130,319,819 Series B Preference Shares for a cash consideration of USD914 million (equivalent to RMB6,314 million). The Series B Preferred Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1.

Had the Issuance and the Conversion been assumed to take place as at June 30, 2020, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at June 30, 2020 per Share is calculated based on 3,034,025,789 Shares and the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company would be adjusted as described below.

	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 RMB'000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share RMB	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share HK\$
Based on an Offer Price of HK\$62.80 per Offer Share	34,000,261	11.21	13.24
Based on an Offer Price of HK\$70.58 per Offer Share	36,476,217	12.02	14.21

For the purpose of calculating the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share, the translation of Hong Kong dollars into Renminbi or Renminbi into Hong Kong dollars was made at the exchange rate of HK\$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

B. REPORTING ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of JD Health International Inc.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of JD Health International Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at June 30, 2020 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated November 26, 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering on the Group's financial position as at June 30, 2020 as if the Global Offering had taken place at June 30, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended December 31, 2017, 2018, 2019 and the six months ended June 30, 2020, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality

control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at June 30, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
November 26, 2020

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on November 23, 2020 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on November 23, 2020 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$50,000 divided into 100,000,000,000 shares of US\$0.0000005 each.

2.2 Directors**(a) *Power to allot and issue Shares***

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association

or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other

proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to

any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting

for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors. A member holding 40% or more of the issued and outstanding shares of the Company shall be entitled to nominate at least five persons to serve as Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world.

Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in

accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution—majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the

Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within one month from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further one month, the requisitionist(s) themselves or any of them holding no less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is canceled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, the Company shall endeavor to cause a notice of such postponement to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

- (a) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (b) notice of the business to be transacted at the reconvened meeting shall not be required, nor shall any accompanying documents be required to be recirculated, provided that the

business to be transacted at the reconvened meeting is the same as that set out in the notice of the original meeting circulated to the members of the Company.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share, they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid

up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or

against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

At least two members and holding in aggregate not less than 10% of the issued and outstanding shares of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 30, 2018 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company,

subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated

company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated under the laws of the Cayman Islands on November 30, 2018 as an exempted company with limited liability. Upon our incorporation, our authorized share capital was US\$50,000 divided into 50,000 share of a nominal value of US\$1.00.

Our registered office address is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III to this document.

Our registered place of business in Hong Kong is at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 19, 2020 with the Registrar of Companies in Hong Kong. Chiu Ming King has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

2. Changes in share capital of our Company

The following sets out the changes in our Company's issued share capital within the two years immediately preceding the date of this document:

- (a) On November 30, 2018, our Company issued one share of par value US\$1.00 to Maricorp Services Ltd., which was subsequently transferred to JD.com on the same day and later transferred to JD Jiankang on April 29, 2019;
- (b) On June 13, 2019, our Company conducted a share subdivision pursuant to which each share in our then issued and unissued share capital was subdivided in 1,000,000 shares with par value of US\$0.000001 each, and issued 1,073,626,866 ordinary shares with par value of US\$0.000001 each to JD Jiankang;
- (c) On June 28, 2019, July 5, 2019 and October 31, 2019, our Company issued 26,000,000, 6,000,000 and 8,000,000 Series A Preference Shares with par value of US\$0.000001 each, respectively, to Triton Bidco Limited;
- (d) On July 3, 2019, our Company issued 40,000,000 Series A Preference Shares with par value of US\$0.000001 each to CJD eHealthcare Investment Limited;
- (e) On July 4, 2019, our Company issued 8,000,000 Series A Preference Shares with par value of US\$0.000001 each to Skycus China Fund, L.P.;
- (f) On August 15, 2019 and November 6, 2019, our Company issued 10,000,000 and 20,000,000 Series A Preference Shares with par value of US\$0.000001 each, respectively, to CICC e-Healthcare Investment Limited;
- (g) On October 15, 2019, our Company issued 2,000,000 Series A Preference Shares with par value of US\$0.000001 each to Danqing-JDH Investment L.P.;
- (h) On October 21, 2019, our Company issued 30,000,000 Series A Preference Shares with par value of US\$0.000001 each to China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥));

- (i) On October 29, 2019, our Company issued 4,000,000 Series A Preference Shares with par value of US\$0.000001 each to Danqing Fund II Investment L.P. (蘇州丹青二期創新醫藥產業投資合夥企業(有限合夥));
- (j) On November 26, 2019, our Company issued 1,500,000 Series A Preference Shares with par value of US\$0.000001 each to Qianshan Health L.P.;
- (k) On November 29, 2019, our Company issued 26,000,000 Series A Preference Shares with par value of US\$0.000001 each to Eastar Medical Investment, L.P.;
- (l) On February 12, 2020, our Company conducted a share split pursuant to which each share in our then issued and unissued share capital was split into two shares of the corresponding class with par value of US\$0.0000005 each;
- (m) On June 9, 2020, our Company issued 9,552,238 Series A Preference Shares with par value of US\$0.0000005 each to Novacare Investment Limited;
- (n) On August 21, 2020, our Company issued:
 - (i) 119,209,819 Series B Preference Shares with par value of US\$0.0000005 each to SUM XI Holdings Limited;
 - (ii) 3,780,671 Series B Preference Shares with par value of US\$0.0000005 each to CJD eHealthcare Investment Limited;
 - (iii) 3,780,671 Series B Preference Shares with par value of US\$0.0000005 each to Triton Bidco Limited;
 - (iv) 2,835,503 Series B Preference Shares with par value of US\$0.0000005 each to CICC e-Healthcare Investment Limited; and
 - (v) 713,155 Series B Preference Shares with par value of US\$0.0000005 each to Domking Medical Investment, L.P.; and
- (o) On November 23, 2020, our Company issued 93,056,322 with par value of US\$0.0000005 each to Amazing Start Management Limited.

Save as disclosed above and in the section headed “—Resolutions of Our Shareholders Dated November 23, 2020” below, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this document.

3. Changes in the share capital of members of our Group

The following sets out the changes in the share or registered capital of members of our Group within the two years immediately preceding the date of this document:

- On January 31, 2019, the registered capital of Jingdong Yiyao (Tianjin) Co., Ltd. (京東醫藥(天津)有限公司) was decreased from RMB30,000,000 to RMB10,000,000.

Save as disclosed above, there has been no alteration in the share capital of any member of our Group within the two years immediately preceding the date of this document.

4. Resolutions of our Shareholders dated November 23, 2020

Resolutions of our Shareholders were passed on November 23, 2020, pursuant to which, among others, conditional upon the conditions of the Global Offering (as set out in this document) being fulfilled:

- (a) the Memorandum and the Articles were approved and adopted effective conditional on and immediately prior to the Listing on the Listing Date;

- (b) the Global Offering, Listing and Over-allotment Option were approved, and our Directors were authorized to negotiate and agree the Offer Price and to allot and issue the Offer Shares (including pursuant to the Over-allotment Option);
- (c) a general mandate (the “**Sale Mandate**”) was granted to our Directors to allot, issue and deal with any Shares or securities convertible into Shares and to make or grant offers, agreements or options which would or might require Shares to be allotted, issued or dealt with, provided that the number of Shares so allotted, issued or dealt with or agreed to be allotted, issued or dealt with by our Directors, shall not exceed 20% of the total number of Shares in issue immediately following the completion of Global Offering;
- (d) a general mandate (the “**Repurchase Mandate**”) was granted to our Directors to repurchase our own Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Global Offering;
- (e) the Sale Mandate was extended by the addition to the total number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the total number of the Shares purchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed 10% of the total number of the Shares in issue immediately following completion of the Global Offering;
- (f) all of the authorized Preference Shares (including all the then existed issued and outstanding Preference Shares) be re-designated and re-classified into ordinary Shares of our Company each with effect from Listing Date; and
- (g) each of the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme was approved and adopted with effect from the Listing Date and our Directors were authorized to make such changes to each of the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme as may be required by the Stock Exchange and/or which they deem necessary and/or desirable and to grant options and/or awards thereunder (as applicable) and to allot, issue and deal with Shares pursuant thereto, and to take all such actions as they consider necessary and/or desirable to implement or give effect to each of the Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.

Each of the general mandates referred to above will remain in effect until the earliest of:

- the conclusion of the next annual general meeting of our Company unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to condition;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws of the Cayman Islands or the memorandum and the articles of association of our Company; and
- the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority.

5. Explanatory statement on repurchase of our own securities

The following summarizes restrictions imposed by the Listing Rules on share repurchases by a company listed on the Stock Exchange and provides further information about the repurchase of our own securities.

Shareholders' approval

A listed company whose primary listing is on the Stock Exchange may only purchase its shares on the Stock Exchange, either directly or indirectly, if: (i) the shares proposed to be purchased are fully-paid up, and (ii) its shareholders have given a specific approval or general mandate by way of an ordinary resolution of shareholders.

Size of mandate

The exercise in full of the Repurchase Mandate, on the basis of 3,127,082,111 Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme), could accordingly result in up to approximately 312,708,211 Shares being repurchased by our Company.

The total number of shares which a listed company may repurchase on the Stock Exchange may not exceed 10% of the number of issued shares as at the date of the shareholder approval.

Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of the Cayman Islands.

Our Company shall not purchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any purchases by our Company may be made out of profits or out of an issue of new shares made for the purpose of the purchase or, if authorized by its Memorandum and Articles of Association and subject to the Companies Ordinance, out of capital, and, in the case of any premium payable on the purchase out of profits or from sums standing to the credit of our share premium account or, if authorized by its Memorandum and Articles of Association and subject to the Companies Ordinance, out of capital.

Suspension of repurchase

A listed company shall not repurchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (b) the deadline for the issuer to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), until the date of the results announcement, the company may not repurchase its shares on the Stock Exchange unless there are exceptional circumstances.

Trading restrictions

A listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

A listed company may not repurchase its shares if that repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Status of repurchased Shares

The listing of all repurchased shares (whether through the Stock Exchange or otherwise) shall be automatically canceled and the relevant documents of title must be canceled and destroyed as soon as reasonably practicable.

Close associates and core connected persons

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates have a present intention, in the event the Repurchase Mandate is approved, to sell any Shares to our Company.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken to do so, if the Repurchase Mandate is approved.

A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person (namely a director, chief executive or substantial shareholder of the company or any of its subsidiaries, or a close associate of any of them), and a core connected person shall not knowingly sell their interest in shares of the company to it.

Takeover implications

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance

with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

General

If the Repurchase Mandate were to be carried out in full at any time, there may be a material adverse impact on our working capital or gearing position (as compared with the position disclosed in our most recent published audited accounts). However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would have a material adverse effect on our working capital or gearing position.

Our Directors have undertaken to the Stock Exchange to will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

We have not made any repurchases of our Shares in the previous six months.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by any member of our Group within the two years immediately preceding the date of this document that are or may be material:

- (a) an exclusive business cooperation agreement entered into between Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) and Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) dated September 17, 2020, pursuant to which Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) agreed to engage Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) as its exclusive provider of business support, technical and consulting services;
- (b) an exclusive option agreement entered into among Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司), Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) and Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱), dated September 17, 2020, pursuant to which Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) (for itself or its designated party) is granted an irrevocable and exclusive option to purchase all or part of the equity interest in and assets of Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request;
- (c) a loan agreement entered into among Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) and each of Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱) dated September 17, 2020, pursuant to which Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) agreed to provide loans in an aggregate amount of RMB1,000,000 to Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱), of which RMB450,000 to Richard Qiangdong Liu (劉強東), RMB250,000 to Pang Zhang (張雱) and RMB300,000 to Yayun Li (李姪雲), to be used exclusively to contribute to the registered capital of Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司);

- (d) a share pledge agreement entered into among Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司), Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) and Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱) dated September 17, 2020, pursuant to which Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱) agreed to pledge all of their respective equity interests in Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) to Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) as a first priority charge;
- (e) a shareholder's rights entrustment agreement entered into among Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司), Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司) and Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱) on September 17, 2020, and an exclusive and irrevocable power of attorney executed by each of Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱) dated September 17, 2020, whereby Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱) will appoint Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司) or its designated persons (including director(s) nominated by the board of directors of its offshore holding company, a liquidator or other successor exercising the rights of such director(s)) to exercise all of the rights as the registered shareholders of Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司);
- (f) a cornerstone investment agreement dated November 23, 2020 entered into between the Company, Gaoling Fund, L.P., YHG Investment, L.P., Merrill Lynch Far East Limited, Haitong International Capital Limited, UBS Securities Hong Kong Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which Gaoling Fund, L.P. and YHG Investment, L.P. agreed to subscribe for an aggregate of 16,584,000 Shares at the Offer Price as part of the International Offering;
- (g) a cornerstone investment agreement dated November 23, 2020 entered into between the Company, Internet Fund IIIA Pte Ltd, Merrill Lynch Far East Limited, Haitong International Capital Limited, UBS Securities Hong Kong Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which Internet Fund IIIA Pte Ltd agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US\$300,000,000;
- (h) a cornerstone investment agreement dated November 23, 2020 entered into between the Company, Lake Bleu Prime Healthcare Master Fund Limited, Merrill Lynch Far East Limited, Haitong International Capital Limited, UBS Securities Hong Kong Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which Lake Bleu Prime Healthcare Master Fund Limited agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US\$100,000,000;
- (i) a cornerstone investment agreement dated November 23, 2020 entered into between the Company, China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司), Merrill Lynch Far East Limited, Haitong International Capital Limited, UBS Securities Hong Kong Limited and Haitong International Securities Company Limited pursuant to which China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) agreed to subscribe for Shares at the Offer Price in the amount of HK\$1,560,000,000;

- (j) a cornerstone investment agreement dated November 23, 2020 entered into between the Company, GIC Private Limited, Merrill Lynch Far East Limited, Haitong International Capital Limited, UBS Securities Hong Kong Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which GIC Private Limited agreed to subscribe for Shares at the Offer Price in the amount of the Hong Kong dollar equivalent of US\$350,000,000;
- (k) a cornerstone investment agreement dated November 23, 2020 entered into between the Company, BlackRock Global Allocation Fund, Inc., BlackRock Global Allocation V.I. Fund of BlackRock Variable Series Funds, Inc., BlackRock Global Allocation Portfolio of BlackRock Series Fund, Inc., BlackRock Global Allocation Fund (Australia), BlackRock Global Funds—Global Allocation Fund, BlackRock Global Funds—Global Dynamic Equity Fund, BlackRock Capital Allocation Trust, BlackRock Science and Technology Trust, BlackRock Technology Opportunities Fund of BlackRock Funds, BlackRock Global Funds—World Technology Fund, BlackRock Health Sciences Trust II, BlackRock Health Sciences Opportunities Portfolio of BlackRock Funds, BlackRock Health Sciences Master Unit Trust, BlackRock Global Funds—World Healthscience Fund, BlackRock Health Sciences Trust, Merrill Lynch Far East Limited, Haitong International Capital Limited, UBS Securities Hong Kong Limited and Merrill Lynch (Asia Pacific) Limited pursuant to which BlackRock Global Allocation Fund, Inc., BlackRock Global Allocation V.I. Fund of BlackRock Variable Series Funds, Inc., BlackRock Global Allocation Portfolio of BlackRock Series Fund, Inc., BlackRock Global Allocation Fund (Australia), BlackRock Global Funds—Global Allocation Fund, BlackRock Global Funds—Global Dynamic Equity Fund, BlackRock Capital Allocation Trust, BlackRock Science and Technology Trust, BlackRock Technology Opportunities Fund of BlackRock Funds, BlackRock Global Funds—World Technology Fund, BlackRock Health Sciences Trust II, BlackRock Health Sciences Opportunities Portfolio of BlackRock Funds, BlackRock Health Sciences Master Unit Trust, BlackRock Global Funds—World Healthscience Fund and BlackRock Health Sciences Trust agreed to subscribe for Shares at the Offer Price in the aggregate amount of the Hong Kong dollar equivalent of US\$250,000,000; and
- (l) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

Save as disclosed below, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or industrial property rights which are or may be material in relation to our business.

(i) Trademarks registered in China

As at the Latest Practicable Date, we (including through JD Group) had registered the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Registered Owner ⁽¹⁾	Place of Registration	Class	Registered number	Registration date (mm/dd/yy)
1.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	05	17299316	October 28, 2016
2.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	09	17299734	August 28, 2016
3.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	10	17299462	September 7, 2016
4.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	35	17299665	September 7, 2016
5.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	42	17299826	September 7, 2016
6.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	44	17299891	August 28, 2016
7.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	35	18942931	February 14, 2018
8.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	44	18943191	February 28, 2017
9.		Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	China	35	21235265	November 7, 2017
10.		Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	China	44	37095032	December 14, 2019

Note:

(1) Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司) is a consolidated affiliated entity of Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) which is indirectly wholly owned by JD.com.

(ii) Trademarks registered in Hong Kong

As at the Latest Practicable Date, we (including through JD Group) had no registered trademarks in Hong Kong which we consider to be or may be material to our business.

(iii) Trademark applications pending in China

As at the Latest Practicable Date, we had (including through JD Group) applied for the registration of the following trademarks in China which we consider to be or may be material to our business:

No.	Trademark	Applicant ⁽¹⁾	Class	Application number	Application date
1.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	05	49794264	September 16, 2020
2.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	10	49798089	September 16, 2020
3.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	09	49814689	September 16, 2020
4.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	35	49795135	September 16, 2020
5.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	39	49810927	September 16, 2020
6.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	44	49815564	September 16, 2020
7.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	05	49815569	September 16, 2020
8.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	10	49810937	September 16, 2020
9.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	09	49787540	September 16, 2020
10.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	35	49810563	September 16, 2020
11.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	39	49792720	September 16, 2020
12.	 京东健康	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	44	49815968	September 16, 2020

Note:

(1) Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司) is a consolidated affiliated entity of Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) which is indirectly wholly owned by JD.com.

(iv) Trademark applications pending in Hong Kong

As at the Latest Practicable Date, we (including through JD Group) had applied for the registration of following trademark in Hong Kong which we consider to be or may be material to our business.

No.	Trademark	Applicant ⁽¹⁾	Class	Application number	Application date
1.	 京东健康 and 	Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司)	09,35,44	305392558	September 16, 2020

Note:

(1) Beijing Jingdong 360 Du E-commerce Co., Ltd. (北京京東三佰陸拾度電子商務有限公司) is a consolidated affiliated entity of Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) which is indirectly wholly owned by JD.com.

Copyrights

As at the Latest Practicable Date, we (including through JD Group) had registered the following copyrights which we consider to be or may be material to our business:

<u>No.</u>	<u>Copyright</u>	<u>Version</u>	<u>Registration number</u>	<u>Registration date</u>
1.	Jingdong B2B Pharmacy Platform System (PC version) (京東B2B醫藥城平台系統 (PC版))	V1.0	2017SR105881	April 7, 2017
2.	Jingdong Internet Hospital Software (Doctor Android version) (京東互聯網醫院軟件 (醫生端安卓版))	V1.0.0	2017SR682024	December 12, 2017
3.	Jingdong Internet Hospital Software (Doctor iOS version) (京東互聯網醫院軟件 (醫生端iOS版))	V1.0.1	2017SR682808	December 12, 2017
4.	ABC Health Software (ABC健康軟件)	1.0.0	2019SR1106907	October 31, 2019
5.	Jingdong Blood Sugar Management Platform (京東血糖管理平台)	V1.0	2019SR0495994	May 21, 2019
6.	ABC Fuxiang Software (ABC福相軟件)	V1.0	2020SR0410950	May 6, 2020

Patents

As at the Latest Practicable Date, we (including through JD Group) had applied for the registration of the following patents in the PRC which we consider to be or may be material to our business:

<u>No.</u>	<u>Patent</u>	<u>Applicant⁽¹⁾</u>	<u>Application Number</u>	<u>Application date</u>
1.	Online medicine purchase limiting method, device, system and storage medium (網絡藥品購買的限量方法、裝置、系統和存儲介質)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	201911181001.X	November 27, 2019
2.	Information output method and device (用於輸出信息的方法和裝置)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	201911025907.2	October 25, 2019
3.	Intelligent health detection machine (智能健康檢測一體機)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	201930729941.2	December 26, 2019
4.	Information notification method and device (用於推送信息的方法和裝置)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	202010474571.4	May 29, 2020

No.	Patent	Applicant ⁽¹⁾	Application Number	Application date
5.	Medical insurance covered medicine purchase method and device (醫保藥品的下單方法和裝置)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	202010603400.7	June 29, 2020
6.	Container, human-computer interaction method and device, and computer readable medium (貨櫃、人機交互方法和裝置、計算機可讀介質)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	202010478058.2	May 29, 2020
7.	Prescription orders dispatch method, system, device and storage medium (處方訂單派發方法、系統、裝置和存儲介質)	Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公司)	202010479267.9	May 29, 2020

Note:

(1) Beijing Wodong Tianjun Information Technology Co., Ltd. (北京沃東天駿信息技術有限公司) is a subsidiary of Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) which is indirectly wholly owned by JD.com.

Domain names

As at the Latest Practicable Date, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain name	Registered owner	Expiry date
1.	jdhealth.com	Jiangsu Jingdong Hongyuan Information Technology Co., Ltd. (江蘇京東弘元信息技術有限公司)	April 4, 2023
2.	healthjd.com	Yinchuan JD Online Hospital Co., Ltd. (銀川京東互聯網醫院有限公司)	December 8, 2022
3.	jdjiankang.com	Jiangsu Jingdong Hongyuan Information Technology Co., Ltd. (江蘇京東弘元信息技術有限公司)	August 31, 2023
4.	yiyaojd.com	Jingdong Pharmacy (Qingdao) Chain Co., Ltd. (京東大藥房(青島)連鎖有限公司)	January 8, 2023
5.	jkcsjd.com	Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司)	April 16, 2021

C. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Particulars of Directors' service contracts and appointment letters****Executive Directors**

Our executive Director entered into a service contract with our Company on November 24, 2020. The term of appointment shall be for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months' written notice.

The executive Director is not entitled to receive any remuneration in his capacity as executive Director under his service contract.

Non-executive Directors

Each of our non-executive Directors entered into an appointment letter with our Company on November 24, 2020. The term of appointment shall be for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months' written notice.

The non-executive Directors are not entitled to receive any remuneration and benefits in their capacities as non-executive Directors under their respective appointment letters.

Independent non-executive Directors

Each of our independent non-executive Directors entered into an appointment letter with our Company on November 24, 2020. The term of appointment shall be for an initial term of three years from the Listing Date or until the third annual general meeting of our Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association).

The annual director's fees of our independent non-executive Directors payable by us under their respective appointment letters is RMB250,000, and may also include discretionary award of options and/or awards under the rules of any share option scheme or share award scheme adopted by the Company from time to time.

2. Remuneration of Directors

- (a) Save as disclosed in this document, none of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).
- (b) The aggregate amount of remuneration paid and benefits in kind granted to our Directors by our Group in respect of the year ended December 31, 2019 was approximately RMB19.3 million.
- (c) Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable by our Group to our Directors for the financial year ending December 31, 2020 is expected to be approximately RMB4 million.

3. Disclosure of interests***Interests and short positions of our Directors in the share capital of our Company or our associated corporations following completion of the Global Offering***

Immediately following completion of the Global Offering (without taking into account of, as applicable, (i) any change to the share capital of JD.com since the Latest Practicable Date up until completion of the Global Offering; and (ii) any dealings in the securities of JD.com by the Directors since the Latest Practicable Date up until completion of the Global Offering), the interests or short positions of our Directors and chief executives in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the 'Model Code for Securities

Transactions by Directors of Listed Issuers' contained in the Listing Rules, to be notified to our Company and the Stock Exchange are set out below:

Interest in our Company

<u>Name of director</u>	<u>Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company immediately after the Global Offering⁽¹⁾</u>
Lijun Xin (辛利軍) ⁽²⁾	Interest in controlled corporation ⁽²⁾ ; beneficial owner ⁽³⁾	38,834,967	1.24%

Notes:

- (1) The calculation is based on the total number of 3,127,082,111 Shares in issue immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme).
- (2) Novacare Investment Limited, which holds 9,552,238 Shares, is beneficially owned by Lijun Xin as to 93.09% (8,892,445 shares) with the remaining interest beneficially owned by 13 other employees of our Group who are not directors or senior management of the Company.
- (3) Includes Lijun Xin (辛利軍)'s entitlement to receive up to 29,282,729 Shares pursuant to the exercise of options granted to him under the Pre-IPO ESOP, subject to the conditions (including vesting conditions) of those options.

Interest in our associated corporations

Except as specifically noted, the following table sets forth the directors' or chief executives' beneficial ownership of JD.com's Class A ordinary shares and Class B ordinary shares as of Latest Practicable Date.

The calculations in the table below are based on 3,112,431,839 ordinary shares outstanding as of Latest Practicable Date, comprising of (i) 2,668,180,988 Class A ordinary shares, excluding the 17,361,994 Class A ordinary shares issued to JD.com's depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under JD.com's share incentive plan, and (ii) 444,250,851 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the U.S. SEC. In computing the number of shares beneficially owned by a person and the percentage ownership and voting power percentage of that person, JD.com has included shares and associated votes that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares and associated votes, however, are not included in the computation of the percentage ownership of any other person. Ordinary shares held by a shareholder are determined in accordance with JD.com's register of members.

	Ordinary Shares Beneficially Owned**				
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	% of Beneficial Ownership	% of Aggregate Voting Power†
Directors and Executive Officers:					
Richard Qiangdong Liu ⁽¹⁾	13,322,700 ⁽¹⁾	421,507,423 ⁽¹⁾	434,830,123 ⁽¹⁾	13.9 ⁽¹⁾	76.9 ⁽²⁾⁽³⁾
Lei Xu	*	—	*	*	*
Sandy Ran Xu	*	—	*	*	*
Yayun Li	*	—	*	*	*

Notes:

- † For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of the Class A ordinary shares and Class B ordinary shares as a single class.

Each holder of Class A ordinary shares is entitled to one vote per share and each holder of the Class B ordinary shares is entitled to 20 votes per share on all matters submitted to them for a vote. JD.com's Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of JD Shareholders and other matters as may otherwise be required by law. Each Class B ordinary share is convertible at any time by the holder thereof into one Class A ordinary share.

* Less than 1% of JD.com's total outstanding shares.

** Beneficial ownership information disclosed herein represents direct and indirect holdings of entities owned, controlled or otherwise affiliated with the applicable holder as determined in accordance with the rules and regulations of the U.S. SEC.

- (1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited, (ii) 161,350 restricted ADSs, representing 322,700 Class A ordinary shares, owned by Max Smart Limited, and (iii) 13,000,000 Class A ordinary shares Mr. Liu had the right to acquire upon exercise of options that shall have become vested within 60 days after Latest Practicable Date. Max Smart Limited is a British Virgin Islands company beneficially owned by Mr. Richard Qiangdong Liu through a trust and of which Mr. Richard Qiangdong Liu is the sole director, as described in footnote (2) below. The ordinary shares beneficially owned by Mr. Liu do not include 22,743,428 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (2) below.
- (2) The aggregate voting power includes the voting power with respect to the 22,743,428 Class B ordinary shares held by Fortune Rising Holdings Limited. Mr. Richard Qiangdong Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited and he may be deemed to beneficially own the voting power with respect to all of the ordinary shares held by Fortune Rising Holdings Limited in accordance with the rules and regulations of the U.S. SEC, notwithstanding the facts described in note (3) below.
- (3) Fortune Rising Holdings Limited holds the 22,743,428 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under JD.com's share incentive plan, and administers the awards and acts according to JD.com's instruction. Fortune Rising Holdings Limited exercises the voting power with respect to these shares according to JD.com's instruction. Fortune Rising Holdings Limited is a company incorporated in the British Virgin Islands. Mr. Richard Qiangdong Liu is the sole shareholder and the sole director of Fortune Rising Holdings Limited.

The following table lists out the interests of Lijun Xin (辛利軍)—not being a common director and/or chief executive of our Company and JD.com—in JD.com and JD Logistics, Inc, an associated corporation of the Company that is also a subsidiary of JD.com (i.e. a fellow subsidiary), as of the Latest Practicable Date. For further details regarding the waiver and exemption in relation to disclosure of interests information, please refer to the section headed “Waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Waiver and exemption in relation to disclosure of interests information”.

<u>Associated corporation</u>	<u>Name of director</u>	<u>Nature of interest</u>	<u>Number of shares</u>	<u>Interest in associated corporation</u>
JD.com	Lijun Xin (辛利軍)	Beneficial owner	399,276 ⁽¹⁾	0.01%
JD Logistics, Inc.	Lijun Xin (辛利軍)	Beneficial owner	600,000 ⁽²⁾	0.01%

Notes:

- (1) Includes Lijun Xin (辛利軍)'s entitlement to receive up to 203,616 shares of JD.com pursuant to restricted share units and 195,660 shares of JD.com pursuant to options under JD.com's share incentive plan.
- (2) Comprised of Lijun Xin (辛利軍)'s entitlement to receive up to 600,000 shares in JD Logistics, Inc. pursuant to options under the share incentive plan of JD Logistics, Inc.

The following table lists out the directors' or chief executives' interests in the other associated corporations:

<u>Associated corporation</u>	<u>Name of director</u>	<u>Nature of interest</u>	<u>Number of shares / amount of contribution to registered capital</u>	<u>Interest in associated corporation</u>
Onshore Holdco	Richard Qiangdong Liu (劉強東)	Nominee shareholder whose shareholder's rights are subject to contractual arrangements	RMB450,000	45%
	Yayun Li (李婭雲)		RMB300,000	30%

Interests and short positions disclosable under Divisions 2 and 3 of Part XV of the SFO

For information, so far as is known to our Directors or chief executive, of each person, other than our Director or chief executive, who immediately following completion of the Global Offering will have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO,

or, is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group, see “Substantial shareholders”.

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

D. SHARE INCENTIVE SCHEMES

1. Pre-IPO ESOP

Summary

The following is a summary of the principal terms of the share incentive plan, or the Pre-IPO ESOP of the Company as approved and adopted by the Board on September 14, 2020, as amended from time to time. The terms of the Pre-IPO ESOP are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO ESOP does not involve the grant of options by our Company to subscribe for new Shares upon our Listing.

(a) Purpose

The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company by linking the personal interests of the members of the Board, employees and consultants to those of the Company’s shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of its recipients upon whose judgment, interest and special effort the successful conduct of the Company’s operation is largely dependent.

(b) Who may join

Persons eligible to participate in the Pre-IPO ESOP include employees, consultants and all members of the Board, as determined by a committee authorized by the Board (the “**Committee**”). The Committee may, from time to time, select from among all eligible individuals (the “**Participants**”) to whom awards in the form of options (“**Options**”), restricted share awards (“**Restricted Shares**”) and restricted share units (“**RSUs**”) (collectively “**Awards**”) shall be granted and will determine the nature and amount of each Award. No individual shall have any automatic right to be granted an Award pursuant to the Pre-IPO ESOP.

(c) Maximum number of Shares

The maximum aggregate number of underlying shares which may be issued pursuant to all Awards under the Pre-IPO ESOP is 238,805,970 Shares as of September 14, 2020 that are reserved under the Pre-IPO ESOP.

In the event that the total number of Shares which have been reserved for under the Pre-IPO ESOP but have not been granted or are otherwise available for future grants under the Pre-IPO ESOP, as a percentage of the then total equity securities of the Company on a fully diluted basis (the

“Ungranted Awards Percentage”) is less than five percent (5%) (the “Triggering Event”), the number of Shares which may be issued under the Pre-IPO ESOP shall be increased by an amount equal to one percent (1%) of the then total equity securities of the Company on a fully diluted basis, immediately and in any event no later than the end of the year when the Triggering Event occurs and/or on January 1st for each year following the year in which the Triggering Event occurs, until the Ungranted Awards Percentage is equal to or higher than five percent (5%).

(d) Administration

The Pre-IPO ESOP shall be administered by the Board as a Committee or one or more members of the Board or others delegated by the Board as a Committee who has the authority to grant or amend Awards to Participants.

Subject to any specific designation in the Pre-IPO ESOP, the Committee has the exclusive power, authority and discretion to:

- (i) designate Participants to receive Awards;
- (ii) determine the type or types of Awards to be granted to each Participant;
- (iii) determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (iv) determine the terms and conditions of any Award granted pursuant to the Pre-IPO ESOP, including, without limitation, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;
- (v) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards or other property, or an Award may be canceled, forfeited or surrendered;
- (vi) prescribe the form of each Award Agreement (as defined below), which need not be identical for each Participant;
- (vii) decide all other matters that must be determined in connection with an Award;
- (viii) establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Pre-IPO ESOP;
- (ix) interpret the terms of, and any matter arising pursuant to, the Pre-IPO ESOP or any Award Agreement; and
- (x) make all other decisions and determinations that may be required pursuant to the Pre-IPO ESOP or as the Committee deems necessary or advisable to administer the Pre-IPO ESOP.

(e) Grant of Awards

The Committee is authorized to grant Awards to Participants in accordance with the terms of the Pre-IPO ESOP. Awards granted will be evidenced by an agreement (“Award Agreement”) between the Company and the Participant. The Award Agreement shall include such additional

provisions as may be specified by the Committee. The Committee can determine the terms and conditions of the Award, including the grant or purchase price of Awards.

(f) Terms of the Pre-IPO ESOP

The Pre-IPO ESOP commenced on September 14, 2020 (the “**Effective Date**”) and will expire on September 14, 2030. Upon expiry of the Pre-IPO ESOP, no Award may be granted pursuant to the Pre-IPO ESOP; any Awards that are outstanding shall remain in force according to the terms of the Pre-IPO ESOP and the applicable Award Agreement.

(g) Options

(i) Exercise of option

The Committee shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any Option granted under the Pre-IPO ESOP shall not exceed ten years, subject to a shareholder approval of extension of the exercise period for an option beyond ten years from the date of the grant. The Committee shall also determine conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(ii) Exercise price

The exercise price per Share subject to an Option shall be determined by the Committee and set forth in the Award Agreement which may be a fixed or variable price related to the fair market value of the Shares.

The exercise price per Share subject to an Option may be amended or adjusted in the absolute discretion of the Committee, the determination of which shall be final, binding and conclusive. For the avoidance of doubt, to the extent not prohibited by applicable laws, rules and regulations, a downward adjustment of the exercise prices of Options mentioned in the preceding sentence shall be effective without the approval of the Company’s shareholders or the approval of the affected Participants.

(iii) Forfeiture

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service, Options that at that time have not vested shall be forfeited in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Option Award Agreement that forfeiture conditions relating to Options will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part forfeiture conditions relating to Options.

(iv) Expiration of incentive share options

An incentive share Option (“**Incentive Share Option**”) under the Pre-IPO ESOP may not be exercised to any extent by anyone after the first to occur of the following events (i) ten (10) years from the date it is granted, unless an earlier time is set in the Award Agreement; (ii) ninety (90) days after the Participant’s termination of employment as an employee; and (iii) one (1) year after the date of the Participant’s termination of employment or service on account of disability or death. Upon the Participant’s disability or death, any Incentive Share Options exercisable at the Participant’s disability or death may be exercised by the Participant’s legal representative or representatives, by the person or

persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Share Option or dies intestate, by the person or persons entitled to receive the Incentive Share Option pursuant to the applicable laws of descent and distribution.

(h) Restricted Shares

(i) Restriction

Restricted Shares shall be subject to such restrictions on transferability (excluding any transfer of Shares to nominees and/or trustees of any employee benefit trusts established for them) and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Share). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

Unless the Committee determines otherwise, Restricted Shares shall be held by the Company as escrow agent until the restrictions on such Restricted Shares have lapsed.

(ii) Forfeiture and repurchase

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Restricted Share Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Shares.

(iii) Removal of restrictions

Except as otherwise provided in the Pre-IPO ESOP, Restricted Shares granted shall be released from escrow as soon as practicable after the last day of the period of restriction. The Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the shares shall be freely transferable by the Participant, subject to applicable legal restrictions.

(i) RSUs

(i) Performance objectives and other terms

The Committee, in its discretion, may set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of RSUs that will be paid out to the Participants.

(ii) Form and timing of payment of RSUs

At the time of grant, the Committee shall specify the date or dates on which the RSUs shall become fully vested and nonforfeitable. Upon vesting, the Committee, in its sole discretion, may pay RSUs in the form of cash, in Shares or in a combination thereof.

(iii) Forfeiture and repurchase

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, RSUs that are at that time unvested shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any RSU Award Agreement that restrictions or forfeiture and repurchase conditions relating to RSUs will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to RSUs.

(j) *Limits on Transfer*

Unless otherwise provided in the Pre-IPO ESOP, by applicable law, by the Committee and by the Award Agreement, as the same may be amended, and subject to certain limited exceptions including any transfer of Shares to nominees and/or trustees of any employee benefit trusts established for them, all Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; Awards will be exercised only by the Participant; and amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and in the case of the Shares, registered in the name of, the Participant.

(k) *Adjustments*

In the event of any share dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the Shares or the price of a Share, the Committee shall make such proportionate adjustments, if any, to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Pre-IPO ESOP, (including, without limitation, adjustments of the limitations in paragraph 1(c) in this section); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Pre-IPO ESOP.

(l) *Amendment, Modification and Termination*

With the approval of the Board, at any time and from time to time, the Committee may terminate, cancel or modify the Pre-IPO ESOP.

Except with respect to amendments made pursuant to the above, no termination, amendment or modification of the Pre-IPO ESOP shall adversely affect in any material way any Award previously granted pursuant to the Pre-IPO ESOP without the prior written consent of the Participant.

Outstanding Options granted

As of the Latest Practicable Date, the Company has granted only Options outstanding under the Pre-IPO ESOP to 237 grantees (including Directors, senior management and other connected persons of the Company and other employees of the Group) to subscribe for an aggregate of 94,731,468 Shares. The Company will not grant further Awards under the Pre-IPO ESOP after the Listing. The exercise price of the Options under the Pre-IPO ESOP is US\$0.0000005 per Share. No consideration was payable by the grantees for the grant of the Options under the Pre-IPO ESOP. As of the date of this document, 93,056,322 Shares have been issued to Amazing Start Management Limited, which is wholly owned by The Core Trust Company Limited, being the trustee holding the shares on trust for the benefit of the participants of the Pre-IPO ESOP.

The remaining 1,675,146 Shares underlying the outstanding granted Options under the pre-IPO ESOP represent 0.05% of the issued Shares immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP). Assuming full issuance of such remaining 1,675,146 Shares underlying the outstanding granted Options under the pre-IPO ESOP, the shareholding of our Shareholders immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and excluding any shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme) will be diluted by approximately 0.05%. As the Group incurred losses for the six months ended June 30, 2020, the dilutive potential ordinary shares, namely the share options, were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the six months ended June 30, 2020 was the same as basic loss per share for the corresponding period.

The grant of Options under the Pre-IPO ESOP to the grantees as set out below has been approved by the Board.

The table below shows the details of the outstanding Options granted to the Directors, senior management and other connected persons of the Company, and one grantee who has been granted options to subscribe for 1,500,000 shares or above under the Pre-IPO ESOP:

<u>Name</u>	<u>Role</u>	<u>Address</u>	<u>Number of Shares underlying Options outstanding</u>	<u>Exercise Price (per Share)</u>	<u>Date of Grant</u>	<u>Vesting Period⁽²⁾</u>	<u>Approximate percentage of issued Shares immediately after completion of Global Offering⁽¹⁾</u>
Directors							
Richard Qiangdong Liu (劉強東)	Non-executive Director and chairman of the Board	Room 902, Unit 2, Building 3, Courtyard 3, Sanyang North Street Beijing People's Republic of China	53,042,516	US\$0.0000005	October 15, 2020	6 years from date of grant	1.70%
Lijun Xin (辛利軍)	Executive Director	No. 206, Unit 4, Building 3 Fengniaojiayuan Beijing People's Republic of China	29,282,729	US\$0.0000005	October 1, 2020	6 months from date of grant to 10 years from date of grant	0.94%
Senior Management							
Dong Cao (曹冬)	Chief financial officer	No. 241, 21/F, Courtyard 8, Hongjunying East Road, Chaoyang District, Beijing, People's Republic of China	749,865	US\$0.0000005	October 1, 2020	6 months from date of grant to 5 years and 6 months from date of grant	0.02%
Other connected persons of the Company							
Yu Wang (王宇)	Director of certain subsidiaries of the Company	1403, Building 10, Area 4, Jinding Street, Shijingshan District, Beijing, People's Republic of China	660,727	US\$0.0000005	October 1, 2020	6 months from date of grant to 5 years and 6 months from date of grant	0.02%

Name	Role	Address	Number of Shares underlying Options outstanding	Exercise Price (per Share)	Date of Grant	Vesting Period ⁽²⁾	Approximate percentage of issued Shares immediately after completion of Global Offering ⁽¹⁾
Enlin Jin (金恩林)	Director of certain subsidiaries of the Company	Room 1103, Unit 7, 16/F, Nanli East District, Xihuashi, Dongcheng District, Beijing, People's Republic of China	460,778	US\$0.0000005	October 1, 2020	9 months from date of grant to 5 years and 6 months from date of grant	0.01%
Xinyuan Zhou (周新元)	Director of certain subsidiaries of the Company	No. 501, Unit 2, 5/F, Building 62, Songyuxili, Chaoyang District, Beijing, People's Republic of China	414,596	US\$0.0000005	October 1, 2020	2 years and 3 months from date of grant to 5 years and 6 months from date of grant	0.01%
Yehong Li (李葉紅)	Director of certain subsidiaries of the Company	014 Zhonglou North Lane, West Street, Yong'an Town, Hunyuan County, Shanxi Province, People's Republic of China	10,965	US\$0.0000005	October 1, 2020	4 years and 6 months from date of grant to 5 years from date of grant	0.0004%
<i>Other grantee that is beneficially interested in 1,500,000 options or above</i>							
Yuanqing Wu (吳元清)	Head of Innovative Medicine R&D Center	No.3, No.15, Ronghua Middle Street, Yizhuang, Daxing District, Beijing, People's Republic of China	1,645,156	US\$0.0000005	October 1, 2020	6 months from date of grant to 6 years from date of grant	0.05%
Subtotal:	8 grantees		86,267,332				2.76%

Note:

- (1) Assuming the Over-allotment Option is not exercised and excluding Shares to be issued under the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.
- (2) The exercise period of the Options granted under Pre-IPO ESOP shall commence from the vesting commencement date of the relevant Options and end on the 10th anniversary of the grant date, subject to the terms of the Pre-IPO ESOP and the share option award agreement signed by the grantee.

The table below shows the details of the outstanding Options granted to the remaining 229 grantees, who are not Directors, senior management or connected persons of the Company, or other grantee that is beneficially interested in 1,500,000 options or above, under the Pre-IPO ESOP:

Range of Shares underlying outstanding options under the Pre-IPO ESOP	Total number of grantees	Total number of Shares	Exercise Price	Date of grant	Vesting Period	Exercise Period	Approximately percentage of issued Shares immediately after completion of the Global Offering ⁽¹⁾
0 shares to 19,999 shares . . .	134	1,099,454	US\$0.0000005	October 1, 2020	3 months from date of grant to 6 years from date of grant	10 years from the grant date	0.04%
20,000 shares to 99,999 shares . . .	77	3,471,808	US\$0.0000005	October 1, 2020	6 months from date of grant to 6 years from date of grant	10 years from the grant date	0.11%
Over 100,000 shares . . .	18	3,892,874	US\$0.0000005	October 1, 2020	6 months from date of grant to 5 years and 6 months from date of grant	10 years from the grant date	0.12%
Subtotal . . .	229	8,464,136					0.27%

Note:

(1) Assuming the Over-allotment Option is not exercised and excluding any Shares to be issued under the Pre-IPO ESOP, the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme.

2. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted by our Shareholders by written resolution of the Shareholders dated November 23, 2020. The terms of the Post-IPO Share Option Scheme will be governed by Chapter 17 of the Listing Rules.

(a) Purpose of the Post-IPO Share Option Scheme

The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

(b) Selected participants to the Post-IPO Share Option Scheme

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group is entitled to be offered and granted

options. However, no individual who is resident in a place where the grant, acceptance or exercise of options pursuant to the Post-IPO Share Option Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

(c) Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 312,708,211 Shares, being no more than 10% of the Shares in issue on the Listing Date (the “**Option Scheme Mandate Limit**”) (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the shares to be issued under the Pre-IPO ESOP and grants under the Post-IPO Share Award Scheme). Options which have lapsed in accordance with the terms of the rules of the Post-IPO Share Option Scheme (or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the “**Option Scheme Limit**”). No options may be granted under any schemes of our Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

The Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the refreshed Option Scheme Mandate Limit cannot exceed 10% of the Shares in issue as at the date of such approval. Options previously granted under the Post-IPO Share Option Scheme and any other share option schemes of our Company (and to which provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, canceled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit.

Our Company may also grant options in excess of the Option Scheme Mandate Limit, provided such grant is to specifically identified selected participant and is first approved by Shareholders in general meeting.

(d) Maximum entitlement of a grantee

Unless approved by our Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue (the “**Individual Limit**”). Any further grant of options to a selected participant which would result in the aggregate number of Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, canceled and outstanding options) in the 12 month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of our Shareholders (with such selected participant and his associates abstaining from voting).

(e) Performance target

The Post-IPO Share Option Scheme does not set out any specific performance targets that must be achieved before the options may be exercised. However, the Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(f) Subscription price

The amount payable for each Share to be subscribed for under an option (“**Subscription Price**”) in the event of the option being exercised shall be determined by the Board or its delegate(s) but shall be not less than the greater of:

- (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;
- (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share on the date of grant.

(g) Rights are personal to grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the Post-IPO Share Option Scheme.

(h) Options granted to directors or substantial shareholders of the Company

Each grant of options to any director, chief executive or substantial shareholder of our Company (or any of their respective associates) must first be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed recipient of the grant of options). Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company (or any of their respective associates) would result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange),

such further grant of options must also be first approved by the Shareholders (voting by way of poll) in a general meeting. In obtaining the approval, our Company shall send a circular to the Shareholders in accordance with and containing such information as is required under the Listing Rules. All connected

persons of our Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

(i) Grant offer letter and notification of grant of options

An offer shall be made to selected participants by a letter which specifies the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board or its delegate(s) such other terms either on a case basis or generally.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of our Company of RMB1.00 by way of consideration for the grant thereof, which must be received by the Company within 20 business days from the date on which the offer letter is delivered to the grantee.

Any offer may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares or a multiple thereof. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that selected participant, it shall be deemed to have been irrevocably declined.

(j) Restriction of grant of options

No offer shall be made and no option shall be granted to any selected participant in circumstances prohibited by the Listing Rules or at a time when the selected participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. No offer shall be made and no option shall be granted to any selected participant where such person is in possession of any unpublished inside information in relation to our Company until such inside information has been published in an announcement in accordance with the Listing Rules. Furthermore, no offer shall be made and no option shall be granted:

- (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Such period will also cover any period of delay in the publication of any results announcement.

(k) Time of exercise of an option

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board or its delegate(s) may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

(l) Cancellation of options

Any breaches of the rules of the Post-IPO Share Option Scheme by a grantee may result in the options granted to such grantee being canceled by the Company. Any options granted but not exercised may be canceled if the grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the Post-IPO Share Option Scheme (excluding the canceled options) and in compliance with the terms of the Post-IPO Share Option Scheme.

(m) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the period within which an option may be exercised, which is to be determined and notified by the Board or its delegate(s) to each grantee at the time of making an offer, and shall not expire later than ten years from the date of grant (the “**Option Period**”);
- (ii) the expiry of any of the periods for exercising the option as referred to in paragraphs (p), (q) and (r) below; and
- (iii) the date on which the grantee commits a breach of the rules of the Post-IPO Share Option Scheme.

(n) Voting and dividend rights

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or Shares that are the subject of options that have not been exercised.

(o) Effects of alterations in the capital structure of the company

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares comprised in each option so far as unexercised; and/or
- (ii) the Subscription Price; and/or
- (iii) the method of exercise of the option,

or any combination thereof, as the auditors or a financial adviser engaged by our Company for such purpose shall, at the request of the Company, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of our Company as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial adviser (as the case may be) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees. The costs of the auditors or financial advisor (as the case may be) shall be borne by our Company.

(p) *Retirement, death or permanent physical or mental disability of an selected participant*

If a grantee ceases to be selected participant by reason of (i) death of the grantee, (ii) termination of the grantee's employment or contractual engagement with the Group or its affiliate by reason of his/her permanent physical or mental disablement, (iii) retirement of the grantee, the vested option may be exercised within the Option Period, or such other period as the Board or its delegate(s) may decide in their sole discretion.

In the case of death of a grantee, the vested option may be exercised within that period by the personal representatives of the grantee. In the case where a grantee no longer has any legal capacity to exercise the vested option, the vested option may be exercised within that period by the persons charged with the duty of representing the grantee under the relevant laws in Hong Kong. If the vested option is not exercised within the time mentioned above, the option shall lapse.

If a grantee, being an employee whose employment is terminated by the Group or its affiliate (as applicable) by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, the grantee having been convicted of any criminal offense involving his integrity or honesty, or the grantee conducts, among others, activities that cause damage to our Group, or causes damages to our Group's interest or reputation, the option shall immediately lapse, regardless whether the option has vested or not, any earnings from selling of the exercised options shall be owned by the Company and the Company have the right to request the grantee to refund the Company.

If a grantee is declared bankrupt or becomes insolvent or makes any arrangements or composition with his creditors generally, the option shall immediately lapse.

If a grantee being an employee ceases to be selected participant due to termination of his or her employment or contractual engagement with the Group by reason of redundancy, the option may be exercised within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

If a grantee ceases to be selected participant other than in any of the circumstances described above, unless otherwise provided in the option agreement, a grantee may exercise his or her option within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

(q) *Rights on takeover and schemes of compromise or arrangement*

If a general offer by way of takeover is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), and the offer becomes or is declared unconditional in all respects, the grantee shall be entitled to exercise the option (to the extent not already exercised) at any time within one month (or such other period as the Board or its delegate(s) may decide in their sole discretion) after the date on which the offer becomes or is declared unconditional. If the option is not exercised within the time specified, the option shall lapse.

If a compromise or arrangement between the Company and its members or creditors is proposed, our Company shall give notice to the grantee on the same date as it despatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may until the expiry of the

period commencing with such date and ending with earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Post-IPO Share Option Scheme. Our Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position, as nearly as possible, as would have been the case had such Shares been subject to such compromise or arrangement. If the option is not exercised within the time specified, the option shall lapse.

(r) *Rights on a voluntary winding up*

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this sub-paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid. If the option is not exercised within the time specified, the option shall lapse.

(s) *Ranking of shares*

The Shares to be allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of the Company and subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank *pari passu* with the other fully paid Shares in issue on the date the name of the grantee is registered on the register of members of the Company or if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company) declared or recommended or resolved to be paid to the Shareholders on the register on a date prior to such registration.

(t) *Duration*

The Post-IPO Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date (after which, no further options shall be offered or granted under the Post-IPO Share Option Scheme), but in all other respects the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the Post-IPO Share Option Scheme.

(u) *Alteration of the Post-IPO Share Option Scheme*

The Board or its delegate(s) may subject to the rules of the Post-IPO Share Option Scheme amend any of the provisions of the Post-IPO Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Post-IPO Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Those specific provisions of the Post-IPO Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of selected participants, and no changes to the authority of the administrator of the Post-IPO Share Option Scheme in relation to any alteration of the terms of the Post-IPO Share Option Scheme shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms of the Post-IPO Share Option Scheme which are of a material nature, or any change to the terms and conditions of options granted, must also, to be effective, be approved by the Shareholders in general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Post-IPO Share Option Scheme. The options and the Post-IPO Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules. Any change to the authority of the Directors or scheme administrators in relation to any alteration to the terms of the Post-IPO Share Option Scheme must be approved by Shareholders in general meeting.

Notwithstanding any provisions to the contrary in the Post-IPO Share Option Scheme, if on the relevant date of exercise there are restrictions or conditions imposed by the relevant laws and regulations to which the grantee is subject and the grantee has not obtained approval, exemption or waiver from the relevant regulatory authorities for the subscription of and dealing in the Shares, the grantee may sell the options to such transferee, subject to the approval by the Board or its delegate(s), which shall not unreasonably withhold or delay such approval. In the event that the options are transferred to a connected person of our Company, no Shares shall be allotted and issued upon the exercise of the options by a connected person of our Company unless the Board or its delegate(s) is satisfied that the allotment and issue of Shares will not trigger any breach of the Listing Rules, the Articles of Association, the Cayman Companies Law or the Takeovers Code.

(v) *Termination*

The Shareholders by ordinary resolution in general meeting or the Board or its delegate(s) may at any time resolve to terminate the operation of the Post-IPO Share Option Scheme prior to the expiry of the Post-IPO Share Option Scheme and in such event no further options will be offered or granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the Post-IPO Share Option Scheme and remain unexercised and unexpired immediately prior to the termination of the operation of the Post-IPO Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Post-IPO Share Option Scheme.

Details of the options granted, including options exercised or outstanding, under the Post-IPO Share Option Scheme shall be disclosed in the circular to the Shareholders seeking approval of the new scheme established after the termination of the Post-IPO Share Option Scheme.

3. Post-IPO Share Award Scheme

The following is a summary of the principal terms of the Post-IPO Share Award Scheme conditionally adopted by written resolution of the Shareholders dated November 23, 2020. The Post-IPO Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules. The Company may appoint one or more trustees (“**Trustee(s)**”) to administer the Post-IPO Share Award Scheme with respect to the grant of any award by the Board or its delegate(s) (an “**Award**”) which may vest in the form of Shares (“**Award Shares**”) or the actual selling price of the Award Shares in cash in accordance with the Post-IPO Share Award Scheme.

(a) *Eligible Persons to the Post-IPO Share Award Scheme*

Any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (an “**Eligible Person**” and, collectively “**Eligible Persons**”) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is eligible to receive an Award. However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Post-IPO Share Award Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Post-IPO Share Award Scheme.

(b) *Purpose of the Post-IPO Share Award Scheme*

The purpose of the Post-IPO Share Award Scheme is to align the interests of Eligible Persons’ with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group.

(c) *Awards*

An Award gives a selected participant a conditional right, when the Award Shares vest, to obtain the Award Shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Award Shares. An Award includes all cash income from dividends in respect of those Shares from the date the Award is granted (the “**Grant Date**”) to the date the Award vests (the “**Vesting Date**”). For the avoidance of doubt, the Board or its delegate(s) at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Award Shares be paid to the selected participant even though the Award Shares have not yet vested.

(d) *Grant of Award*

(i) Making the grant

The Board or the committee of the Board or person(s) to which the Board has delegated its authority may, from time to time, at their absolute discretion, grant an Award to a selected participant (in the case of the Board’s delegate(s), to any selected participant other than a Director or an officer of the Company) by way of an award letter (“**Award Letter**”). The Award Letter will specify the Grant

Date, the number of Award Shares underlying the Award, the vesting criteria and conditions, the Vesting Date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an Award to any Director or the chairman of the board of the Company shall be subject to the prior approval of the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of an Award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Shares to connected persons of the Company.

(ii) Restrictions on grants and timing of grants

The Board and its delegate(s) may not grant any Award Shares to any selected participant in any of the following circumstances:

- (A) where any requisite approval from any applicable regulatory authorities has not been granted;
- (B) where any member of the Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the Post-IPO Share Award Scheme, unless the Board or its delegate(s) determines otherwise;
- (C) where such Award would result in a breach by any member of the Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;
- (D) where such grant of Award would result in a breach of the Post-IPO Share Award Scheme Limit (as defined below) or would otherwise cause the Company to issue Shares in excess of the permitted amount in the mandate approved by the Shareholders;
- (E) where an Award is to be satisfied by way of issue of new Shares to the Trustee, in any circumstances that cause the total Shares issued or allotted to connected persons to be in excess of the amount permitted in the mandate approved by the Shareholders;
- (F) where any Director of the Company is in possession of unpublished inside information in relation to the Company or where dealings by Directors of the Company are prohibited under any code or requirement of the Listing Rules and all applicable laws, rules or regulations, from time to time;
- (G) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (H) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

(e) *Maximum Number of Shares to be Granted*

The aggregate number of Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 312,708,211 Shares without Shareholders' approval (the "**Post-IPO Share Award Scheme Limit**") subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

(f) *Scheme Mandate*

To the extent that the Post-IPO Share Award Scheme Limit is subsequently increased by way of alteration of the Post-IPO Share Award Scheme and the Company is required to issue and allot new shares to satisfy any Awards in excess of any amount previously approved by the Shareholders, the Company shall at a general meeting propose, and the Shareholders shall consider and, if thought fit, pass an ordinary resolution approving a mandate specifying:

- (i) the maximum number of new Shares that may be issued for this purpose; and
- (ii) that the Board has the power to issue, allot, procure the transfer of and otherwise deal with the Shares in connection with the Post-IPO Share Award Scheme.

The mandate will remain in effect during the period from the passing of the ordinary resolution granting the mandate until the variation or revocation of such mandate by an ordinary resolution of the Shareholders in a general meeting.

(g) *Rights attached to the Award*

Save that the Board or its delegate(s) at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Award Shares be paid to the selected participants even though the Award Shares have not yet vested, the selected participant only has a contingent interest in the Award Shares underlying an Award unless and until such Award Shares are actually transferred to the selected participant, nor does he/she have any rights to any related income until the Award Shares vest.

Neither the selected participant nor a Trustee may exercise any voting rights in respect of any Award Shares that have not yet vested.

(h) *Rights attached to the Shares*

Any Award Shares transferred to a selected participant in respect of any Awards will be subject to all the provisions of the Memorandum and the Articles and will form a single class with the fully paid Shares in issue on the relevant date.

(i) *Issue of Shares and/or transfer of funds to the Trustee*

The Company shall, as soon as reasonably practicable and no later than 30 business days from the Grant Date, (i) issue and allot Shares to the Trustee for the purposes of satisfying the grant of Awards and/or (ii) transfer to the Trustee the necessary funds and instruct the Trustee to acquire Shares through on-market transactions at the prevailing market price, so as to satisfy the Awards.

(j) *Assignment of Awards*

Unless express written consent is obtained from the Board or the committee of the Board or person(s) to which the Board has delegated its authorities, any Award Shares granted under the Post-IPO Share Award Scheme but not yet vested are personal to the selected participants to whom they are granted and cannot be assigned or transferred. A selected participant shall not in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Award, or enter into any agreement to do so.

(k) Vesting of Awards

The Board or its delegate(s) may from time to time while the Post-IPO Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

Within a reasonable time period as agreed between the Trustee and the Board or its delegate(s) from time to time prior to any Vesting Date, the Board or its delegate(s) will send a vesting notice to the relevant selected participant and instruct the Trustee the extent to which the Award Shares held in the Trust shall be transferred and released from the Trust to the selected participant. Subject to the receipt of the vesting notice and notification from the Board or its delegate(s), the Trustee will transfer and release the relevant Award in the manner as determined by the Board or its delegate(s).

If, in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, solely due to legal or regulatory restrictions with respect to the selected participant's ability to receive the Award in Shares or the Trustee's ability to give effect to any such transfer to the selected participant, the Board or its delegate(s) will direct and procure the Trustee to sell, on-market at the prevailing market price, the number of Award Shares so vested in respect of the selected participant and pay the selected participant the proceeds arising from such sale based on the actual selling price of such Award Shares in cash as set out in the vesting notice.

If there is an event of change in control of the Company by way of a merger, a privatization of the Company by way of a scheme or by way of an offer, the Board or the committee of the Board or person(s) to which the Board has delegated its authority shall at their sole discretion determine whether the Vesting Dates of any Awards will be accelerated to an earlier date.

(l) Consolidation, subdivision, bonus issue and other distribution

In the event the Company undertakes a subdivision or consolidation of the Shares, corresponding changes will be made to the number of outstanding Award Shares that have been granted provided that the adjustments shall be made in such manner as the Board or its delegate(s) determines to be fair and reasonable in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Post-IPO Share Award Scheme for the selected participants. All fractional shares (if any) arising out of such consolidation or subdivision in respect of the Award Shares of a selected participant shall be deemed as returned shares and shall not be transferred to the relevant selected participant on the relevant Vesting Date. The Trustee shall hold returned shares to be applied towards future Awards in accordance with the provisions of the Post-IPO Share Award Scheme rules for the purpose of the Post-IPO Share Award Scheme.

In the event of an issue of Shares by the Company credited as fully paid to the holders of the Shares by way of capitalization of profits or reserves (including share premium account), the Shares attributable to any Award Shares held by the Trustee shall be deemed to be an accretion to such Award Shares and shall be held by the Trustee as if they were Award Shares purchased by the Trustee hereunder and all the provisions hereof in relation to the original Award Shares shall apply to such additional Shares.

In the event of any non-cash distribution or other events not referred to above by reason of which the Board or its delegate(s) considers an adjustment to an outstanding Award to be fair and reasonable, an adjustment shall be made to the number of outstanding Award Shares of each selected

participant as the Board or its delegate(s) shall consider as fair and reasonable, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Post-IPO Share Award Scheme for the selected participants. The Company shall provide such funds, or such directions on application of the returned shares or returned trust funds, as may be required to enable the Trustee to purchase Shares on-market at the prevailing market price to satisfy the additional Award.

In the event the Company undertakes an open offer of new securities, the Trustee shall not subscribe for any new Shares. In the event of a rights issue, the Trustee shall seek instructions from the Company on the steps or actions to be taken in relation to the nil-paid rights allotted to it.

(m) Cessation of employment and other events

If a selected participant ceases to be an Eligible Person by reason of retirement of the selected participant, any unvested Award Shares and related income not yet vested shall immediately lapse and be forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant ceases to be an Eligible Person by reason of (i) death of the selected participant, (ii) termination of the selected participant's employment or contractual engagement with the Group or an affiliate by reason of his/her permanent physical or mental disablement, (iii) termination of the selected participant's employment or contractual engagement with the Group by reason of redundancy, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant, being an employee whose employment is terminated by the Group or an affiliate by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, the selected participant having been convicted of any criminal offense involving his or her integrity or honesty, or if the selected participant conducts, among others, activities that cause damage to our Group, or causes damages to our Group's interest or reputation, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, any vested Award Shares shall be canceled, any earnings from selling of the Share Awards shall be owned by the Company and the Company have the right to request the Selected Participant to refund the Company, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant is declared bankrupt or becomes insolvent or makes any arrangements or composition with his or her creditors generally, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

If a selected participant ceases to be an Eligible Person for reasons other than those stated this paragraph, any outstanding Award Shares and related income not yet vested shall be immediately forfeited, unless the Board or its delegate(s) determines otherwise at their absolute discretion.

(n) Alteration of the Post-IPO Share Award Scheme

The Post-IPO Share Award Scheme may be altered in any respect (save for the Post-IPO Share Award Scheme Limit) by a resolution of the Board or its delegate(s) provided that no such alteration

shall operate to affect adversely any subsisting rights of any selected participant unless otherwise provided for in the rules of the Post-IPO Share Award Scheme, except:

- (i) with the consent in writing of selected participants amounting to three-fourths in nominal value of all Award Shares granted by not yet vested on that date; or
- (ii) with the sanction of a special resolution that is passed at a meeting of the selected participants amounting to three-fourths in nominal value of all Award Shares granted by not yet vested on that date.

(o) Termination

The Post-IPO Share Award Scheme shall terminate on the earlier of:

- (i) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Award Shares granted hereunder prior to the expiration of the Post-IPO Share Award Scheme, for the purpose of giving effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the Post-IPO Share Award Scheme; and
- (ii) such date of early termination as determined by the Board or its delegate(s) provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Post-IPO Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Award Shares already granted to a selected participant.

(p) Administration of the Post-IPO Share Award Scheme

The Board has the power to administer the Post-IPO Share Award Scheme in accordance with the rules of the Post-IPO Share Award Scheme and, where applicable, the Trust deed, including the power to construe and interpret the rules of the Post-IPO Share Award Scheme and the terms of the Awards granted under the Post-IPO Share Award Scheme. The Board may delegate the authority to administer the Post-IPO Share Award Scheme to a committee of the Board or other person(s) as deemed appropriate at the sole discretion of the Board. The Board or its delegate(s) may also appoint one or more independent third party contractors to assist in the administration of the Post-IPO Share Award Scheme as they think fit.

(q) Grant of Shares under the Post-IPO Share Award Scheme

As of the date of this document, no Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme.

An application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the Post-IPO Share Award Scheme.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

2. Litigation

Save as disclosed in this document, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company's results of operations or financial condition.

3. Joint Sponsors

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors will receive an aggregate of US\$1.5 million for acting as the sponsor for the Listing.

4. Consent of experts

This document contains statements made by the following experts:

<u>Name</u>	<u>Qualification</u>
Merrill Lynch Far East Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Haitong International Capital Limited	A licensed corporation under the SFO for type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
UBS Securities Hong Kong Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities as defined under the SFO
Shihui Partners	Legal adviser to Company as to PRC law
Maples and Calder (Hong Kong) LLP	Legal adviser to Company as to Cayman Islands law
Deloitte Touche Tohmatsu	Certified public accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

As at the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Each of the experts named above have given and have not withdrawn their respective written consent to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

5. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

6. Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary expenses

We have not incurred any material preliminary expenses in relation to the incorporation of our Company.

8. Disclaimers

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
- (i) there are no commissions (but not including commission to sub-underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company; and
 - (ii) there are no commissions, discounts, brokerages or other special terms granted in connection with the issue or sale of any capital of any member of our Group, and no Directors, promoters or experts named in the part headed “—Other information—Consent of experts” received any such payment or benefit.
- (b) Save as disclosed in this document:
- (i) there are no founder, management or deferred shares in our Company or any member of our Group;
 - (ii) we do not have any promoter and no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this document, or are proposed to be paid, allotted or given to any promoters;
 - (iii) none of the Directors or the experts named in the part headed “—Other information—Consent of experts” above has any interest, direct or indirect, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; and
 - (iv) there are no bank overdrafts or other similar indebtedness by our Company or any member of our Group;
 - (v) there are no hire purchase commitments, guarantees or other material contingent liabilities of our Company or any member of our Group;
 - (vi) there are no outstanding debentures of our Company or any member of our Group;
 - (vii) there are no other stock exchange on which any part of the equity or debt securities of our Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought;

- (viii) no capital of any member of our Group is under option, or is agreed conditionally or unconditionally to be put under option;
- (ix) there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested or which is significant in relation to the business of our Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the Green Application Form;
- (b) the written consents referred to in the section headed “Statutory and general information—E. Other information—4. Consent of experts” in Appendix IV to this document; and
- (c) copies of the material contracts referred to in the section headed “Statutory and general information—B. Further information about our business—1. Summary of material contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the material contracts referred to in the section headed “Statutory and general information—B. Further information about our business—1. Summary of material contracts” in Appendix IV to this document;
- (c) the service contracts and the letters of appointment with our Directors referred to in the section headed “Statutory and general information—C. Further information about our Directors—1. Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document;
- (d) the report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a summary of which is set forth in the section headed “Industry overview”;
- (e) the PRC legal opinions issued by Shihui Partners, our PRC Legal Adviser on PRC law, in respect of certain general corporate matters and property interests in the PRC of our Group;
- (f) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this document;
- (g) the report on unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this document;
- (h) the consolidated financial statements of our Group and the financial statements of the Remaining Listing Business (as defined under “Financial Information—Basis of Presentation”) for the three years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020;
- (i) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser on Cayman Islands law, summarizing certain aspects of Cayman company law referred to in Appendix III to this document;
- (j) the Cayman Companies Law;
- (k) the written consents referred to in the section headed “Statutory and general information—E. Other information—4. Consent of experts” in Appendix IV to this document; and
- (l) the terms of the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme and a list of grantees under the Pre-IPO ESOP.

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