

## Our Mission

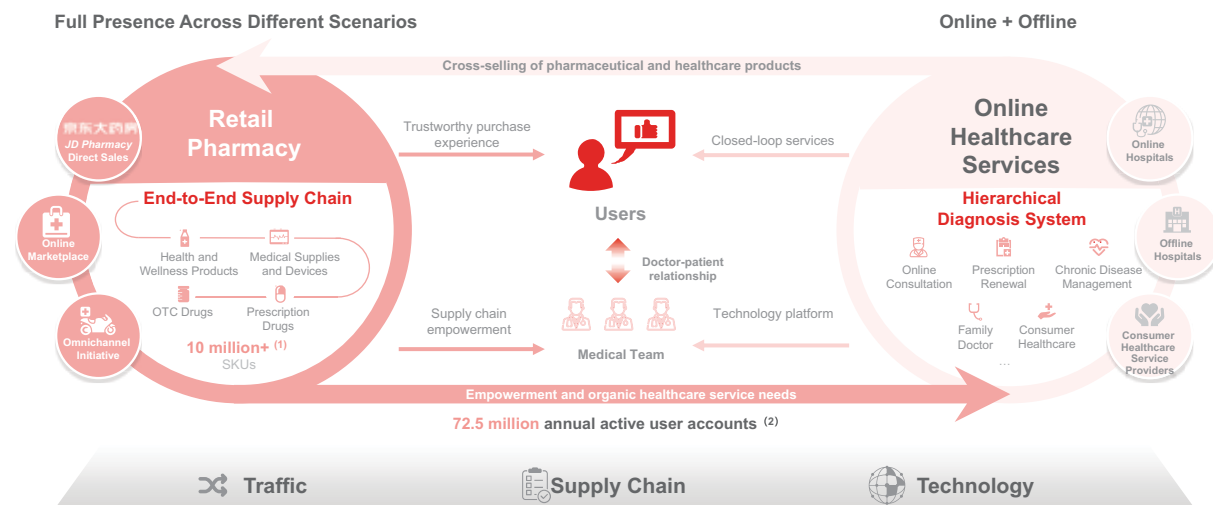
Our mission is to become the go-to health management platform for everyone in China.

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



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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***

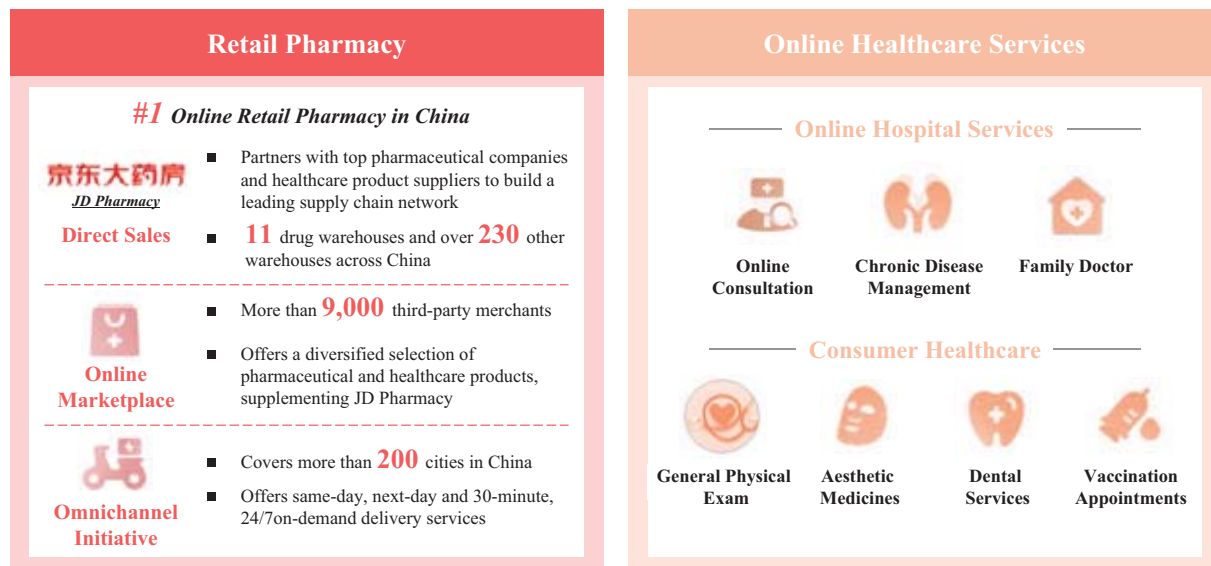
We plan to continue building an integrated online and offline hierarchical diagnosis system. By moving minor or common diseases consultation and follow-up visits online while referring serious and critical diseases offline to specialists, we are able to optimize the allocation of medical resources and 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.

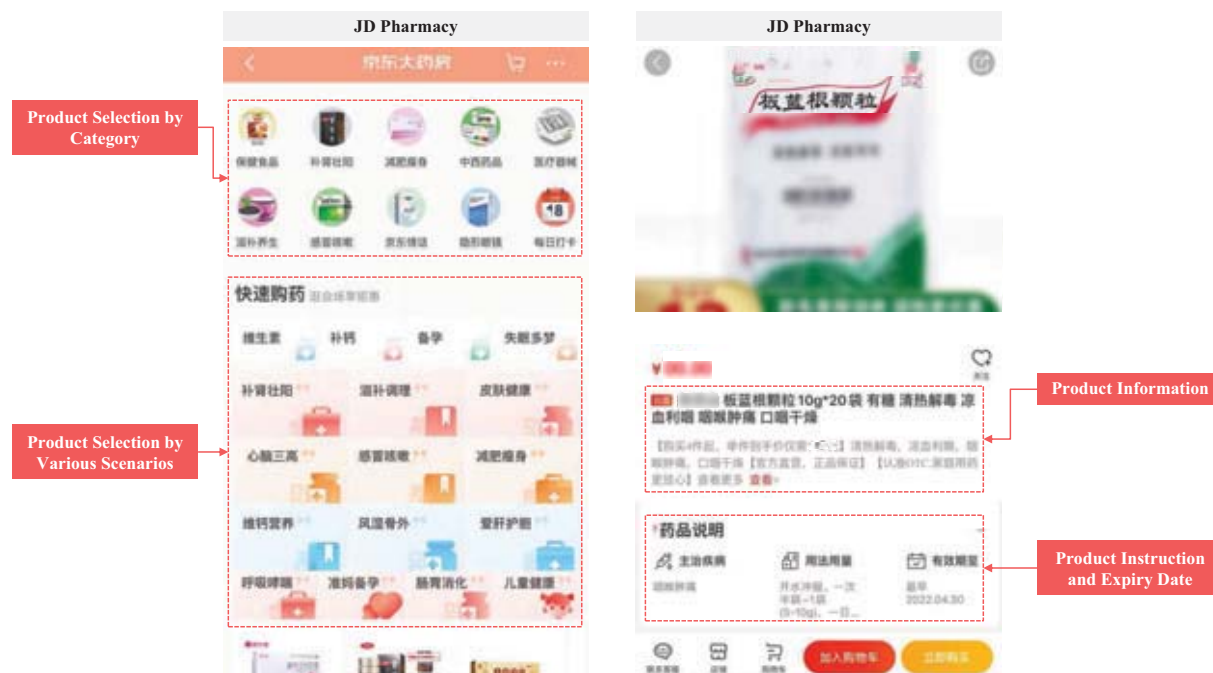
Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our online healthcare services consist of online hospital services and consumer healthcare. Our online hospital services primarily include online consultation and prescription renewal, 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<sup>(1)(2)</sup></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.

<u>No.</u>	<u>Entity</u>	<u>Name of the License, Approval, Permit</u>	<u>Expiration Date</u>
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 Jiansheng 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 Jiansheng 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

## BUSINESS

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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## **BUSINESS**

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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.