

# JDH 京东健康

JD Health International Inc.

京东健康股份有限公司

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

Stock Code: 6618



2020  
Annual Report





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# CORPORATE INFORMATION

## Board of Directors

### Executive Director

Lijun Xin (辛利軍) (*Chief Executive Officer*)

### Non-executive Directors

Richard Qiangdong Liu (劉強東) (*Chairman*)

Lei Xu (徐雷)

Sandy Ran Xu (許冉)

Pang Zhang (張甯) (*appointed on March 29, 2021*)

Yayun Li (李姪雲) (*resigned on March 29, 2021*)

Qingqing Yi

### Independent Non-executive Directors

Xingyao Chen (陳興垚)

Ling Li (李玲)

Jiyu Zhang (張吉豫) (*appointed on March 29, 2021*)

Wenyi Huang (黃文藝) (*resigned on March 29, 2021*)

## Audit Committee

Xingyao Chen (陳興垚) (*Chairperson*)

Jiyu Zhang (張吉豫) (*appointed on March 29, 2021*)

Wenyi Huang (黃文藝) (*resigned on March 29, 2021*)

Sandy Ran Xu (許冉)

## Remuneration Committee

Xingyao Chen (陳興垚) (*Chairperson*)

Ling Li (李玲)

Pang Zhang (張甯) (*appointed on March 29, 2021*)

Yayun Li (李姪雲) (*resigned on March 29, 2021*)

## Nomination Committee

Richard Qiangdong Liu (劉強東) (*Chairperson*)

Jiyu Zhang (張吉豫) (*appointed on March 29, 2021*)

Wenyi Huang (黃文藝) (*resigned on March 29, 2021*)

Ling Li (李玲)

## Company secretary

Chiu Ming King (趙明璟)

## Authorized representatives

Lijun Xin (辛利軍)

Chiu Ming King (趙明璟)

## Auditor

Deloitte Touche Tohmatsu

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

## Registered office

PO Box 309

Ugland House

Grand Cayman KY1-1104

Cayman Islands

## Headquarters

8th Floor, Building C

No. 18 Kechuang 11 Street

Yizhuang Economic and Technological Development Zone

Daxing District

Beijing 101111

People's Republic of China

## Principal place of business in Hong Kong

Room 1901, 19/F

Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

## Legal advisors

### As to Hong Kong law and United States law

Skadden, Arps, Slate, Meagher & Flom and affiliates

### As to PRC Laws

Shihui Partners

### As to Cayman Islands Law

Maples and Calder (Hong Kong) LLP

### **Principal share registrar and transfer office**

Maples Fund Services (Cayman) Limited  
P.O. Box 1093, Boundary Hall  
Cricket Square, Grand Cayman  
KY1-1102, Cayman Islands

### **Hong Kong share registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell Centre  
183 Queen’s Road East  
Wan Chai  
Hong Kong

### **Compliance adviser**

Haitong International Capital Limited  
22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

### **Principal bankers**

Bank of China Limited, Head Office  
China Construction Bank Corporation  
Standard Chartered Bank (China) Limited

### **Stock code**

6618

### **Company website**

<https://ir.jdhealth.com>

# FINANCIAL SUMMARY

## Condensed consolidated statements of comprehensive income/(loss)

|  | Year ended December 31, |            |           |           |
|--|-------------------------|------------|-----------|-----------|
|  | 2020                    | 2019       | 2018      | 2017      |
|  | RMB'000                 | RMB'000    | RMB'000   | RMB'000   |
| Revenue  | <b>19,382,568</b>       | 10,842,140 | 8,169,057 | 5,553,128 |
| Gross profit   | <b>4,917,298</b>        | 2,812,272  | 1,978,958 | 1,380,498 |
| Profit/(loss) before income tax  | <b>(17,072,141)</b>     | (834,700)  | 306,232   | 255,979   |
| Profit/(loss) for the year   | <b>(17,234,897)</b>     | (971,805)  | 214,927   | 178,534   |
| Profit/(loss) for the year attributable to owners of the Company                     | <b>(17,234,363)</b>     | (971,805)  | 214,927   | 178,534   |
| Total comprehensive income/(loss) for the year                                       | <b>(16,303,672)</b>     | (946,694)  | 214,927   | 178,534   |
| Total comprehensive income/(loss) for the year attributable to owners of the Company | <b>(16,303,138)</b>     | (946,694)  | 214,927   | 178,534   |
| Non-IFRS measure:  |                         |            |           |           |
| Non-IFRS profit for the year   | <b>748,918</b>          | 344,053    | 248,398   | 208,954   |

## Condensed consolidated statements of financial position

|  | As of December 31, |           |           |         |
|--|--------------------|-----------|-----------|---------|
|  | 2020               | 2019      | 2018      | 2017    |
|  | RMB'000            | RMB'000   | RMB'000   | RMB'000 |
| <b>ASSETS</b>                                |                    |           |           |         |
| Non-current assets                           | <b>1,289,779</b>   | 52,634    | 15,810    | 10,218  |
| Current assets                               | <b>42,704,769</b>  | 8,624,043 | 1,166,337 | 901,145 |
| Total assets                                 | <b>43,994,548</b>  | 8,676,677 | 1,182,147 | 911,363 |
| <b>EQUITY</b>                                |                    |           |           |         |
| Equity attributable to owners of the Company | <b>39,250,843</b>  | (459,031) | 749,221   | 662,624 |
| Non-controlling interests                    | <b>501</b>         | —         | —         | —       |
| Total equity                                 | <b>39,251,344</b>  | (459,031) | 749,221   | 662,624 |
| <b>LIABILITIES</b>                           |                    |           |           |         |
| Non-current liabilities                      | <b>61,410</b>      | 7,590,832 | 2,411     | 1,594   |
| Current liabilities                          | <b>4,681,794</b>   | 1,544,876 | 430,515   | 247,145 |
| Total liabilities                            | <b>4,743,204</b>   | 9,135,708 | 432,926   | 248,739 |
| Total equity and liabilities                 | <b>43,994,548</b>  | 8,676,677 | 1,182,147 | 911,363 |



# CEO's STATEMENT

## To our Shareholders:

2020 is an extraordinary year in history. As COVID-19 swept the world, China made a great effort to fight the pandemic. JD Group and our Group have won national honors for the outstanding contributions in the fight against the virus, in which JD Health also made an impact. Leveraging our strength in supply chain and medical and health services, we immediately donated much-needed medical supplies to the frontlines, set up free online medical consultation services, and helped enterprises resume work and production. This work has been highly recognized by our users, the market, the industry and society.

In 2020, we also witnessed explosive growth of the “Internet + Healthcare” industry. On the one hand, a series of favorable policies issued at the national level have greatly promoted the vigorous development of the industry. On the other hand, with the advantages of real-time communication, convenience, remote support and more, “Internet + Healthcare” has delivered a comprehensive and high-quality experience, providing epidemic prevention knowledge, online medical consultation, psychological counseling, chronic disease follow-up visits, and drug delivery services. In this process, we are conscious that our work can make a significant and long-standing impact on improving people’s health.

With six years of development under our belts, our development strategy has become increasingly clear: We strive to create a technology-driven platform that is centered on the supply chain of pharmaceutical and healthcare products and strengthened by healthcare services, encompassing a user’s full lifespan for all healthcare needs. During the Reporting Period, following our strategic focus and mission of safeguarding people’s health, we achieved rapid growth and generated more valuable returns for our shareholders and society at large.

## Unite together against COVID-19

The fight against COVID-19 has made us further contemplate our future, especially with regards to how we can take more responsibility in helping people improve their health and wellness. If we rewind to Chinese New Year 2020, when we held an emergency internal meeting regarding the sudden outbreak of COVID-19, we all raised the same questions: “What can we do in the fight against the pandemic?” Our answer to that question was a series of actions which persisted over several months, with the goal to unite and spare no effort to shoulder our responsibility to society, and to leverage all our capabilities to combat the pandemic, together with medical workers in hospitals nationwide. As soon as the pandemic broke out, we immediately took action by delivering all the essential medical supplies that we had on hand to the frontlines to combat the spread of COVID-19.

In addition to securing the supply of protective equipment, we helped offline medical workers alleviate some stress, leveraging our capabilities and services. On the second day of the Lunar New Year in 2020, we started to provide users with free online consultation services and psychological counseling services nationwide, and on the fifth day of the holiday, all of our full-time doctors resumed work. At the time, the head of our doctor team wrote in an email to all of our full-time doctors: “If we do more, it will be easier for our colleagues on the frontlines.” This attitude best demonstrates our determination to fight against the pandemic.

From January 26 to April 30, we conducted more than 10 million interactions on our free medical consultation platform through our “Prevent and Combat COVID-19” platform. During peak periods, we provided more than 10,000 consultations in one hour. In early February of 2020, we launched a public service platform for chronic disease patients in Hubei province, and helped meet the urgent medication demands of nearly 20,000 patients facing drug shortages. Furthermore, in April, we launched the first online booking platform for COVID-19 nucleic acid testing services in China, starting in just a few cities, and quickly rolling out the service across the country. In September 2020, we cooperated with the Hubei Provincial Health Commission to jointly promote rehabilitation and psychological consultation initiatives for patients and frontline medical staff in Hubei province who had recovered from COVID-19.

## CEO's Statement (Continued)

During the pandemic, we opened our platform capabilities to governments, hospitals and enterprises to help them resume work and production. We cooperated with the government of the Beijing Yizhuang Economic and Technological Development Zone to launch the "Yizhuang Enterprises Pandemic Prevention" online platform. We also cooperated with the Health Commissions of Heilongjiang province, Liaoning province, Tangshan in Hebei province, and Beihai in Guangxi province to help prevent and control the spread of the pandemic through the establishment of a dedicated online platform which offers free consultation and other COVID-19 related services. In addition, we provided free online consultation and pandemic prevention knowledge for many corporate users such as China Unicom and China Aerospace by integrating our online healthcare service system with their existing systems. We have also helped many public hospitals, such as Beijing University Shougang Hospital, Tianjin Nankai Hospital, the Brain Hospital of Guangzhou Medical University and Peking University Sixth Hospital, to set up online consultation zones.

### Winning users' trust through a superior user experience and professional services

Our platform's strong supply chain and healthcare service capabilities provide a solid foundation for our success in combating the epidemic. Our superior user experience has continuously enhanced our users' trust and confidence in our platform and enabled us to maintain strong growth momentum. As of December 31, 2020, annual active user accounts reached 89.8 million. During the Reporting Period, total revenue reached RMB19.4 billion, representing significant year-on-year growth of 78.8%.

Leveraging our immense scale and strong supply chain capability, we provide users with a wide selection of pharmaceutical and healthcare products at competitive prices. As of December 31, 2020, there were more than 20 million SKUs on our platform and our online marketplace had attracted over 12,000 third-party merchants.

Partnering with JD Logistics to utilize its industry-leading warehousing and fulfillment capabilities allows us to deliver products timely and securely. As of December 31, 2020, we utilized 14 drug warehouses and over 300 other warehouses nationwide. In addition, our omnichannel initiative, JD Fast Drug Delivery Service, covered more than 300 cities across China, offering next-day, same-day, and 30-minute, 24/7 delivery service to meet users' urgent medication needs anytime, anywhere.

With strong supply chain capabilities, we are able to meet the various medical and health needs of our users by providing a comprehensive selection of pharmaceutical and healthcare products including over-the-counter drugs, prescription drugs, medical devices, and health and wellness products. Moreover, we continued to explore in-depth cooperation opportunities with upstream suppliers, enabling new medicines and specialty drugs to debut on our platform, and providing patients with cutting-edge treatment solutions.

Our medical and healthcare services provide users with a one-stop healthcare experience covering all use cases and the entire user lifecycle.

We are dedicated to promoting the allocation of medical resources through our online platform, which has greatly improved the accessibility to quality medical resources for people who live in rural areas. Our self-developed internet hospital platform, JD Internet Hospital, is one of the first internet hospital platforms in China to obtain the Practicing License for Medical Institutions. In 2020, JD Internet Hospital received an average of over 100,000 daily online consultations, more than 5 times of that in 2019. During the Reporting Period, we have collaborated with over 10,000 hospitals and built a medical team consisting of over 110,000 in-house and external doctors and medical experts.

We are one of the first in the industry to launch internet specialist medical centers, integrating access to renowned doctors to provide an integrated healthcare solution covering chronic disease prevention, consultation and recovery services through our platform. We have established 18 specialist medical centers, covering cardiology, ENT





## CEO's Statement (Continued)

(ear, nose and throat), Traditional Chinese Medicine, respiratory diseases, diabetes and more, attracting a total of nearly 100 well-known external experts, such as ENT expert Academician Demin Han, renowned cardiologist Dr. Dayi Hu, Traditional Chinese Medicine expert Dr. Sihua Gao, and respiratory expert Dr. Jiangtao Lin.

We are dedicated to promoting the accurate matching of medical resources, so that users can enjoy superior, high quality medical services. We launched our family doctor service package, which integrates the online healthcare capabilities we have accumulated over the years. It allows users and their families to access a suite of family doctor services such as 24/7 online consultation, unlimited specialist consultation and prescription renewal services, face-to-face consultation with well-known doctors, consultation appointments at more than 2,700 hospitals, online consultation with top experts within 48 hours, follow-up services, as well as health planning and management. In the future, we will continue to develop and upgrade our family doctor service packages according to the diverse needs of different populations.

### Open platform helps upgrade the healthcare industry

We are committed to working with all parties to promote the upgrading and transformation of the health industry and to build a new "Internet + Healthcare" services ecosystem. While helping the public to improve their health, we are also opening up our supply chain, technology, resources and other core capabilities and advantages to build an integrated online healthcare platform for governments, hospitals and pharmaceutical companies.

Leveraging our digital intelligence and information technology, we cooperated with local governments to promote "Health City" projects, accelerating the digitalization of the healthcare industry. We helped the city of Beihai to digitalize its health system and enhance its medical services.

Leveraging our and JD Group's advanced cloud technology, we provided 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 cooperated with Tianjin Nankai Hospital to build the "Nankai JD Internet Hospital", providing Tianjin residents with consultation, health management advisory and follow-up visit services. The platform significantly improved the operating capabilities of the hospital, while allowing doctors to build their personal brand and increase income with an added online component.

Leveraging our and JD Group's digital intelligence capabilities and advanced technology, we facilitated upstream suppliers' transformations by assisting in the digitalization of their supply chains, thus embracing greater market opportunities. During the Reporting Period, we worked with a number of leading global pharmaceutical companies, including Eisai China, AstraZeneca, Pfizer, Novartis, Bristol-Myers Squibb (BMS), Sanofi and Abbott Laboratories, to upgrade medication and health management services and thus fulfill our users' needs. Leveraging the immense traffic and user base on our platform, we helped our partners to expand their reach and conduct market research and promotion. In addition, we were able to help brand partners improve marketing efficiency and increase market share and brand recognition.

Utilizing our "Internet + Healthcare" capabilities, we actively participated in poverty alleviation projects. In 2020, China has secured a "complete victory" in its fight against poverty, and speeded up precise poverty alleviation strategy through healthcare. During the Reporting Period, we penetrated into less-developed areas in Yunnan province, Guizhou province, Sichuan province and other regions, and organized live stream events on our platform enabling virtual face-to-face consultations with well-known doctors. We launched the Healthy China Medicine Subsidy Project, which has the widest coverage of any health subsidies program in China, providing subsidies of RMB1,000 per person each year to purchase medicines for registered poverty households. We will continue to embrace the rural revitalization strategy, strengthening and enhancing poverty alleviation efforts.

## CEO's Statement (Continued)

### Unshakable mission of becoming the go-to health management platform

We experienced a remarkable year, and witnessed the rise of a new era for the healthcare industry. In 2020, China issued various guidelines to encourage and accelerate the development of the healthcare industry, especially "Internet + Healthcare". The process of digitalizing the healthcare industry is accelerating, with technology gradually reshaping the scenarios, channels and business models of healthcare service offerings. The nation's health awareness has greatly increased as pandemic prevention and control becomes a new norm. According to Frost & Sullivan, China's healthcare industry is expected to exceed RMB21 trillion in market size by 2030, and will maintain rapid growth for a long period of time.

Given the great market opportunities in the healthcare industry, we will strive to pursue our long term vision of making Chinese people healthier. We will continue to strengthen the supply chain capabilities of our retail pharmacy business and increase investment in our healthcare services business, so that we can continue to cement our ecosystem. We will continue to experiment with and expand our health management services, through piloting more diversified healthcare solutions, such as chronic disease management and family doctor services, targeting various groups of patients. In addition, we will continue to refine our smart healthcare solutions for offline hospitals and medical institutions to meet their personalized needs for a wider range of healthcare scenarios, and thus not only enhance the experience for both users and medical professionals, but also improve the operational efficiency of hospitals and medical institutions. Meanwhile, we will also cooperate with governments, scientific research institutions, hospitals, enterprises and other institutions to standardize and accelerate the digitalization transformation of the healthcare industry.

Everything in the past is a preface. Standing at a new starting point, we will maintain our original aspirations and fearlessly forge ahead! In the coming years, I hope we can always keep in mind our mission of "becoming the go-to health management platform for everyone in China", and better serve our users, provide returns for our shareholders, and create value for society!

**Lijun Xin**

*Chief Executive Officer*

March 29, 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business review

The outbreak of COVID-19 in 2020 has created greater uncertainties in the global economy and also profoundly affected people's way of life. These changes have also accelerated the consumption of online healthcare services, as people's trust in "Internet + Healthcare" services has continuously increased. Meanwhile, a series of supportive policies has been introduced by the government at all levels to encourage the development of the internet healthcare industry. We have seen a growing number of new market participants, while major players have accelerated deployment in the digital health and wellness market.

Our business maintained strong growth momentum in 2020 despite severe economic conditions and intense competition. During the Reporting Period, our total revenue was RMB19.4 billion, representing a significant year-on-year growth of 78.8%. Annual active user accounts on our platform reached 89.8 million in 2020, an increase of 33.7 million from 2019, becoming the key growth driver of our business. The number of average daily consultations exceeded 100,000, which is more than 5 times of that in 2019.

As a leading online healthcare platform, our mission is to become the go-to health management platform for everyone in China. With this aim, we are continuing to strengthen our business foundation and are making strategic deployments in the online healthcare industry for the future. Our strategic position is to create a technology-driven platform that centers on the supply chain of pharmaceutical and healthcare products and is strengthened by healthcare services, encompassing a user's full life span for all healthcare needs. We are committed to offering our users easily accessible, convenient, high-quality yet affordable pharmaceutical and healthcare products. To achieve this goal, we have built a one-stop online health management platform to create greater value for all participants in the healthcare value chain, and will continue to expand JD Health's core businesses, our retail pharmacy business and online healthcare services, through utilizing big data, AI, cloud computing and other advanced technology.

## Retail pharmacy

We are a pioneer 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 initiatives. At the same time, we have achieved immense scale with a wide product selection while maintaining stringent quality control and competitive pricing, thus gaining users' trust. Our retail pharmacy business offers high-quality pharmaceutical and healthcare products including OTC drugs, prescription drugs, medical devices and supplies, as well as health and wellness products. As of December 31, 2020, there were more than 20 million SKUs available on our platform.

## Direct sales

Our direct sales business operates mainly through JD Pharmacy, and we have gradually established a supply chain network with leading pharmaceutical companies and healthcare product suppliers. Leveraging our brand recognition and supply chain management capabilities, our direct sales business has maintained robust growth. During the Reporting Period, our direct sales revenue reached RMB16.8 billion, representing an increase of 77.8% year-on-year. Meanwhile, our inventory turnover days continued to decrease as a result of improving operational efficiency. By leveraging JD Logistics' cold chain capabilities and extended logistics network, we are able to provide superior delivery services to our customers covering a broad range of pharmaceutical and healthcare products. As of December 31, 2020, we utilize JD Group's 14 drug warehouses and over 300 other warehouses nationwide.

## Management Discussion and Analysis (Continued)

We have developed a variety of innovative services and digital infrastructure to enhance our supply chain capabilities. Leveraging strong data analytics capabilities, we have initiated C2M (Customer-to-Manufacturer) projects with our partners to customize products based on users' feedback on our platform. We have continued to expand our pharmaceutical and healthcare product offerings to target more scenarios and cater to all needs, providing our users with more valuable products and creating greater economic value for our partners. To address family medicine needs, we launched the family medical kit service, a one-stop healthcare service that provides users with drug consultation, online health consultation, personalized medical education and pharmaceutical services, including medication reminders provided by professional pharmacists. As for the increasing demand for healthcare and nutrition products, we launched healthy snacks and other nutritional products, as well as customized masks and health gift boxes that are widely welcomed by our users.

We have become one of the most comprehensive online platforms for pharmaceutical and healthcare products in China. During the Reporting Period, we worked with a number of leading global pharmaceutical companies, including Eisai China, AstraZeneca, Pfizer, Novartis, Bristol-Myers Squibb (BMS), Sanofi and Abbott Laboratories, to upgrade medication and health management services in order to fulfill our users' needs. We launched the first "new and specialty drugs platform" for acute and serious diseases in China, providing patients with cutting-edge treatment solutions. We partnered with a number of upstream pharmaceutical companies to debut their medicine through JD Pharmacy including Eisai's LENVIMA treatment of patients with hepatocellular carcinoma, Novartis' Mayzent to treat relapsing multiple sclerosis, Pfizer's Vyndamax and Vyndaqel for treatment of amyloid. In addition, we closely cooperated with AstraZeneca to facilitate popularizing and streamlining access to original drugs, bringing oncology patients more convenience.

In terms of digital marketing, we have become one of the most important distribution channels for industry-leading pharmaceutical companies, enabling the acceleration of digitalization process. Leveraging our supply chain capabilities, advanced technology and other resources, we have been able to provide professional, digitalized and integrated smart solutions for our partners, opening the door for new business opportunities.

Regarding health and wellness products, we have built the "product + service" model to empower our brand partners with our leading operation capabilities. During the Reporting Period, we continued to introduce more nutrition categories by directly connecting our supply chain to the source of the product. Our traceability services enable us to select the best products for users from the source, while achieving price advantages by shortening the value chain through our end-to-end supply chain capabilities, thus offering consumers high-quality, affordable and reliable products. Empowered by our big data capabilities, we have served well-known brands such as Abbott and Yuwell, and have created customized online consultation service packages to further enhance brand image and market leadership. For instance, we have offered "glucose meters + online consultation" services packages, and users can also consult nutritionist before purchasing certain selected health and wellness products, further improving the user experience on our platform.

### Online marketplace and omnichannel initiative

Our online marketplace business leverages our brand recognition, large and growing user base, and proprietary technology platform to offer more diversified pharmaceutical and healthcare products that supplement those of JD Pharmacy. Our marketplace platform allows both chain and independent pharmacies and suppliers to sell pharmaceutical and healthcare products through our platform. As of December 31, 2020, there were more than 12,000 third-party merchants on our online marketplace platform.

## Management Discussion and Analysis (Continued)

During the Reporting Period, we upgraded our merchant operating system to optimize the merchant experience through integrating and simplifying existing functions while adding new features. By introducing more diversified third-party and private traffic entrances, we committed to establishing a traffic ecosystem for third-party merchants to interact with customers, and ultimately promoted brand recognition and overall performance on our platform.

Our omnichannel initiative is a location-based service to meet users' needs for on-demand delivery services, addressing urgent medication needs. As of December 31, 2020, our omnichannel initiative covered more than 300 cities in China offering our users various express delivery options, including same-day, next-day, 30-minute, and 24/7 on-demand delivery services.

Our digitalized platform is helping our merchants to optimize operating efficiency by improving inventory management and digitalizing marketing activities. Empowered by our advanced technology and intelligent algorithms, we can identify the most cost effective and efficient channel to fulfill orders. When a customer uses our omnichannel services, the location-based service on our app 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.

### Online healthcare services

Our online healthcare services are an important extension of our retail pharmacy business, primarily offering online hospital services, family doctor and consumer healthcare services. During the Reporting Period, we continued to make efforts to expand our online healthcare services. By establishing a hierarchical diagnosis system, we have been able to engage with doctors, including general practitioners and specialists, 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.

Our online healthcare services platform connects hospitals, doctors and other healthcare professionals such as pharmacists, nutritionists and psychological counselors with our users to provide them with comprehensive services. Leveraging our technology and supply chain capabilities, we are dedicated to empowering the participants in the healthcare value chain. As a result, we are able to improve the operational efficiency of offline hospitals and healthcare institutions that cooperate with us, and enhance the professional expertise of and offer attractive incentive packages to doctors and other healthcare professionals on our platform.

### Online hospital services

In order to provide users with holistic healthcare services covering testing, diagnosis, treatment, medication and recovery, we have integrated our online hospital with offline hospitals. We empower offline public hospitals by providing their patients with online follow-up visits, prescription renewal and other services through our online healthcare service platform. During the Reporting Period, we have built a medical team consisting of over 110,000 in-house and external doctors and medical experts, covering over 10,000 hospitals. Our self-developed internet hospital platform, JD Health Internet Hospital, is one of the first internet hospital platforms in China to obtain the Practicing License for Medical Institutions. In 2020, we had an average of over 100,000 daily online consultations, which is more than 5 times of that in 2019.

## Management Discussion and Analysis (Continued)

We also provide online healthcare services through the establishment of medical specialist centers which have gradually expanded our brand impact. During the Reporting Period, we have established 18 specialist medical centers, covering cardiology, ENT (ear, nose and throat), Traditional Chinese Medicine, respiratory diseases, diabetes and more, attracting a total of nearly 100 well-known external experts, such as ENT expert Academician Demin Han, renowned cardiologist Dr. Dayi Hu, top TCM expert Dr. Sihua Gao, and respiratory expert Dr. Jiangtao Lin. Our specialist medical centers can provide users with 24/7 online consultation, prescription renewal, 30-minute delivery service, online collective consultation with top experts within 48 hours and in-person consultation appointments with renowned Chinese experts.

Our chronic disease management platform is helping to improve medical treatment efficiency and patients' user experience, providing doctors greater access to the patient base and adopting digital and intelligent tools to manage patients' health status. Our chronic disease management platform is a cloud-based system that empowers doctors with effective AI-powered patient management and specialist service tools, allowing them to more efficiently follow up with and manage their patients.

The platform also allows doctors to build their personal branding and increase income. Leveraging our supply chain capabilities, the platform is integrated with our retail pharmacy business, giving doctors and patients seamless access to our product and service offerings.

Traditional Chinese medicine (TCM) has played an important role in the prevention of COVID-19. This has raised public awareness and interest in TCM. We have been exploring an online and offline integrated TCM business model through our "Internet + TCM" services. During the Reporting Period, we launched "JD Health TCM Hospital and TCM Consultation Center," and invited renowned TCM expert Dr. Sihua Gao to be the chief scientist, TCM expert Dr. Daning Zhang to lead the nephrology department, and Dr. Baogui Chen to be the academic leader of the gastroenterology department. During the Reporting Period, we also launched an online service platform for prepared TCM slices, which are a form of TCM medicine. The platform standardizes procedures for preparing and selling TCM slices by introducing TCM business management standards including control mechanisms regarding TCM production areas, TCM quality control requirements, strengthened GMP (Good Manufacturing Practices) for TCM slices production, standards for an intelligent decocting center, a traceability system for TCM slices and the "red line mechanism" for prohibited practices. In the future, we will continue to strengthen cooperation with our partners to build an effective supervision system for TCM quality control to provide users with high-quality and trust-worthy pharmaceutical and healthcare products.

We also launched our family doctor service during the Reporting Period, which integrates our online healthcare service capabilities accumulated over the years. The goal of the family doctor service is to achieve on-demand and customized healthcare services covering various scenarios and optimize allocation of medical resources, so that users can enjoy more high-quality medical resources and services.

We have continued to develop and upgrade our family doctor service packages catering to diverse shopping behaviors of different groups of consumers. For example, we integrated an AI-based voice activation function to create a family doctor service package designed for the convenience of seniors. We opened our technology and service capabilities to society to supplement the government-led community family doctor service system. We signed a strategic

## Management Discussion and Analysis (Continued)

cooperation agreement with the Hubei Provincial Health Commission to empower regional community family doctor projects with the support of our online healthcare service system, advanced technology capabilities and medical resources. We jointly strive to provide health management services, online follow-up consultation, drug delivery, chronic disease management, health information digitalization and other healthcare services for contracted residents. The project has achieved remarkable progress, and we plan to promote this type of project in more areas nationwide in the future.

During the Reporting Period, we conducted comprehensive patient education through multiple channels and formats, targeting over 470 million annual active user accounts from JD Group and us. We established different disease departments on our platform and offered free consultations with top-notch experts, health management consultations, live streaming of health management knowledge, chronic disease care and more. We continuously improve users' health awareness and knowledge of diseases through graphics, videos, live streaming, and healthcare education events.

### **Consumer healthcare service**

In order to further develop our health management services, we continue to expand our consumer healthcare business. Through our cooperation with offline consumer healthcare providers, users can conveniently book a variety of consumer healthcare services on our platform, including regular checkup, aesthetic medicines, dental care, nucleic acid testing, vaccination appointments and more.

We provide users with "one-stop" general physical examination services, allowing users to book and pay for appointments online, and access the reports online. Furthermore, we offer users personalized physical examination packages to meet users' diverse needs. Meanwhile, users can access the corresponding departments on our platform and consult with doctors on the results of their exams. In addition, we also launched a corporate employee general physical exam system platform for corporate customers. In April 2020, we launched the "COVID-19 Nucleic Acid Test Online Appointment Platform," becoming the first company in China to offer online appointments for COVID-19 nucleic acid testing services. We offer testing services catering to various scenarios to fulfill users' needs including at-house testing, "online appointment + offline testing" services, group testing, testing of the local environment and more.

We provide users with a full range of vaccination appointment services, including vaccines for children, HPV, herpes zoster, and influenza, as well as professional vaccine science and consultation services, which have greatly improved the accessibility and vaccination rate in China. We have launched the "COVID-19 Vaccination Dynamic Platform" to provide users with real-time vaccine-related news, knowledge, demand registration and other convenient services. The platform allows users to access information on vaccination types, target groups, prices, consultation methods and reservation guidelines, covering 28 provinces and 78 cities. During the Reporting Period, we also signed a strategic cooperation agreement with CanSino Biologics Inc. to jointly promote the digital "Internet + Disease Prevention" solution, and educate users on prevalent diseases and vaccination knowledge, as well as to offer vaccination appointment services through our platform.

## Management Discussion and Analysis (Continued)

### Smart healthcare solutions

Leveraging our advanced technology infrastructure and platform operation capabilities, we strive to create value for all parties in the industry chain. One example is we provide smart healthcare solutions to our partners, such as hospitals and medical institutions, to digitalize medical information and improve operational efficiency by helping to develop and build online systems covering the comprehensive medical services process, including appointments, consultations, and basic medical insurance reimbursement. In addition, leveraging our own 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 develop various AI applications to optimize healthcare processes including pre-consultation, prescription refill and medication management to build prescription pre-vetting rules to ensure medication safety.

During the Reporting Period, we released Yaojingtong, an omnichannel digitalization management platform for offline retail pharmacies, leveraging our cutting-edge technology and software application services. The platform allows offline retail pharmacies to directly connect to targeted upstream suppliers, while offering various value-added services to offline retail pharmacies by comprehensively covering offline scenarios in order to comprehensively improve the operational efficiency of pharmacies. Take the procurement process as an example: With our AI algorithm and supply chain capabilities, the platform can help optimize procurement procedures such as procurement planning, plan verification and order dispatch, as well as supporting retail pharmacies with our digital solutions and logistics capability, thus helping them achieve intelligent procurement.

During the Reporting Period, leveraging our own and JD Group's leading technology, we have cooperated with a number of top-tier hospitals in China to build internet hospitals, developing patient-centered, online and offline integrated smart solutions throughout the entire medical process and helping improve patients' medical experiences. For example, we cooperated with Tianjin Nankai Hospital to build the Nankai JD Internet Hospital. By building an "Internet + Healthcare" service model that integrates online and offline and covers the entire process including pre-consultation, prescription renewal and aftercare services, we provide Tianjin residents with consultation, health management advisory and follow-up visits services. Meanwhile, with the support of Tianjin's regional basic medical insurance policy, we are able to connect to basic medical insurance reimbursement services for follow-up consultations and medications.

Leveraging our digital intelligence and information technology, we assist the digitalization of primary healthcare systems, and have launched several "Health City" projects during the Reporting Period. We cooperated with the Health Commission of Hubei Province, jointly promoting rehabilitation and psychological consultation projects for patients recovered from COVID-19 in Hubei province. We are facilitating the construction and development of the regional public health system in Hubei province, and are proactively helping to develop healthcare-related industries such as mental health awareness, smart wearable devices and medical protective equipment. Additionally, we are helping the city of Beihai to digitalize its regional resident health system and enhance its medical services by expanding and improving the city's health information platform and developing "Internet + Healthcare" application systems. We have successfully completed the first phase of the "Smart Health Beihai" project, with successful launch or pilot of seven digitalization projects covering resident health cards, school public health systems, family doctors, rural doctors and more.



## Management Discussion and Analysis (Continued)

We have also applied AI technology to medication services for enhancing medication safety. Since July 2019, we have been working with the pharmacist team of the Third Hospital of Peking University to develop an AI-enabled pharmaceutical knowledge graph. During the Reporting Period, we have built a regional AI-based prescription vetting center with the Beijing Haidian District Health Commission. The center is dedicated to building a knowledge base for medications supply and prescription vetting guidelines, relying on our cutting-edge AI and big data technology, to standardize medication services and drug information in the region, and to ensure medication safety through pre-positioning prescription vetting work.

We strive to promote the development of the technology-driven digital intelligence healthcare industry by partnering with public hospitals at all levels to embrace “Internet + Healthcare”, piloting Health City projects, as well as developing AI-based applications of medication services. In response to the national target of “Healthy China 2030”, we will leverage our and JD Group’s core capabilities such as AI, big data and supply chain, and endeavor to provide high-quality pharmaceutical and healthcare products and professional healthcare services to our users. Meanwhile we will further empower and create value for our partners and help them pursue greater market opportunities.

### Prospects

With the rise of people’s health awareness, the demand for healthcare management will continue to grow. As a leading online healthcare platform, we will continue to strengthen our supply chain capabilities in retail pharmacy while sparing no efforts on expanding our online healthcare services business. We are dedicated to becoming the go-to health management platform for everyone in China through creating a “Retail Pharmacy + Healthcare Services” ecosystem. As a vital component of our ecosystem, we see vast growth opportunities for our retail pharmacy business in the future, as it satisfies the diverse health management needs of users. Looking forward, we will continue to cement our supply chain capabilities in retail pharmacy to provide users with high quality pharmaceutical and healthcare products and convenient shopping experiences through extending our product selection, and partnering with JD Logistics to utilize its expanding logistics network. In the meantime, we will strengthen cooperation with enterprises partners in the healthcare value chain to achieve complementary advantages, promote the growth of our core business and capture new growth opportunities.

In terms of healthcare services, we will continue to develop our internet hospital services and specialist medical centers, engaging with more top experts to cover more medical departments. We will also introduce more comprehensive and personalized healthcare services to provide users with a superior user experience that caters to users’ diverse healthcare needs. Better healthcare services will further drive cross-sales of more pharmaceutical and healthcare products from our retail pharmacy business. We hope that through our online health management platform, integrating our retail pharmacy and healthcare services business, as well as offline medical resources, we can create a complete omnichannel experience for users. We will also establish an online doctor community to promote doctor communications, so that doctors can break through the limitations of time and space to communicate with each other around professional topics such as patients’ medical conditions, treatment plans and academic research etc. We will continue to improve the functions of the community and offer doctors an open platform to conduct instant professional communications leveraging our advanced technological capabilities.

## Management Discussion and Analysis (Continued)

We will continue to make efforts to provide digital marketing solutions for pharmaceutical companies in the healthcare industry, leveraging our integrated online and offline platform and medical resources. Digital marketing solutions on the one hand can help pharmaceutical companies improve marketing efficiency and drive growth. On the other hand, they can improve accessibility to new drugs, especially innovative and specialty drugs, so as to improve patients' quality of life.

We will provide users with more diversified healthcare solutions such as family doctor services and consumer healthcare services, extending healthcare services to integrated health management services. We will continue to innovate and upgrade existing health management services. For example, we will cultivate family doctor products targeting various groups such as seniors and high net worth users. We will also improve the user experience in the vaccine field by introducing appointments services for broader vaccine categories, and increasing investment in our vaccine appointment system to become a one-stop digitalized service platform offering disease education, vaccine education, vaccination appointment and payment services for the public. At the same time, we will strengthen our collaborations with local governments, pharmaceutical companies and other relevant departments to jointly build specialty internet hospitals.

We aim to build an integrated online and offline hierarchical diagnosis and treatment system, moving minor diseases, common and chronic diseases online, while referring critical diseases to offline hospitals and specialists, thereby optimizing the allocation of medical resources and improving the efficiency of the healthcare industry. We will continue to refine our smart healthcare solutions for offline hospitals and medical institutions to meet their personalized needs for a wider range of healthcare scenarios, not only enhancing the experiences of both users and medical professionals, but also improving the operational efficiency of offline hospitals and medical institutions. For example, we can provide more customized services for users by developing AI or other advanced technology-based applications for our various internet hospitals and partners to further improve the user experience. We will continue to work with government, research institutes, hospitals and enterprises to co-develop industry standards, making collective efforts in promoting digital transformation of the healthcare industry. Additionally, we will continue to innovate and empower upstream and downstream partners in the healthcare value chain.

## Financial review

### Revenue

Our revenue increased by 78.8% from RMB10.8 billion in 2019 to RMB19.4 billion in 2020. The increase in our total revenue was primarily due to the increase by 77.8% in product revenue from sales of pharmaceutical and healthcare products from RMB9.4 billion in 2019 to RMB16.8 billion in 2020. Such growth on products revenue was primarily driven by the increase in the number of active user accounts and additional purchases from existing user accounts, the increasing online penetration of pharmaceutical and healthcare products sales, shift in user behaviors, our rising brand awareness as we continue to invest in marketing activities, and partially due to the impact of COVID-19 in 2020. Service revenue from online marketplace, digital marketing and other services increased by 85.4% from RMB1.4 billion in 2019 to RMB2.6 billion in 2020. The increase in our service revenue was primarily due to (i) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth of transactions in our platform, and (ii) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace.

## Management Discussion and Analysis (Continued)

### Cost of revenue

Our cost of revenue increased by 80.1% from RMB8.0 billion in 2019 to RMB14.5 billion in 2020. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business.

### Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB2.8 billion in 2019, representing a gross profit margin of 25.9%, and a gross profit of RMB4.9 billion in 2020, representing a gross profit margin of 25.4%. The decrease in the gross profit margin was primarily due to an increase in inventory impairment provision resulted from strategic stockpile in response to the COVID-19 outbreak and an increase in sales of relatively lower margin pharmaceutical products.

### Fulfillment expenses

Our fulfillment expenses increased by 70.5% from RMB1.2 billion in 2019 to RMB2.0 billion in 2020. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and warehousing services along with more warehouses utilized, (ii) employee benefit expenses for employees involved in fulfillment activities, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, and (iv) other fulfillment expenses, including customer service expenses, all of which were in line with the continued growth of our business. Fulfillment expenses as a percentage of revenue decreased from 10.8% in 2019 to 10.3% in 2020.

### Selling and marketing expenses

Our selling and marketing expenses increased by 92.3% from RMB746.0 million in 2019 to RMB1,434.6 million in 2020. The increase was primarily due to (i) an increase in our promotion and advertising expenses, which was primarily due to the increased marketing efforts to promote our retail pharmacy business, online healthcare services and other new initiatives, and (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group. Selling and marketing expenses as a percentage of revenue increased from 6.9% in 2019 to 7.4% in 2020, primarily due to the increased marketing efforts to promote our business.

### Research and development expenses

Our research and development expenses increased by 80.1% from RMB338.2 million in 2019 to RMB609.1 million in 2020. The increase was primarily attributable to (i) an increase in research and development headcount as we continued to invest in top-notch R&D talents with industry expertise, and (ii) an increase in expenses of technology and traffic support services allocated/ provided by JD Group due to the increase in the value of fulfilled orders. Research and development expenses as a percentage of revenue remain as 3.1% in both 2019 and 2020.

### General and administrative expenses

Our general and administrative expenses increased by 322.0% from RMB124.9 million in 2019 to RMB527.2 million in 2020, primarily attributable to (i) an increase of employee benefits expenses primarily due to the increased expenses of share-based payment, and (ii) an increase of expenses conducted for the Listing. General and administrative expenses as a percentage of revenue increased from 1.2% in 2019 to 2.7% in 2020.

## Management Discussion and Analysis (Continued)

### Finance income

Our finance income increased to RMB149.1 million in 2020, primarily due to an increase of interest earnings from bank balances and term deposits.

### Fair value change of convertible preferred shares

We recorded a loss on fair value change of convertible preferred shares of RMB17.5 billion in 2020. The change was primarily due to an increase in the per share fair value of the Series A Preference Shares and the Series B Preference Shares, as a result of an increase in our Company's equity value. Upon the completion of the Company's listing of shares on the Main Board of the Hong Kong Stock Exchange and global offering on December 8, 2020 (the "Listing" or "Global Offering"), all convertible preferred shares have been converted into ordinary shares on a conversion ratio of 1:1.

### Income tax expense

Our income tax expense increased by 18.7% from RMB137.1 million in 2019 to RMB162.8 million in 2020, primarily due to the increase in taxable income.

### Loss for the year

As a result of the foregoing, we incurred a loss of RMB1.0 billion in 2019 and incurred a loss of RMB17.2 billion in 2020, primarily due to a loss of RMB17.5 billion on the fair value change of convertible preferred shares in 2020.

### Non-IFRS measures

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

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

We define non-IFRS profit as profit/(loss) for the year, excluding share-based payment expenses, fair value changes of convertible preferred shares and one-off listing expenses. We exclude these items because they are not expected to result in future cash payments that are recurring in nature and they are not indicative of our core operating results and business outlook. We account for the share-based payment expenses with employees and non-employees based on the grant-date fair value of the equity instrument issued by JD.com, Inc. and by the Company. The reconciling item is non-cash and does not result in cash outflow, and the adjustment has been consistently made during the period from the Listing Date up to the December 31, 2020. In addition, we account for the convertible preferred shares as financial liabilities at fair value through profit or loss. The convertible preferred shares automatically converted into ordinary shares upon the completion of the Listing, and no further loss or gain on fair value changes is expected to be recognized afterwards. The reconciling item is non-cash, non-recurring and do not result in cash outflow.

## Management Discussion and Analysis (Continued)

The following table reconciles our non-IFRS profit for 2020 and 2019 presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is loss for the year:

|  | For the year ended December 31, |                 |
|--|---------------------------------|-----------------|
|  | 2020<br>RMB'000                 | 2019<br>RMB'000 |
| <b>Reconciliation of loss to non-IFRS profit:</b>  |                                 |                 |
| Loss for the year                                  | <b>(17,234,897)</b>             | (971,805)       |
| Add:   |                                 |                 |
| Share-based payment expenses                       | <b>380,299</b>                  | 52,728          |
| — <i>Fulfillment expenses</i>                      | <b>34,087</b>                   | 9,896           |
| — <i>Selling and marketing expenses</i>            | <b>7,308</b>                    | 1,938           |
| — <i>Research and development expenses</i>         | <b>26,499</b>                   | 11,809          |
| — <i>General and administrative expenses</i>       | <b>312,405</b>                  | 29,085          |
| Fair value changes of convertible preferred shares | <b>17,539,858</b>               | 1,263,130       |
| One-off listing expenses                           | <b>63,658</b>                   | —               |
| <b>Non-IFRS profit for the year</b>                | <b>748,918</b>                  | 344,053         |

### Liquidity and capital resources

For the year ended December 31, 2020, we funded our cash requirements principally from cash generated from operating activities and financing activities, which are mainly from the Global Offering and Series B Preference Shares financing. Our cash and cash equivalents represent cash and bank balances. We had cash and cash equivalents of RMB5.0 billion and RMB32.3 billion as of December 31, 2019 and 2020, respectively.

## Management Discussion and Analysis (Continued)

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

|   | For the Year Ended December 31, |                  |
|---|---------------------------------|------------------|
|   | 2020<br>RMB'000                 | 2019<br>RMB'000  |
| Net cash generated from operating activities                          | 3,699,464                       | 409,470          |
| Net cash used in investing activities                                 | (7,842,584)                     | (1,448,623)      |
| Net cash generated from financing activities                          | 32,028,687                      | 6,509,119        |
| Net increase in cash and cash equivalents                             | 27,885,567                      | 5,469,966        |
| Net return to JD Group  | —                               | (561,887)        |
| Cash and cash equivalents at the beginning of the year                | 4,965,272                       | 16,213           |
| Effects of foreign exchange rate changes on cash and cash equivalents | (580,047)                       | 40,980           |
| <b>Cash and cash equivalents at the end of the year</b>               | <b>32,270,792</b>               | <b>4,965,272</b> |

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any other plans for material additional external financing.

### Net cash generated from operating activities

Net cash generated from operating activities primarily comprises our loss for the year and non-cash and non-operating items, and adjusted by changes in working capital.

In 2020, net cash generated from operating activities was RMB3.7 billion. Our cash generated from operations was primarily attributable to our loss of RMB17.2 billion, as adjusted by (i) non-cash and non-operating items, which primarily consisted of fair value changes of convertible preferred shares of RMB17.5 billion and share-based payment expenses of RMB0.4 billion, and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB2.4 billion, an increase in accrued expenses and other payables of RMB0.5 billion and a decrease in prepayments, other receivables and other assets of RMB0.4 billion, partially offset by an increase in inventories of RMB0.5 billion.

In 2019, net cash generated from operating activities was RMB409.5 million. Our cash generated from operations was primarily attributable to our loss of RMB971.8 million, as adjusted by (i) non-cash and non-operating items, which primarily consisted of fair value changes of convertible preferred shares of RMB1,263.1 million and share-based payment expenses of RMB52.7 million; and (ii) changes in working capital, which primarily resulted from an increase in accrued expenses and other payables of RMB203.2 million, an increase in trade payables of RMB104.8 million and an increase in contract liabilities of RMB47.2 million, partially offset by an increase in inventories of RMB164.0 million and an increase in prepayments, other receivables and other assets of RMB160.1 million.

## Management Discussion and Analysis (Continued)

### Net cash used in investing activities

In 2020, net cash used in investing activities was RMB7.8 billion, which was primarily attributable to placement of term deposits of RMB6.7 billion, purchase of financial assets at fair value through profit or loss of RMB5.4 billion, payments for investment in joint ventures of RMB0.7 billion, partially offset by maturity of financial assets at fair value through profit or loss of RMB3.8 billion, maturity of term deposits of RMB1.3 billion.

In 2019, net cash used in investing activities was RMB1.4 billion, which was primarily attributable to placement of term deposits.

### Net cash generated from financing activities

In 2020, net cash generated from financing activities was RMB32.0 billion, which was primarily attributable to net proceeds from issuance of ordinary shares of RMB25.8 billion and proceeds from issuance of convertible preferred shares of RMB6.5 billion.

In 2019, net cash generated from financing activities was RMB6.5 billion, which was primarily attributable to proceeds from issuance of convertible preferred shares of RMB6.3 billion and advance from JD Group of RMB202.2 million.

### Gearing ratio

As of December 31, 2020, we had no outstanding borrowings. Therefore, the gearing ratio is not presented herein.

### Significant investments held

In April 2020, we entered into a series of agreements with Tangshan Hongci Healthcare Management Co., Ltd., or Tangshan Hongci, and its shareholders, pursuant to which we injected approximately RMB668 million in cash to Tangshan Hongci for an equity interest of 49% in June 2020.

### Future plans for material investments and capital assets

As of December 31, 2020, we did not have other plans for material investments and capital assets.

### Material acquisitions and/or disposals of subsidiaries and affiliated companies

Save for the Group's reorganization as described in the section headed "History, Reorganization and Corporate Structure" in the prospectus of the Company dated November 26, 2020 (the "**Prospectus**"), we did not have any material acquisitions and/or disposals of subsidiaries and affiliated companies or hold any significant investments (including any investment in an investee company with a value of 5 per cent or more of the Company's total assets as at December 31, 2020) for the year ended December 31, 2020.

## Management Discussion and Analysis (Continued)

### Employee and remuneration policy

The following table sets forth the numbers of full-time staff dedicated to our business and operations categorized by function as of December 31, 2020.

| Function                   | Number of Staff | % of Total   |
|----------------------------|-----------------|--------------|
| Procurement                | 1,306           | 62.2         |
| Sales and Marketing        | 295             | 14.0         |
| Research and Development   | 440             | 21.0         |
| General and Administrative | 58              | 2.8          |
| <b>Total</b>               | <b>2,099</b>    | <b>100.0</b> |

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.

The Company also has the Pre-IPO ESOP, the Post-IPO Share Option Scheme and the Post-IPO Share Award Scheme.

The total remuneration expenses, including share-based payments expenses, for the year ended December 31, 2020 were RMB1,000.3 million, as compared to RMB272.0 million for the year ended December 31, 2019, representing a year-on-year increase of 267.7%.

### Foreign exchange risk

The functional currency of our entities incorporated in the Cayman Islands, British Virgin Islands and Hong Kong is the United States dollar. Our PRC subsidiaries and consolidated affiliated entities determined their functional currency to be Renminbi. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of our entities.

During the year ended December 31, 2020, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant.

### Contingent liabilities

As of December 31, 2020, we did not have any material contingent liabilities or guarantees.

Save as disclosed in this annual report and as at the date of this annual report, there were no other significant events that might affect the Group since December 31, 2020.

### Borrowings

As of December 31, 2020, we had no outstanding borrowings.



# DIRECTORS AND SENIOR MANAGEMENT

## Our Directors

From the date of the Prospectus and up to the date of this annual report, our Board comprises 9 Directors, including 1 executive Director, 5 non-executive Directors and 3 independent non-executive Directors.

| Name                           | Age | Position(s)                                    | Date of appointment as Director |
|--------------------------------|-----|--|---------------------------------|
| <b>Directors</b>               |     |  |                                 |
| Lijun Xin (辛利軍)                | 47  | Executive Director and chief executive officer | June 28, 2019                   |
| Richard Qiangdong Liu (劉強東)    | 48  | Chairman and non-executive Director            | September 14, 2020              |
| Lei Xu (徐雷)                    | 46  | Non-executive Director                         | June 28, 2019                   |
| Sandy Ran Xu (許冉)              | 44  | Non-executive Director                         | August 21, 2020                 |
| Pang Zhang (張甯) <sup>1</sup>   | 32  | Non-executive Director                         | March 29, 2021                  |
| Yayun Li (李姪雲) <sup>2</sup>    | 40  | Non-executive Director                         | August 21, 2020                 |
| Qingqing Yi                    | 49  | Non-executive Director                         | August 21, 2020                 |
| Xingyao Chen (陳興堯)             | 46  | Independent non-executive director             | November 26, 2020               |
| Ling Li (李玲)                   | 59  | Independent non-executive director             | November 26, 2020               |
| Jiyu Zhang (張吉豫) <sup>3</sup>  | 39  | Independent non-executive director             | March 29, 2021                  |
| Wenyi Huang (黃文藝) <sup>4</sup> | 49  | Independent non-executive director             | November 26, 2020               |

### Notes:

- 1 Pang Zhang (張甯) was appointed as a non-executive Director effective on March 29, 2021.
- 2 Yayun Li (李姪雲) resigned as non-executive Director effective on March 29, 2021.
- 3 Jiyu Zhang (張吉豫) was appointed as an independent non-executive Director effective on March 29, 2021.
- 4 Wenyi Huang (黃文藝) resigned as independent non-executive Director effective on March 29, 2021.

## Executive Director

**Lijun Xin** (辛利軍), aged 47, is an executive Director and the chief executive officer (the “CEO”) of the Group. Mr. Xin is responsible for the Company’s overall strategic planning and business direction.

Prior to his appointment as the chief executive officer of our Group in July 2019, Mr. Xin had been serving various positions within JD.com since October 2012. Mr. Xin was in charge of JD.com’s third-party platform covering multiple business categories including home furnishing and apparel, and was subsequently in charge of different business groups or departments of JD Retail, such as the Home Business Department of Home Lifestyle Business Group and the Lifestyle and Services Business Group.

Before joining JD.com in October 2012, Mr. Xin had worked as general manager at Beijing Baishitongchuang Trading Co., Ltd. (北京佰世同創商貿有限公司).

## Directors and Senior Management (Continued)

Mr. Xin received a bachelor's degree of science in electrical engineering and automation from Shanghai Jiao Tong University (上海交通大學) in 1995 and an EMBA from China Europe International Business School (中歐國際工商學院) in August 2018.

### Non-executive Directors

**Richard Qiangdong Liu** (劉強東), aged 48, is a non-executive Director, chairman of the Board and the chairperson of the Nomination Committee. Mr. Liu has been the chairman and chief executive officer of JD.com since its inception. Mr. Liu founded JD.com's business in 2004 and has guided its development and growth since then. In December 2011, Mr. Liu received the prestigious award "2011 China Economic Person of the Year" from CCTV, China's largest nationwide television network. Mr. Liu has received numerous other awards for his achievements in the e-commerce industry in China, such as "2011 Chinese Business Leader" and Fortune China's "2012 Chinese Businessman." Mr. Liu currently serves as the chairman and director of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020, and also serves as the chairman and non-executive director of JD Logistics, Inc. which submitted its listing application to the Stock Exchange.

Mr. Liu received his bachelor's degree in sociology from Renmin University of China (中國人民大學) in July 1996 and an EMBA from China Europe International Business School (中歐國際工商學院) in October 2011.

**Lei Xu** (徐雷), aged 46, is a non-executive Director. Mr. Xu joined JD.com in 2009 and is serving as the chief executive officer of JD Retail of JD.com, responsible for the development, operation and strategy of JD.com retail business, both online and offline. Since joining JD Group in 2009, Mr. Xu has held several leadership roles within the sales and marketing divisions of JD Group's retail business, including head of marketing and branding, head of JD Wireless, and head of JD Group's marketing and platform operations. Under his leadership, JD Group successfully rebranded itself from 360buy to JD.com and launched its popular mascot, Joy. Mr. Xu was responsible for the launch of JD Plus, as well as JD Group's Super Brand Day strategic marketing program. He also leads JD Group's Kepler open platform, a key pillar of JD Group's "Retail as a Service" strategy that leverages JD Group's strengths in logistics, marketing, financial services, and other areas to help partners to expand their online businesses. Before joining JD.com, Mr. Xu held several senior management roles in marketing and operations at Lenovo, Allyes and Belle E-Commerce. Mr. Xu currently serves as a director of Dada Nexus Limited, whose shares have been listed on the NASDAQ (ticker: DADA) since June 2020.

Mr. Xu received an EMBA from China Europe International Business School (中歐國際工商學院) in October 2013.

**Sandy Ran Xu** (許冉), aged 44, is a non-executive Director and a member of the Audit Committee. Ms. Xu joined JD.com in 2018 and has served as the chief financial officer of JD.com since June 2020. From July 2018 to May 2020, Ms. Xu oversaw group finance, accounting and tax functions in addition to serving as chief financial officer of JD Retail Business Group of JD Group, where she played a critical role in improving JD Retail's financial and operational performance in 2019. Prior to joining JD.com, Ms. Xu was an audit partner and spent nearly 20 years with PricewaterhouseCoopers Zhong Tian LLP, Beijing office and PricewaterhouseCoopers LLP, San Jose office. Ms. Xu was a Certified Public Accountant in both China and the United States. Ms. Xu currently serves as a director (and member of the compensation committee and nominating and corporate governance committee) of Dada Nexus Limited, whose shares have been listed on the NASDAQ (ticker: DADA) since June 2020, and a director of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since June 2020. Ms. Xu also serves as non-executive director of JD Logistics, Inc., which has submitted its listing application to the Stock Exchange, from September 2020.

## Directors and Senior Management (Continued)

Ms. Xu received her bachelor's degree with a double major in information science and economics from Peking University (北京大學) in July 1998.

**Pang Zhang** (張濤), aged 32, is a non-executive Director and a member of the Remuneration Committee. Ms. Zhang joined the JD Group in July 2011 and has served as JD Group's chief human resources officer since December 2020. She has significant experience in leadership development as well as organizational processes optimization, and has held multiple key roles within different departments in JD Group including JD Group's Chief Executive Officer office, JD Retail and JD Digits business groups.

Ms. Zhang also holds directorships in various subsidiaries of JD Group and serves as non-executive director of JD Logistics, Inc., which has submitted its listing application to the Stock Exchange.

Ms. Zhang received a bachelor's degree of commerce in e-commerce from Central University of Finance and Economics (中央財經大學) in June 2011 and a Cornell-Tsinghua Finance MBA in June 2020.

**Yayun Li** (李婭雲), aged 40, was a non-executive Director and a member of the Remuneration Committee until her resignation on March 29, 2021. Ms. Li joined JD.com in December 2007 and served as the chief compliance officer of JD.com, overseeing compliance, legal affairs and internal audits, as well as information security. Ms. Li also previously served as vice president of the compliance department and head of the legal team of JD.com. Ms. Li currently serves as a chief executive officer of Jingdong Digits Technology Holding Co., Ltd. (京東數字科技控股股份有限公司) since January 2021.

Ms. Li received a master's degree in law from Renmin University of China (中國人民大學) in July 2006 and an EMBA from China Europe International Business School (中歐國際工商學院) in November 2018.

**Qingqing Yi**, aged 49, is a non-executive Director. Mr. Yi is a partner at Hillhouse Capital. He has been with Hillhouse since 2005. Mr. Yi's work at Hillhouse includes investments in the healthcare sectors. Mr. Yi is also a director of HM Healthcare, a member of Hillhouse. Mr. Yi currently serves as a director of BeiGene, Ltd., whose shares are listed on the Stock Exchange (stock code: 6160) and on NASDAQ (ticker: BGNE), since October 2014, a director of Shanghai Junshi Biosciences Co., Ltd., whose shares have been listed on the Stock Exchange (stock code: 1877) and Shanghai Stock Exchange (SHA: 688180), since December 2016 and a director of JHBP (CY) Holdings Limited, whose shares are listed on the Stock Exchange (stock code: 6998), since December 3, 2018.

Mr. Yi received his bachelor of science degree in engineering from Shanghai Maritime University (上海海事大學) in July 1995 and a master's degree of business administration from University of Southern California in May 2003.

### Independent non-executive Directors

**Xingyao Chen** (陳興堯), aged 46, is an independent non-executive Director and a chairperson of the Audit Committee and the Remuneration Committee. Mr. Chen served as the chief financial officer of New Hope Liuhe Co., Ltd (新希望六和股份有限公司) ("New Hope Liuhe") (SZSE Stock Code: 000876) from November 2011 to January 2017 and as its vice president from May 2013 to January 2017. Since March 2015, he has served as president of New Hope Huinong (Tianjin) Technology Co., Ltd. (新希望慧農(天津)科技有限公司), an affiliate of New Hope Liuhe, responsible for, among other things, supervision of its operations and major financial decisions, and review of financial reports.

## Directors and Senior Management (Continued)

Mr. Chen received his bachelor's degree in materials science and engineering and his master degree in materials science from Beihang University (北京航空航天大學) in July 1996 and March 1999, respectively. Mr. Chen also received a MBA from Tsinghua University (清華大學) in July 2005 and an EMBA from China Europe International Business School (中歐國際工商學院) in July 2011.

**Ling Li** (李玲), aged 59, is an independent non-executive Director and a member of the Remuneration Committee and the Nomination Committee. Ms. Li has served as the director of PKU China Center for Health Development Studies (北京大學中國健康發展研究中心) since June 2015. Ms. Li has worked as a doctoral supervisor and held professorship at National School of Development at Peking University (北京大學國家發展研究院) since July 2008. Prior to that, Ms. Li had served as the deputy director, a doctoral supervisor and held professorship at China Center for Economic Research (北京大學中國經濟研究中心) from August 2003 to June 2008. Ms. Li worked as an assistant professor from 1994 to 2000 and later as an associate professor with tenure from 2000 to 2003 at Towson University. Ms. Li taught Wuhan University (武漢大學) from September 1982 to February 1987. Ms. Li obtained an independent director qualification certificate issued by the Shanghai Stock Exchange in March 2019. Ms. Li serves as an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., whose shares are listed on the Stock Exchange (stock code: 2196) since June 2019. Ms. Li had served as an independent non-executive director of Sinopharm Group Co. Ltd., whose shares are listed on the Stock Exchange (stock code: 1099), from December 2012 to December 2018.

Ms. Li currently also serves as the vice chairman of China Health Economics Association, a member of the State Council Health Reform Advisory Commission, a member of National Health and Family Planning Commission on public policy, an evaluation expert in the Pilot Project of Urban Resident Basic Medical Insurance implemented by the State Council, an advisor to the Beijing Municipal Government, an advisor to the pharmaceutical and healthcare reform of Guangdong Province and the vice chairman of Gerontological Society of China.

Ms. Li received her bachelor's in physics from Wuhan University (武漢大學) in August 1982 and her master's degree and PhD in economics from the University of Pittsburgh in September 1990 and August 1994, respectively.

**Jiyu Zhang** (張吉豫), aged 39, is an independent non-executive Director and a member of the Audit Committee and the Nomination Committee. Dr. Zhang currently holds associate professorship and serves as the executive director of the Law and Technology Institute at Renmin University of China (中國人民大學). She is also a member of and currently holds various leadership positions in the Cyberspace Security Strategy and Law Committee of China Institute of Communications, Beijing Intellectual Property Law Research Association, China Cyber Information Law Society and Law and Policy Working Group of China Artificial Intelligence and Industry Alliance. Prior to that, Dr. Zhang held an assistant professorship and was a post-doctoral fellow in intellectual property law at the Renmin University of China Law School (中國人民大學法學院) from August 2014 to August 2017 and September 2011 to July 2014, respectively.

Dr. Zhang received a bachelor of science degree with a double major in mathematics and applied mathematics and a bachelor of science degree in computer science and technology from Peking University (北京大學) in 2004. She then received her Doctor of Science in computer architecture from Peking University in 2011.

## Directors and Senior Management (Continued)

**Wenyi Huang** (黃文藝), aged 49, was an independent non-executive Director and a member of the Audit Committee and the Nomination Committee until his resignation on March 29, 2021. Mr. Huang currently holds professorship and serves as a doctoral supervisor at Renmin University of China (中國人民大學). Prior to that, Mr. Huang held a professorship and served as a doctoral supervisor at Jilin University (吉林大學) during the period from December 2004 to December 2010. During the period from December 2010 to April 2015, Mr. Huang served as an associate dean at Jilin Academy of Social Sciences (吉林省社會科學院). From 2015 to 2019, Mr. Huang served as deputy director of research office of Committee of Political and Legal Affairs of the CPC Central Committee (中共中央政法委員會研究室). Mr. Huang was admitted as a practicing lawyer in the PRC since June 1996.

Mr. Huang received his bachelor of laws degree in economic law and a master of laws degree from Jilin University (吉林大學) in July 1993 and January 1996, respectively. Mr. Huang received his doctor of laws degree in jurisprudence in July 1999 from Renmin University of China (中國人民大學).

### Senior management

The senior management (other than our executive Director) of the Group comprises the following:

| Name          | Age | Position(s)             | Time of appointment as senior management |
|---------------|-----|-------------------------|--|
| Dong Cao (曹冬) | 44  | Chief financial officer | April 2019                               |

**Dong Cao** (曹冬), aged 44, is the chief financial officer of the Company and oversees the finance and investments of our Group. Mr. Cao held different positions within JD.com from January 2012 to April 2019. Mr. Cao served as the director of the auditing department of JD.com from January 2012 to November 2013 and subsequently was in charge of the accounting center of finance department of JD.com from November 2013 to August 2014. He was the responsible person of the reporting division of the operation analysis department of JD.com from August 2014 to April 2015. Between April 2015 and April 2019, Mr. Cao served as the head of the analysis function of the budget and analysis department and subsequently the head of the budget and analysis department within JD.com. Mr. Cao served as the financial controller at Beijing Ruiwodi International Education Technology Development Co., Ltd. (北京瑞沃迪國際教育科技發展有限公司) from October 2009 to December 2011. Mr. Cao had served at New Oriental Education&Technology Group Inc. from January 2004 to June 2009, with his last position held as a senior auditing manager. Mr. Cao was accredited as a Certified Public Accountant by Beijing Institute of Certified Public Accountants in September 2010 and was also accredited as a Certified Internal Auditor by China Institute of Internal Audit in November 2004.

Mr. Cao received his bachelor of science degree in financial management from China University of Petroleum (中國石油大學) in July 1999. Mr. Cao received a master's degree in international trade from University of International Business and Economics (對外經濟貿易大學) in July 2002.

## Directors and Senior Management (Continued)

### Company secretary

**Chiu Ming King** (趙明璟), our company secretary, is an executive director of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field. He is currently (1) the joint company secretary of Shanghai Haohai Biological Technology Co., Ltd., a main board listed company in Hong Kong (stock code: 6826); (2) the joint company secretary of Kunming Dianchi Water Treatment Co., Ltd., a main board listed company in Hong Kong (stock code: 3768); (3) the company secretary of Grace Wine Holdings Limited, a GEM listed company in Hong Kong (stock code: 8146); (4) the joint company secretary of AAG Energy Holdings Limited, a main board listed company in Hong Kong (stock code: 2686); (5) the joint company secretary of CanSino Biologics Inc., a main board listed company in Hong Kong (stock code: 6185); (6) the company secretary of Sheng Yuan Holdings Limited, a main board listed company in Hong Kong (stock code: 851) and (7) the company secretary of Loco Hong Kong Holdings Limited, a GEM listed company in Hong Kong (stock code: 8162).

Mr. Chiu was elected as an associate and a fellow of The Chartered Governance Institute in the United Kingdom in 2003 and 2015, respectively, and admitted as an associate and a fellow of The Hong Kong Institute of Chartered Secretaries (“**HKICS**”) in October 2003 and September 2015, respectively. He is also a holder of the Practitioner’s Endorsement Certificate issued by HKICS. He has been a vice chairman of the Membership Committee, a chairman of the Professional Services Panel and a council member of HKICS.

Mr. Chiu obtained his bachelor of arts degree from University of Toronto in Canada in June 1999 and received his master of arts degree in professional accounting and information systems from City University of Hong Kong in November 2003.



# REPORT OF THE DIRECTORS

The Board of the Company is pleased to present this report of the Directors with the consolidated financial statements of the Group for the year ended December 31, 2020.

## General information

The Company was incorporated in the Cayman Islands on November 30, 2018 as an exempted limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”).

The Company’s Shares were listed on the Main Board of the Stock Exchange on December 8, 2020.

## Principal activities

The Company is an investment holding company, and together with its subsidiaries and consolidated affiliated entities, engage in a comprehensive “Internet + Healthcare” ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management, intelligent healthcare solutions to the customers, and a variety of marketing services to the business partners. The Group’s principal operations and geographic markets are in the People’s Republic of China.

The Group has only one reportable segment as set out in Note 4 to the consolidated financial statements. The Group does not distinguish between markets or segments for the purpose of internal reports. No geographical information is presented.

## Business review

The business review of the Group for the year ended December 31, 2020 is set out in the sections headed “CEO’s Statement” and “Management Discussion and Analysis” from pages 5 to 8 and pages 9 to 22 of this annual report. Description of principal risks and uncertainties that the Group may be facing can be found in the sections headed “Report of Directors — Principal risks and uncertainties” and “Report of Directors — Risks relating to the Contractual Arrangements” on pages 31 to 32 and page 56 of this annual report. In addition, discussions on the key relationship with the stakeholders, compliance with the relevant laws and regulations, environmental policies and performance are set out in page 31 of this annual report and will also be set out in the “Environmental, Social and Governance Report” to be published within 3 months from the publication of this annual report.

## Results

The results of the Group for the year ended December 31, 2020 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income/(loss) on page 87 and page 88 of this annual report.

## Financial summary

A summary of the condensed consolidated statements of comprehensive income/(loss) and financial position of the Group is set out on page 4 of this annual report.

## Report of the Directors (Continued)

### Share capital

Details of movements in the share capital of the Company for the year ended December 31, 2020 are set out in Note 25 to the consolidated financial statements.

### Subsidiaries

Particulars of the Company's principal subsidiaries are set out in Note 32 to the consolidated financial statements.

### Major customers and suppliers

#### Customers

We have a broad base of customers. Except for JD Group, our top customers are primarily pharmaceutical companies and healthcare product companies. Based on the assumption that the Reorganization had been completed before Reporting Period, for the year ended December 31, 2020, the Group's five largest customers accounted for less than 30% of the Group's total revenue.

As of December 31, 2020, JD Group indirectly owned approximately 67.49% of our total issued share capital. To the best of our knowledge, all of the other four largest customers during the year ended December 31, 2020 were independent third parties. As of December 31, 2020 (i) Mr. Richard Qiangdong Liu (劉強東), 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 has any interest in any of our top five customers during the year ended December 31, 2020.

#### 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 before Reporting Period, for the year ended December 31, 2020, the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

As of December 31, 2020, JD Group indirectly owned approximately 67.49% of our total issued share capital. To the best of our knowledge, all of the other four largest suppliers during the year ended December 31, 2020 were independent third parties. As of the December 31, 2020, (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 has any interest in any of our top five suppliers during the year ended December 31, 2020.



### Key relationship with stakeholders

The Company is committed to maintaining a good relationship with stakeholders that have a significant impact on the Company and on which the Company's success depends. Further details will be set out in the Environmental, Social and Governance Report which will be published within 3 months of this annual report.

### Compliance with the relevant laws and regulations

To the best of the Directors' knowledge, information and belief, the Group has in all material respects, complied with the relevant laws and regulations that have a significant impact on the Group during the Reporting Period.

### Environmental policies and performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth. Further details will be set out in the Environmental, Social and Governance Report which will be published within 3 months of this annual report.

### Principal risks and uncertainties

Our operations involve certain risks and uncertainties, which are set out in the section headed "Risk Factors" of the Prospectus. Some of the major risks we face relate to:

- our reliance on JD Group and the fact that there are certain overlapping businesses between our Group and JD Group;
- the fact that we may have conflicts of interest with JD Group;
- our ability to maintain a good relationship with JD Group, taking into account the extensive connected transactions between us and JD Group;
- our ability to manage the growth of our business and operations or implement our business strategies successfully;
- the fact that we are subject to extensive and evolving regulatory requirements, and sale of prescription drugs are subject to stringent scrutiny;
- our ability to compete effectively;
- the fact that we are in the early stage of development with a limited operating history in an emerging and dynamic industry;
- our ability to maintain, protect and enhance the reputation and recognition of our brand;
- our ability to continue to attract and retain users, provide superior user experience and maintain users' trust in our platform;

## Report of the Directors (Continued)

- the fact that our sale of pharmaceutical and healthcare products is subject to a variety of risks;
- the fact that we may become subject to product liability claims, medical liability claims, and penalties or disputes for failure to manage our in-house medical team and external doctors; and
- our ability to handle and secure data.

### Use of net proceeds from Listing

The Shares were listed on the Main Board of the Stock Exchange on December 8, 2020. The net proceeds from the Global Offering (following the full exercise of the Over-allotment Option, as defined in the Prospectus), was approximately RMB25.7 billion, after deducting the underwriting commissions and offering expenses paid or payable, which will be gradually utilized for the purposes as set out in the Prospectus.

- approximately 40% of the net proceeds is expected to be used for business expansion in the next 36 to 60 months from the Global Offering, including:
  - further developing our retail pharmacy business and online healthcare services, including (i) continuing to strengthen our retail pharmacy business by procuring more drug SKUs and introducing more novel drugs from a larger base of quality suppliers for our direct sales business; (ii) increasing the number of drug warehouses that we utilize through collaboration with JD Group, which will enhance our supply chain capabilities; (iii) cooperating with more offline pharmacies to enrich the product categories and expand the urgent delivery services of our omnichannel initiative to more cities in China with enhanced efficiency and coverage; (iv) continuing to invest in the development of our healthcare services network and the expansion of our healthcare service offerings to satisfy all-round demand from users with serious, acute and/or chronic diseases, by recruiting more in-house doctors and cooperating with more external doctors and providing them with attractive compensation packages and training and collaboration opportunities, collaborating with more top industry experts to build specialist medical centers and expanding our consumer healthcare services to more categories; and (v) investing in new initiatives such as developing and purchasing more advanced technology infrastructures to help digitalize the transaction process between upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies;
  - enhancing user growth and engagement, including (i) strengthening our supply chain capabilities through expanding our supply chain human resources and investments in relevant technologies for logistics to achieve economies of scale and operating efficiency and enable us to offer more diversified delivery options and competitive pricing, improving user experience; (ii) continuing to improve user experience of our online healthcare services by expanding the breadth and depth of our service offerings, such as expanding the types and numbers of offerings in dental services and aesthetic medicines of our consumer healthcare services; and (iii) investing in the technology to improve the capability of our mobile apps and the development of data driven and personalized services based on insights into user preferences, backed by our data analytics capabilities and the use of AI in analyzing user behaviors, for example, to recommend related or similar non-drug healthcare products based on users' search and purchase history;

## Report of the Directors (Continued)

- consistently promoting brand awareness through increasing our online and offline marketing and promotional activities, such as TV branding, news feed ads, advertisements through major search engines and web portals, and seasonal and holiday promotional campaigns; and
- approximately 30% of the net proceeds is expected to be used for research and development in the next 24 to 36 months from the Global Offering, including (i) further developing our digital infrastructure and new initiatives with continuous investments in our healthcare services platforms, AI-assisted prescription verification, and big data and cloud computing technologies, to consistently optimize our service process, improve user experience, boost operation efficiency and expand the scope of Internet and technology related solutions offered to participants in the healthcare value chain; (ii) continuously attracting, through offering competitive compensation packages, and cultivating world-class software engineers, data scientists, artificial intelligence experts and other research and development talents, and expanding our portfolio of intelligent assets; and (iii) investing in smart healthcare solutions for offline hospitals and other medical institutions, such as software, IOT systems and integrated platform solutions designed for various scenarios based on their specific needs to further improve patient monitoring and management, enhance daily operation efficiency of hospitals and position them for greater integration with online service offerings;
- approximately 20% of the net proceeds is expected to be used for our potential investments and acquisitions or strategic alliances. We are interested in healthcare companies with advanced technologies and services, companies with complementary business lines and companies that have synergies with our current business; and
- approximately 10% of the net proceeds is expected to be used for working capital and general corporate purposes.

As at December 31, 2020, the Group had not utilized the net proceeds from the Global Offering.

### Dividends

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2020.

### Reserves

As of December 31, 2020, the Company had distributable reserves of RMB38,281 million.

Details of movements in the reserves of the Company during the year ended December 31, 2020 are set out in Note 35 of the consolidated financial statements.

### Borrowings

The Group did not have any outstanding bank loans and other borrowings as at December 31, 2020.

### Debenture issued

The Group has not issued any debentures during the year ended December 31, 2020.

## Report of the Directors (Continued)

### Equity-linked agreements

Save as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2020.

### Directors

The Directors who held office from the date of the Prospectus and up to the date of this annual report were:

#### Executive Director

Lijun Xin (辛利軍) (*Chief Executive Officer*)

#### Non-Executive Directors

Richard Qiangdong Liu (劉強東) (*Chairman*)

Lei Xu (徐雷)

Sandy Ran Xu (許冉)

Pang Zhang (張雱) (*appointed on March 29, 2021*)

Yayun Li (李姪雲) (*resigned on March 29, 2021*)

Qingqing Yi

#### Independent Non-Executive Directors

Xingyao Chen (陳興堯)

Ling Li (李玲)

Jiyu Zhang (張吉豫) (*appointed on March 29, 2021*)

Wenyi Huang (黃文藝) (*resigned on March 29, 2021*)

Pursuant to Article 16.19 of the Articles of Association, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors. Also, pursuant to Article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed to fill a casual vacancy shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Lijun Xin (辛利軍), Lei Xu (徐雷), Sandy Ran Xu (許冉), Pang Zhang (張雱) and Jiyu Zhang (張吉豫) shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Details of the Directors standing for re-election at the forthcoming annual general meeting are set out in the circular to the Shareholders together with this annual report.

### Board of Directors and senior management

Biographical details of the directors and senior management of the Group are set out in the section headed “Directors and Senior Management” on pages 23 to 28 of this annual report.

### Changes in information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company are set out below:

1. Pang Zhang (張雱) was appointed as a non-executive Director and a member of the Remuneration Committee effective on March 29, 2021.
2. Yayun Li (李婭雲) resigned as non-executive Director and a member of the Remuneration Committee effective on March 29, 2021.
3. Jiyu Zhang (張吉豫) was appointed as an independent non-executive Director and a member of the Audit Committee and the Nomination Committee effective on March 29, 2021.
4. Wenyi Huang (黃文藝) resigned as independent non-executive Director and a member of the Audit Committee and the Nomination Committee effective on March 29, 2021.

Save as disclosed in this annual report, there were no changes in information of Directors of the Company that are required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

### Permitted indemnity

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended December 31, 2020. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

### Directors' service contracts

The executive Director has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner and subject to re-election as and when required under the Articles of Association).

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial period of three years from the date of the Prospectus or from the date of the Prospectus until the third annual general meeting of the Company since the Listing (whichever ends sooner) or for an initial period of three years from the date of appointment. Such appointments are subject to retirement as and when required under the Articles of Association, on and subject to the terms and conditions specified in the relevant letter of appointment.

## Report of the Directors (Continued)

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### **Directors' interests in transactions, arrangements or contracts of significance**

Save as disclosed in the section "Continuing Connected Transactions" below and this annual report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party subsisting during or at the end of the year ended December 31, 2020.

### **Management contracts**

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2020.

### **Contracts and relationship with controlling shareholders**

Save as disclosed in the section "Continuing Connected Transactions" below and in this annual report, no contract of significance or contract of significance for the provision of services has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2020.

As noted in the section headed "Relationship with Controlling Shareholders" of the Prospectus, our retail pharmacy business is generally intended to only be carried out by our Group, except certain protective equipment products via direct sales channel that are related to healthcare (e.g. thermometers and facemasks), which may also be sold on JD Group's platforms. However, we do not believe that any potential competition with JD Group is likely to be material to us partly because the sale of protective equipment peripheral to the businesses of both our Group and JD Group and JD Group has no intent to substantially develop this line of business in the foreseeable future. The business relating to JD branded facemasks has been substantially transferred to our Group. The remaining protective equipment products still sold by JD Group mainly includes thermometers and facemasks for children (both under the maternal and child product category of JD Group). These products only accounted for approximately 5.1% of our Group's revenue (enlarged to take into account the revenue attributed to the JD branded facemasks) for the year ended December 31, 2020, which has been reviewed by the Audit Committee.

In addition, our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. Our independent non-executive Directors have reviewed and confirmed that there is no conflict of interests between our Group and our Controlling Shareholders that need to be disclosed to the Shareholders.

### **Directors' rights to acquire shares or debentures**

Save as disclosed in this annual report, at no time during the year ended December 31, 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

### Directors' interests in competing business

Save and except for the interests of our Controlling Shareholders in our Company and its subsidiaries, during the year ended December 31, 2020, neither our Controlling Shareholders nor any of our Directors is considered to have interests in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

### Directors' and chief executives' interests and short positions in shares and underlying shares and debentures of the company or any of its associated corporations

As at December 31, 2020, the interests and short positions of the Directors and chief executives in the Shares, underlying Shares and debentures of the Company or its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### (i) Interest in the Company

| Name of Director            | Nature of interest  | Number of ordinary shares    | Approximate percentage of holding <sup>(5)</sup> |
|-----------------------------|---|------------------------------|--|
| Lijun Xin (辛利軍)             | Interest in a controlled corporation <sup>(1)</sup> ; Beneficial owner <sup>(2)</sup> | 38,834,967 <sup>(L)</sup>    | 1.22%  |
| Richard Qiangdong Liu (劉強東) | Interest in a controlled corporation <sup>(3)</sup> ; Beneficial owner <sup>(4)</sup> | 2,202,296,248 <sup>(L)</sup> | 69.16%   |

Notes:

- (1) Novacare Investment Limited, which holds 9,552,238 Shares, is beneficially owned by Lijun Xin (辛利軍) as to 93.09% (8,892,445 shares) with the remaining interest beneficially owned by 13 other employees of our Group who are not directors or senior management of the Company.
- (2) Includes Lijun Xin (辛利軍)'s entitlement to receive up to 29,282,729 Shares pursuant to the exercise of options granted to him under the Pre-IPO ESOP, subject to the conditions (including vesting conditions) of those options.
- (3) Richard Qiangdong Liu (劉強東) controls more than 50% of the voting power of JD.com, which wholly owns JD Jiankang. JD Jiankang holds 2,149,253,732 Shares.
- (4) Includes Richard Qiangdong Liu (劉強東)'s entitlement to receive up to 53,042,516 Shares pursuant to the exercise of options granted to him under the Pre-IPO ESOP, subject to the conditions (including vesting conditions) of those options.
- (5) The percentages are calculated on the basis of 3,184,367,111 Shares in issue as at December 31, 2020.
- (6) (L) denotes a long position in the Shares.

## Report of the Directors (Continued)

### (ii) Interests in the underlying shares of associated corporations of the Company

The Company has been granted (i) a certificate of exemption from strict compliance with Part XV of the SFO (other than Divisions 5, 11 and 12 of Part XV of the SFO) to the directors or chief executives of the Company who is/are also a director or chief executive of JD.com (the “**Common Directors/Chief Executives**”) with respect to their disclosure of interest, and short positions, in any shares in JD.com and associated corporations of the Company which are subsidiaries of JD.com (“**Associated Corporations**”), and (ii) a waiver from strict compliance with Practice Note 5 and paragraphs 41(4) and 45 of Part A of Appendix 1 to the Listing Rules such that the Common Directors/Chief Executives will not be required to disclose their interests and short positions in any shares or underlying shares in the Associated Corporations in accordance with Part XV of the SFO. Further details regarding the waiver and exemption in relation to disclosure of interests information (including the conditions of such waiver and exemption) are set out in the section headed “Waivers from strict compliance with the Listing Rules and exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance — Waiver and exemption in relation to disclosure of interests information” in the Prospectus.

Except as specifically noted, the following table sets forth the directors’ or chief executives’ beneficial ownership of JD.com’s Class A ordinary shares and Class B ordinary shares as of December 31, 2020.

The calculations in the table below are based on 3,113,145,487 ordinary shares outstanding as of December 31, 2020, comprising of (i) 2,668,894,636 Class A ordinary shares, excluding the 16,648,346 Class A ordinary shares issued to JD.com’s depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under JD.com’s share incentive plan, and (ii) 444,250,851 Class B ordinary shares.

Beneficial ownership is determined in accordance with the rules and regulations of the U.S. SEC. In computing the number of shares beneficially owned by a person and the percentage ownership and voting power percentage of that person, JD.com has included shares and associated votes that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares and associated votes, however, are not included in the computation of the percentage ownership of any other person. Ordinary shares held by a shareholder are determined in accordance with JD.com’s register of members.

| Directors and Executive Officers | Ordinary Shares Beneficially Owned** |                            |                            |                           | % of Aggregate Voting Power# |
|----------------------------------|--------------------------------------|----------------------------|----------------------------|---------------------------|------------------------------|
|                                  | Class A Ordinary Shares              | Class B Ordinary Shares    | Total Ordinary Shares      | % of Beneficial Ownership |                              |
| Richard Qiangdong Liu (劉強東)      | 13,000,000 <sup>(1)</sup>            | 421,507,423 <sup>(1)</sup> | 434,507,423 <sup>(1)</sup> | 13.9 <sup>(1)</sup>       | 76.9 <sup>(2)(3)</sup>       |
| Lei Xu (徐雷)                      | *                                    | —                          | *                          | *                         | *                            |
| Sandy Ran Xu (許冉)                | *                                    | —                          | *                          | *                         | *                            |
| Yayun Li (李姪雲)                   | *                                    | —                          | *                          | *                         | *                            |
| Pang Zhang (張雲)                  | *                                    | —                          | *                          | *                         | *                            |



## Report of the Directors (Continued)

Notes:

- # For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of the Class A ordinary shares and Class B ordinary shares as a single class.
- \* Less than 1% of JD.com's total outstanding shares.
- \*\* Beneficial ownership information disclosed herein represents direct and indirect holdings of entities owned, controlled or otherwise affiliated with the applicable holder as determined in accordance with the rules and regulations of the U.S. SEC.
- (1) Represents (i) 421,507,423 Class B ordinary shares directly held by Max Smart Limited and (ii) 13,000,000 Class A ordinary shares Mr. Liu had the right to acquire upon exercise of options that shall have become vested within 60 days after December 31, 2020. Max Smart Limited is a British Virgin Islands company beneficially owned by Mr. Richard Qiangdong Liu (劉強東) through a trust and of which Mr. Richard Qiangdong Liu (劉強東) is the sole director, as described in footnote (2) below. The ordinary shares beneficially owned by Mr. Liu do not include 22,743,428 Class B ordinary shares held by Fortune Rising Holdings Limited, a British Virgin Islands company, as described in footnote (2) below.
- (2) The aggregate voting power includes the voting power with respect to the 22,743,428 Class B ordinary shares held by Fortune Rising Holdings Limited. Mr. Richard Qiangdong Liu (劉強東) is the sole shareholder and the sole director of Fortune Rising Holdings Limited and he may be deemed to beneficially own the voting power with respect to all of the ordinary shares held by Fortune Rising Holdings Limited in accordance with the rules and regulations of the U.S. SEC, notwithstanding the facts described in note (3) below.
- (3) Fortune Rising Holdings Limited holds the 22,743,428 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under JD.com's share incentive plan, and administers the awards and acts according to JD.com's instruction. Fortune Rising Holdings Limited exercises the voting power with respect to these shares according to JD.com's instruction. Fortune Rising Holdings Limited is a company incorporated in the British Virgin Islands. Mr. Richard Qiangdong Liu (劉強東) is the sole shareholder and the sole director of Fortune Rising Holdings Limited.

The following table lists out the interests of Lijun Xin (辛利軍) (not being a common director and/or chief executive of our Company and JD.com) in JD.com and JD Logistics, Inc., an associated corporation of the Company that is also a subsidiary of JD.com (i.e. a fellow subsidiary), as of December 31, 2020.

| Name of Director | Associated corporation | Nature of interest | Number of shares          | Interest in associated corporation |
|------------------|------------------------|--------------------|---------------------------|------------------------------------|
| Lijun Xin (辛利軍)  | JD.com                 | Beneficial owner   | 399,276 <sup>(1)(L)</sup> | 0.01%                              |
|                  | JD Logistics, Inc.     | Beneficial owner   | 600,000 <sup>(2)(L)</sup> | 0.01%                              |

Notes:

- (1) Includes Lijun Xin (辛利軍)'s entitlement to receive up to 203,616 shares of JD.com pursuant to restricted share units and 195,660 shares of JD.com pursuant to options under JD.com's share incentive plan.
- (2) Comprised of Lijun Xin (辛利軍)'s entitlement to receive up to 600,000 shares in JD Logistics, Inc. pursuant to options under the share incentive plan of JD Logistics, Inc.
- (3) (L) denotes a long position in the Shares.

## Report of the Directors (Continued)

The following table lists out the Directors' or chief executives' interests in the other associated corporations as of December 31, 2020:

| Name of Director               | Associated corporation | Nature of Interest   | Number of shares/amount of contribution to registered capital | Interest in associated corporation |
|--------------------------------|------------------------|--|---|------------------------------------|
| Richard Qiangdong Liu<br>(劉強東) | Onshore Holdco         | Nominee shareholder whose shareholders' rights are subject to contractual arrangements | RMB450,000  | 45%                                |
| Yayun Li (李婭雲)                 |                        |  | RMB300,000  | 30%                                |

Save as disclosed above, as at December 31, 2020, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

## Substantial shareholders' interests and short positions in shares and underlying shares

As at December 31, 2020, the persons other than the Directors, whose interests have been disclosed in this annual report, had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

| Name of Shareholder        | Nature of interest                 | Number of ordinary shares    | Approximate percentage of holding <sup>(2)</sup> |
|----------------------------|------------------------------------|------------------------------|--|
| JD Jiankang <sup>(1)</sup> | Beneficial owner                   | 2,149,253,732 <sup>(L)</sup> | 67.49%   |
| JD.com <sup>(1)</sup>      | Interest in controlled corporation | 2,149,253,732 <sup>(L)</sup> | 67.49%   |

Notes:

- (1) JD Jiankang is wholly-owned by JD.com. Under the SFO, JD.com is deemed to be interested in and control the 2,149,253,732 Shares held by JD Jiankang.
- (2) The percentages are calculated on the basis of 3,184,367,111 Shares in issue as at December 31, 2020.
- (3) (L) denotes a long position in the Shares.

Save as disclosed herein, as at December 31, 2020, no person, other than the Directors whose interests are set out in this annual report, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### Emolument policy and Directors' remuneration

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the remuneration committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the remuneration committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO ESOP, a Post-IPO Share Option Scheme and a Post-IPO Share Award Scheme. Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 9, Note 31 and Note 10, respectively, to the consolidated financial statements.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

### Share option schemes

#### 1. Pre-IPO ESOP

The Pre-IPO ESOP was approved and adopted by the Company on September 14, 2020, as amended from time to time.

#### Purpose

The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company by linking the personal interests of the members of the Board, employees and consultants to those of the Company's shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of its recipients upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

#### Eligible participants

Persons eligible to participate in the Pre-IPO ESOP include employees, consultants and all members of the Board, as determined by a committee authorized by the Board (the "**Committee**").

#### Maximum number of Shares

The maximum aggregate number of underlying shares which may be issued pursuant to all awards under the Pre-IPO ESOP is 238,805,970 Shares as of September 14, 2020 that are reserved under the Pre-IPO ESOP.

As at December 31, 2020, outstanding options representing 94,731,468 underlying Shares, representing approximately 2.97% of the issued share capital of the Company, were granted to eligible participants pursuant to the Pre-IPO ESOP. Details of the Pre-IPO ESOP are set out in Note 26 to the consolidated financial statements.

No further Award will be granted under the Pre-IPO ESOP.

## Report of the Directors (Continued)

### Period of the Pre-IPO ESOP

The Pre-IPO ESOP commenced on September 14, 2020 and will expire on September 14, 2030. Upon expiry of the Pre-IPO ESOP, no Award may be granted pursuant to the Pre-IPO ESOP; any awards that are outstanding shall remain in force according to the terms of the Pre-IPO ESOP and the applicable award agreement.

### Exercise price

The exercise price per Share subject to an option shall be determined by the Committee and set forth in the award agreement which may be a fixed or variable price related to the fair market value of the Shares.

The exercise price per Share subject to an option may be amended or adjusted in the absolute discretion of the Committee, the determination of which shall be final, binding and conclusive. For the avoidance of doubt, to the extent not prohibited by applicable laws, rules and regulations, a downward adjustment of the exercise prices of options mentioned in the preceding sentence shall be effective without the approval of the Company's shareholders or the approval of the affected participants.

Further details of the Pre-IPO ESOP are set out in the section headed "Statutory and General Information — Share Incentive Plan" of Appendix IV to the Prospectus.

Details of the outstanding options granted under the Pre-IPO ESOP during the year ended December 2020 are as follows:

| Name                               | Role   | Date of Grant    | Vesting Period <sup>(1)</sup>                              | Exercise Price (per Share) | Outstanding as at the Listing Date | Exercised during the Reporting Period | Cancelled/ Lapsed during the Reporting Period | Outstanding as at December 31, 2020 |
|------------------------------------|--|------------------|--|----------------------------|------------------------------------|---------------------------------------|---|-------------------------------------|
| <b>Directors</b>                   |  |                  |  |                            |                                    |                                       |   |                                     |
| Richard Qiangdong Liu (劉強東)        | Non-executive Director and chairman of the Board | October 15, 2020 | 6 years from date of grant                                 | US\$0.0000005              | 53,042,516                         | —                                     | —   | 53,042,516                          |
| Lijun Xin (辛利軍)                    | Executive Director                               | October 1, 2020  | 6 months from date of grant to 10 years from date of grant | US\$0.0000005              | 29,282,729                         | —                                     | —   | 29,282,729                          |
| <b>Other grantees in aggregate</b> |  | October 1, 2020  | 3 months from date of grant to 6 years from date of grant  | US\$0.0000005              | 12,406,223                         | —                                     | —   | 12,406,223                          |
| <b>Total</b>                       | 237 grantees                                     |                  |  |                            | 94,731,468                         | —                                     | —   | 94,731,468                          |

Note:

- (1) The exercise period of the options granted under Pre-IPO ESOP shall commence from the vesting commencement date of the relevant options and end on the 10th anniversary of the grant date, subject to the terms of the Pre-IPO ESOP and the share option award agreement signed by the grantee.

### 2. Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted pursuant to the written resolutions of the Shareholders passed on November 23, 2020.

#### **Purpose**

The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

#### **Selected participants**

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group is entitled to be offered and granted options. However, no individual who is resident in a place where the grant, acceptance or exercise of options pursuant to the Post-IPO Share Option Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

#### **Maximum number of Shares**

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 312,708,211 Shares, being no more than 10% of the Shares in issue on the Listing Date (the "**Option Scheme Mandate Limit**") (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the shares to be issued under the Pre-IPO ESOP and grants under the Post-IPO Share Award Scheme). Options which have lapsed in accordance with the terms of the rules of the Post-IPO Share Option Scheme (or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the "**Option Scheme Limit**"). No options may be granted under any schemes of our Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

As at December 31, 2020, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme and therefore the total number of Shares available for grant under the Post-IPO Share Option Scheme was 312,708,211 Shares, representing 9.82% of the issued share capital of the Company.

## Report of the Directors (Continued)

### **Maximum entitlement of a grantee**

Unless approved by our Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

### **Remaining Life of the Post-IPO Share Option Scheme**

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to December 8, 2030. The remaining life of the Post-IPO Share Option Scheme is approximately over 9 years.

### **Option period**

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board or its delegate(s) may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

The Board or its delegate(s) has the discretion to determine the minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved before it can be exercised in whole or in part.

### **Exercise price**

Pursuant to the Post-IPO Share Option Scheme, the participants may subscribe for the Shares on the exercise of an option at the price determined by the Board or its delegate(s) provided that it shall be not less than the greater of (a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (b) the average closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

Further details of the Post-IPO Share Option Scheme are set out in the section headed “Statutory and General Information — Share Incentive Plan” of Appendix IV to the Prospectus.

## **3. Post-IPO Share Award Scheme**

The Post-IPO Share Award Scheme was adopted pursuant to the written resolutions of the Shareholders passed on November 23, 2020.

### **Purpose**

The purpose of the Post-IPO Share Award Scheme is to align the interests of Eligible Persons’ (as defined below) with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group.



## Report of the Directors (Continued)

### **Eligible participants**

Any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (an “**Eligible Person**” and, collectively “**Eligible Persons**”) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is eligible to receive an Award. However, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Post-IPO Share Award Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Post-IPO Share Award Scheme.

### **Award**

An award gives a selected participant a conditional right, when the award shares vest, to obtain the award shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the award in Shares, the cash equivalent from the sale of the award shares. An award includes all cash income from dividends in respect of those Shares from the date the Award is granted to the date the award vests. For the avoidance of doubt, the Board or its delegate(s) at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the award shares be paid to the selected participant even though the award shares have not yet vested.

### **Granting of Awards**

The Board may, from time to time, grant awards to a selected participant by way of an award letter. The award letter will specify the grant date, the number of award Shares underlying the award, the vesting criteria and conditions, the vesting date and such other details as the Board or its delegate(s) may consider necessary.

Each grant of an award to any Director or the chairman of the Company shall be subject to the prior approval of the independent non-executive Directors of the Company (excluding any independent non-executive Director who is a proposed recipient of the grant of an award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Shares to connected persons of the Company.

### **Maximum number of Shares to be awarded**

The aggregate number of Shares underlying all grants made pursuant to the Post-IPO Share Award Scheme (excluding Award Shares which have been forfeited in accordance with the Post-IPO Share Award Scheme) will not exceed 312,708,211 Shares without Shareholders’ approval (the “**Post-IPO Share Award Scheme Limit**”) subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

As at December 31, 2020, no Shares had been granted or agreed to be granted under the Post-IPO Share Award Scheme.

### **Limit for each participant**

Under the Post-IPO Share Award Scheme, there is no specific limit on the maximum number of shares which may be granted to a single eligible participant but unvested under the Post-IPO Share Award Scheme.

## Report of the Directors (Continued)

### Termination

The Post-IPO Share Award Scheme shall terminate on the earlier of:

- (a) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Shares granted hereunder prior to the expiration of the Post-IPO Share Award Scheme, for the purpose of giving effect to the vesting of such Shares or otherwise as may be required in accordance with the provisions of the Post-IPO Share Award Scheme; and
- (b) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Post-IPO Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Shares already granted to a selected participant.

Further details of the Post-IPO Share Award Scheme are set out in the section headed “Statutory and General Information — Share Incentive Plan” of Appendix IV to the Prospectus.

### Our connected persons

During the Reporting period, the Group entered into certain transactions with the following connected persons, which constitute our continuing connected transactions under the Listing Rules.

*JD.com and its associates*

| <b>Connected Relationship</b> | <b>Name</b>   |
|-------------------------------|---|
| Controlling Shareholder       | JD.com  |
| JD.com’s associates           | Including, but not limited to Beijing Jingdong Century Trade Co., Ltd. (北京京東世紀貿易有限公司) (“ <b>Jingdong Century</b> ”), Beijing Jingbangda Trade Co., Ltd. (北京京邦達貿易有限公司) (“ <b>Jingbangda</b> ”) and JD.com International Limited (“ <b>JD HK</b> ”) |



## Report of the Directors (Continued)

### Continuing connected transactions

Set out below is a table in relation to continuing connected transactions of the Group during the Reporting Period and are required under the Listing Rules to be disclosed in the annual report and consolidated financial statements of the Company.

| Continuing Connected Transactions                                  | Proposed Annual<br>Cap in 2020<br>(RMB'000) | Actual Transaction<br>Amount in 2020<br>(RMB'000) |
|--|---|---|
| <b>Technology and Traffic Support Services Framework Agreement</b> |   |   |
| Transaction amount to be paid by us to JD Group                    | N/A   | 908,163   |
| <b>Loyalty Program Framework Agreement</b>                         |   |   |
| Transaction amount to be paid by us to JD Group                    | 56,000                                      | 42,114  |
| <b>JD Sales Framework Agreement</b>                                |   |   |
| Transaction amount to be paid to us by JD Group                    | 720,000                                     | 663,692   |
| <b>Logistics Services Framework Agreement</b>                      |   |   |
| Transaction amount to be paid by us to JD Group                    | 1,600,000                                   | 1,247,314   |
| <b>Marketing Services Framework Agreement</b>                      |   |   |
| Transaction amount to be paid to us by JD Group                    | 450,000                                     | 446,463   |
| Transaction amount to be paid by us to JD Group                    | 350,000                                     | 241,767   |
| <b>Procurement Services Framework Agreement</b>                    |   |   |
| Transaction amount to be paid by us to JD Group                    | 1,400,000                                   | 1,333,339   |
| <b>Promotion Services Framework Agreement</b>                      |   |   |
| Transaction amount to be paid by us to JD Group                    | 300,000                                     | 256,596   |
| <b>Payment Cooperation Framework Agreement</b>                     |   |   |
| Transaction amount to be paid by us to JD Group                    | 240,000                                     | 191,388   |
| <b>Shared Services Framework Agreement</b>                         |   |   |
| Transaction amount to be paid by us to JD Group                    | 600,000                                     | 547,129   |
| <b>Contractual Arrangements</b>                                    | N/A   | N/A   |

#### 1. Technology and Traffic Support Services Framework Agreement

Our Company entered into a technology and traffic support services framework agreement with JD.com on November 23, 2020 (the “**Technology and Traffic Support Services Framework Agreement**”), pursuant to which JD Group shall provide our Group technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding

## Report of the Directors (Continued)

activities, operational support and advertisement access for our Group's merchants and suppliers. JD Group shall charge commissions by applying a fixed rate on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms.

The initial term of the Technology and Traffic Support Services Framework Agreement commenced on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

JD Group shall charge commissions by applying a fixed rate on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms. The fixed rate JD Group shall charge us on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms shall not exceed 3%.

The commission fees JD Group charged us were determined on the basis of arm's length negotiations between the relevant parties, which are in line with or better than the rates JD Group charged other independent third parties for similar technology and traffic support services and are in the best interests of our Company and our Shareholders as a whole. We will also obtain annually from JD Group a range of the rates that it charges other independent third parties for similar services provided, including the relevant underlying contracts subject to the confidentiality provisions in the relevant contracts, to ensure that the commission fees charged are fair and reasonable and on normal commercial terms or better. The arrangement with JD Group is not directly comparable with any arrangement between us and other third party online platforms, given that we extensively use the services offered by JD Group to facilitate the sales and marketing of our Group's products and services.

The commission fees JD Group shall charge us shall be determined by the following formula:

**A fixed rate x the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms**

The fixed rate JD Group shall charge us on the value of the fulfilled orders of healthcare products and services generated through JD Group's online platforms shall not exceed 3%.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 14A.53(1) of the Listing Rules to express annual caps for the Technology and Traffic Support Services Framework Agreement in terms of monetary value. As the highest applicable percentage ratio of the transactions under the Technology and Traffic Support Services Framework Agreement will exceed 5% on an annual basis, such transactions will constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules, and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

Further details of the Technology and Traffic Support Services Framework Agreement are set out in the section headed "Connected Transactions" in the Prospectus.

## 2. Loyalty Program Framework Agreement

Our Company entered into a loyalty program framework agreement with JD.com on November 23, 2020 (the “**Loyalty Program Framework Agreement**”), pursuant to which our Group participates in the customer loyalty program of JD Group and the relevant customer loyalty awards are supplied by JD Group.

The initial term of the Loyalty Program Framework Agreement commenced on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

We pay JD Group based on the number of loyalty points it granted and unit cost. The unit cost is fixed, while the number of loyalty points granted vary among different product categories and are determined by internal assessment of JD Group to achieve best marketing results while providing benefits to customers. We shall obtain the relevant number of loyalty points record from JD Group in relation to our business to verify the loyalty points granted annually so as to assess whether the costs charged by JD Group are reasonable. The arrangement with JD Group is not directly comparable with any arrangement between us and other third party online platforms, given that we extensively use the services offered by JD Group to facilitate the sales and marketing of our Group’s products and services. If a customer buys a certain amount of products from our Group, this shall generate for the customer a corresponding number of loyalty points which is worth a certain dollar amount. Because JD Group supplies these loyalty points directly to the customer, our Group shall thus settle the dollar worth of those loyalty points generated on its platform with JD Group. For the avoidance of doubt, if any customer consumes (or uses) the loyalty points during his/her purchase of healthcare products from our Group, JD Group will be responsible to settle and pay our Group the equivalent dollar amount.

Further details of the Loyalty Program Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

## 3. JD Sales Framework Agreement

Our Company entered into a sales framework agreement with JD.com on November 23, 2020 (the “**JD Sales Framework Agreement**”), pursuant to which we shall sell to JD Group healthcare related products, which shall then sell or donate those healthcare products directly to certain large corporate customers or organizations.

The price of the healthcare related products supplied to JD Group shall be determined directly by us with the corporate customers and is generally determined by our Group’s actual costs plus reasonable profits. The level of profits we receive from such corporate customers shall be consistent with our pricing policy for similar transactions we entered into with our direct customers of comparable profile. We shall annually review the prices charged and level of profits with reference to similar transactions we entered into with our direct customers of comparable profile. JD Group shall not charge our Group any service fees in the process.

The healthcare products donated by JD Group will be purchased from our Group on a cost basis. Our Group shall not impose any profit or service fees on top of the costs.

Further details of the JD Sales Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

## Report of the Directors (Continued)

### 4. Logistics Services Framework Agreement

Our Company entered into a logistics services framework agreement with JD.com on November 23, 2020 (the “**Logistics Services Framework Agreement**”) pursuant to which JD Group shall provide to our Group various logistics services including but not limited to warehouse operation and storage services, delivery services, standard and special packaging services, and other value-added and logistics services provided by JD Group from time to time.

The Logistics Services Framework Agreement took effect from the Listing Date and will expire on December 31, 2022.

Under the Logistics Services Framework Agreement, the logistics service fees are determined after arm’s length negotiations in reference to market rates obtainable from comparable service provider, and are charged based a variety of factors including storage space taken and the weights and the delivery distance of the packages. We shall obtain comparable quotations from independent third party service providers on annual basis to ensure that the terms we obtain from JD Group shall be on normal commercial terms or better as compared to those quoted by independent third party service providers for services of similar nature and scale.

Further details of the Logistics Services Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

### 5. Marketing Services Framework Agreement

Our Company entered into a marketing services framework agreement with JD.com on November 23, 2020 (the “**Marketing Services Framework Agreement**”), pursuant to which JD Group and our Group shall provide certain marketing services to each other, including but not limited to the display of advertisements on various platforms and resources of JD Group and our Group in return for the marketing fees which shall be calculated in accordance with the underlying standard marketing service agreements.

The period of the Marketing Services Framework Agreement commenced on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Under the Marketing Services Framework Agreement, the marketing fees charged by JD Group to our Group and the marketing fees charged by our Group to JD Group are based on various factors, including which party sourced the third party advertiser and the platform and resource the third party advertiser desires to place an advertisement on. We shall annually review and approve the economic split from time to time, to ensure the percentage splits are reasonable and in favor of our Group. The arrangement with JD Group is not directly comparable with any arrangement between us and other third party online platforms, given that we extensively use the services offered by JD Group to facilitate the sales and marketing of our Group’s products and services.

Further details of the Marketing Services Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

## 6. Procurement Services Framework Agreement

Our Company entered into a procurement services framework agreement with JD.com on November 23, 2020 (the “**Procurement Services Framework Agreement**”), pursuant to which our Group shall procure certain inventories (including goods sourced from outside of China which shall steadily decrease going forwards) for its retail pharmacy business together with and through JD Group on a cost basis.

The initial term of the Procurement Services Framework Agreement commenced on the Listing Date and will end on December 31, 2021, subject to renewal upon the mutual consent of both parties.

JD Group shall not charge our Group additional service fees on the arrangement of procurement services. We shall pay JD Group procurement fees charged by the third party suppliers, and the charges shall be determined after arm’s length negotiation between our Group (or JD Group on behalf of our Group) and third party suppliers for products. The price of the procurement shall in general be determined by the actual costs of the third party suppliers plus reasonable profits.

Further details of the Procurement Services Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

## 7. Promotion Services Framework Agreement

Our Company entered into a promotion services framework agreement with JD.com on November 23, 2020 (the “**Promotion Services Framework Agreement**”), pursuant to which our Group shall place advertisements on third party platforms together with and through JD Group to achieve economies of scale, increased efficiency and lower costs for both parties.

The initial term of the Promotion Services Framework Agreement commenced on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

Our Group and JD Group shall settle the expenses incurred between each other on a cost basis.

JD Group shall not charge our Group additional service fees on the arrangement of promotion and marketing services. Our Group shall pay JD Group promotion fees charged by the third party promotion service providers for our Group, and the charges shall be determined after arm’s length negotiation between our Group (or JD Group on behalf of our Group) and third party promotion service providers for promotion services provided. The price of promotion service shall be determined by the actual costs and expenses for preparing relevant displays on third parties’ platforms plus reasonable profits of such third parties, or shall be calculated by the unit prices of different online publicity resources multiplied by frequency such resources are used. The unit prices of each online publicity resources shall be determined with reference to market rates. We shall annually obtain and review the comparable quotations from other service providers to ensure the promotion service prices that we obtain from JD Group are fair and reasonable.

Further details of the Promotion Services Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

## Report of the Directors (Continued)

### 8. Payment Cooperation Framework Agreement

Our Company entered into a payment cooperation framework agreement with JD.com and its associate(s) on November 23, 2020 (the “**Payment Cooperation Framework Agreement**”), pursuant to which JD Group and its associate(s) agreed to arrange our Group to use the payment services through payment channels provided by third party payment service providers or self-owned payment channels, so as to enable users to conduct online purchase of products in an integrated manner from the platforms of both JD Group and our Group.

The initial term of the Payment Cooperation Framework Agreement commenced on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

For payment services provided by third party payment service providers, related costs are first settled by JD Group and later settled in full (on a cost basis of JD Group) by our Group. This shall allow our Group to utilize the payment services to enable efficient, safe and prompt real-time payment for its online transactions. JD Group shall not charge us additional service fees on the arrangement of payment service. Our Group shall pay JD Group the amount equal to payment service fees charged by third party service providers to conduct online transactions and the service shall be charged based on a commission rate with reference to market rates by the payment service provider. For payment services directly provided by payment channels operated by JD Group’s associates to our Group, service fees charged to our Group shall be calculated with reference to the prevailing market rates. We shall annually obtain and review prevailing market rates to ensure that the service fees charged by JD Group’s associates to our Group to ensure they are fair and reasonable.

Further details of the Payment Cooperation Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

### 9. Shared Services Framework Agreement

Our Company entered into a shared services framework agreement with JD.com on November 23, 2020 (the “**Shared Services Framework Agreement**”), pursuant to which JD Group shall provide to our Group certain back-office administrative support services, including cloud services, provision of servers, information technology support service, maintenance and related customer services, certain human resources services, in addition to certain shared services, including office premises sharing and leasing, transportation and canteen facilities for staff, administrative purchases and various support services.

The initial term of the Shared Services Framework Agreement commenced on the Listing Date and will end on December 31, 2022, subject to renewal upon the mutual consent of both parties.

JD Group shall not charge our Group additional service fees on the arrangement of shared services. Our Group shall pay JD Group the actual costs incurred during the service process including, among others, staff costs, office premises sharing, IT system maintenance, and third party service costs. We shall annually review the actual costs incurred by JD Group in providing relevant services with reference to prevailing market prices of such services to ensure they are fair and reasonable.



## Report of the Directors (Continued)

Further details of the Shared Services Framework Agreement are set out in the section headed “Connected Transactions” in the Prospectus.

### **Confirmation from Independent Non-executive Directors**

Our independent non-executive Directors have reviewed the continuing connected transactions mentioned under sections (1) to (9) under the section headed “Continuing Connected Transactions” above (the “**Continuing Connected Transactions**”), and confirmed that the Continuing Connected Transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better;
- (c) according to the agreement governing them on terms that are fair and reasonable; and
- (d) and in the interests of the Shareholders as a whole.

During the year ended December 31, 2020, save as disclosed in the section headed “Continuing Connected Transactions” of this annual report, no related party transactions disclosed in Note 31 to the financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules.

### **Confirmations from the Auditor**

Deloitte Touche Tohmatsu, the auditor of the Company, has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2020:

- (a) nothing has come to their attention that causes Deloitte Touche Tohmatsu to believe that the disclosed continuing connected transactions have not been approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes Deloitte Touche Tohmatsu to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- (c) nothing has come to their attention that causes Deloitte Touche Tohmatsu to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes Deloitte Touche Tohmatsu to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

## Report of the Directors (Continued)

A summary of all significant transactions with related parties (the “**Related Party Transactions**”) entered into by the Group during the Reporting Period is contained in Note 31 to the consolidated financial statements. During the Reporting Period, other than the continuing connected transactions of the Group set out and recognized on page 47 which should be disclosed pursuant to the Listing Rules, no related party transactions disclosed in Note 31 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

### 10. Contractual Arrangements

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations as outlined in further detail in the section headed “Contractual Arrangements” in the Prospectus, we do not directly own any equity interests in our Consolidated Affiliated Entities. The Onshore Holdco is held by Richard Qiangdong Liu (劉強東) as to 45%, Yayun Li (李婭雲) as to 30% and Pang Zhang (張甯) as to 25%.

In view of the aforementioned PRC regulatory background, after consultation with our PRC Legal Adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOE, on the one hand, and the Onshore Holdco (which holds the remaining Consolidated Affiliated Entities) and its shareholders, on the other. The Contractual Arrangements allow the results of operations and assets and liabilities of the Consolidated Affiliated Entities to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

In order to comply with PRC laws and regulations while availing ourselves of international capital markets and maintaining effective control over all of our operations, the Contractual Arrangements currently in effect were entered into on September 17, 2020, whereby the WFOE have acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. Total revenue of the Group’s Consolidated Affiliated Entities was RMB4,916 million for the year ended December 31, 2020 (2019: RMB2,547 million), and that amount has been reflected in the Group’s consolidated financial statements with intercompany balances and transactions between the consolidated affiliated entities, the subsidiaries of the consolidated affiliated entities and other entities within the Group eliminated. Based on the above and as set out in the section headed “Contractual Arrangements” in the Prospectus, we believe that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

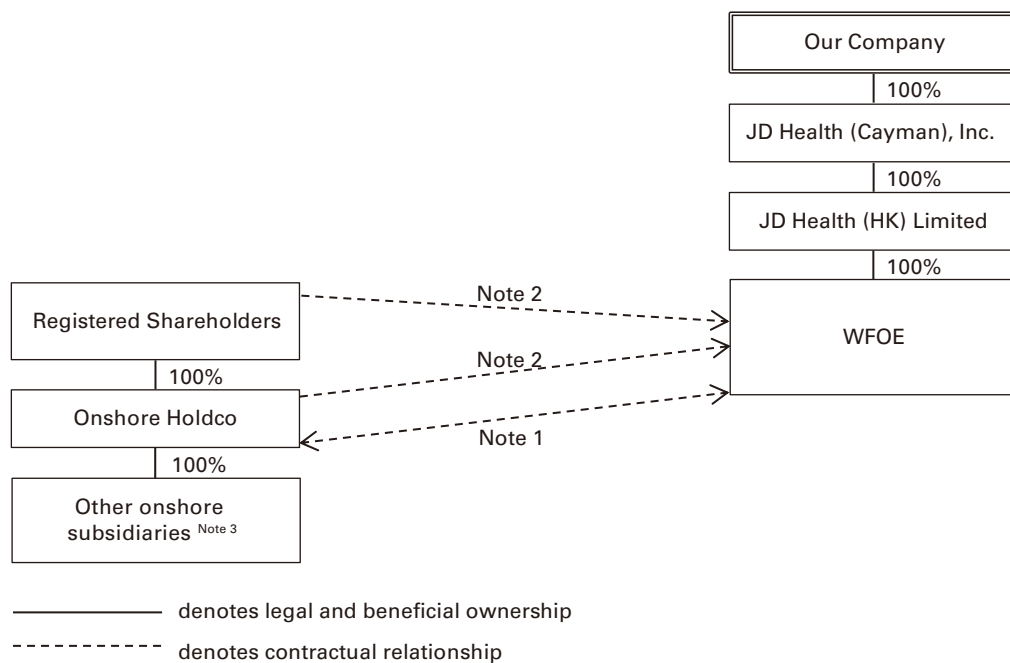
Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOE and our Consolidated Affiliated Entities; (ii) by entering into the Exclusive Business Cooperation Agreement (as defined below) with the WFOE,



## Report of the Directors (Continued)

which is our subsidiary incorporated in PRC, our Consolidated Affiliated Entities shall enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

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



Notes:

- (1) The WFOE provides business support, technical and consulting services in exchange for service fees from the Onshore Holdco. Please refer to “Contractual Arrangements — Our Contractual Arrangements — Exclusive Business Cooperation Agreement” in the Prospectus.
- (2) The Registered Shareholders executed the exclusive option agreement in favour of the WFOE, for the acquisition of all or part of the equity interests in and all or part of the assets in the Onshore Holdco. See section headed “Contractual Arrangements — Our Contractual Arrangements — Exclusive Option Agreement” in the Prospectus.

The Registered Shareholders executed powers of attorney in favor of the WFOE, for the exercise of all shareholders’ rights in the Onshore Holdco. See section headed “Contractual Arrangements — Our Contractual Arrangements — Shareholder’s Rights Entrustment Agreement and Powers of Attorney” in the Prospectus.

The Registered Shareholders granted security interests in favor of the WFOE, over the entire equity interests in the Onshore Holdco. See section headed “Contractual Arrangements — Our Contractual Arrangements — Share Pledge Agreement” in the Prospectus.

- (3) Onshore Holdco holds, among others, 100% of the equity interests of Yinchuan JD Online Hospital and Jiangsu Jingdong Hongyuan. Onshore Holdco also holds 100% of the equity interest of Jingdong Shanyuan which holds 100% of the equity interest of Jingdong Pharmacy Qingdao. Jingdong Pharmacy Qingdao holds, among others, 100% of the equity interests of Jingdong Pharmacy Taizhou.

## Report of the Directors (Continued)

### Risks relating to the Contractual Arrangements

We believe the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 76 to 82 of the Prospectus.

- If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.
- We rely on Contractual Arrangements with our Onshore Holdco and its shareholders for a portion of our business operations, which may not be as effective as direct ownership in providing operational control.
- Any failure by our Onshore Holdco or its shareholders to perform their obligations under our Contractual Arrangements with them would have a material and adverse effect on our business.
- The shareholders of our Onshore Holdco may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.
- PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and Consolidated Affiliated Entities or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.
- Contractual Arrangements in relation to our Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our Consolidated Affiliated Entities owe additional taxes, which could negatively affect our financial condition and the value of your investment.
- Our current corporate structure and business operations may be affected by the Foreign Investment Law.

Our Group works closely with the Registered Shareholders and our external legal counsels and advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements.

### Summary of the major terms of the Contractual Arrangements

The Contractual Arrangements which were in place during the period from September 17, 2020 to December 31, 2020 and a description of the specific agreements that comprise the Contractual Arrangements is set out below:

#### **Exclusive Business Cooperation Agreement**

The Onshore Holdco entered into an exclusive business cooperation agreement with the WFOE on September 17, 2020 (the “**Exclusive Business Cooperation Agreement**”), pursuant to which the Onshore Holdco agrees to engage WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment leasing, market consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Under these arrangements, the service fees, subject to the WFOE’s adjustment, are equal to all of the net profit of Consolidated Affiliated Entities. The WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Consolidated Affiliated Entities from previous financial periods, which will be wired to the designated account of the WFOE upon issuance of payment notification by the WFOE. The WFOE enjoys all the economic benefits derived from the businesses of Consolidated Affiliated Entities and bears the relevant portion of the business risks of the Onshore Holdco. If the Onshore Holdco runs into financial deficit or suffers severe operation difficulties, the WFOE will provide financial support to the Onshore Holdco. Intellectual property rights are developed during the normal course of business of the Onshore Holdco and its subsidiaries. Pursuant to the Exclusive Business Cooperation Agreement, the WFOE will have the exclusive and proprietary rights to all intellectual properties developed by the Onshore Holdco and its subsidiaries, given that the WFOE provides consultation services to the Onshore Holdco and its subsidiaries during the term of the Exclusive Business Cooperation Agreement. Part of the economic benefits generated by the Onshore Holdco and its subsidiaries will be intellectual properties developed or created during the normal business operation of the Onshore Holdco and its subsidiaries. Though we do not intend to transfer any existing intellectual property rights held by the Onshore Holdco to the WFOE, the Onshore Holdco is required under the Contractual Arrangements to obtain the WFOE’s prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party.

Unless otherwise terminated early by the WFOE, the Exclusive Business Cooperation Agreement will remain effective unless terminated in the event that (a) the entire equity interests held by the Registered Shareholders in the Onshore Holdco or the entire assets of the Onshore Holdco have been transferred to the WFOE; (b) in accordance with the other provisions of the Exclusive Business Cooperation Agreement.

#### **Exclusive Option Agreement**

The Onshore Holdco and the Registered Shareholders entered into an exclusive option agreement with the WFOE dated September 17, 2020 (the “**Exclusive Option Agreement**”), pursuant to which the WFOE (or our Company or any subsidiary of our Company, the “designee”) is granted an irrevocable and exclusive right to purchase all of the equity interest in and/or assets of the Onshore Holdco for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws

## Report of the Directors (Continued)

and regulations, the Registered Shareholders and/ or the Onshore Holdco shall return any amount of purchase price they have received to the WFOE or its designee. At the WFOE's request, the Registered Shareholders will promptly and unconditionally transfer their respective equity interests in and/or the relevant assets of the Onshore Holdco to the WFOE (or its designee) after the WFOE exercises its purchase right. Unless otherwise terminated early by the WFOE through written notice, the Exclusive Option Agreement will remain effective until when all the purchased equity interests are transferred to the WFOE and/or the designee and the WFOE and its subsidiaries have the right to legally conduct the business of the Onshore Holdco according to the PRC law.

In order to prevent the flow of the relevant assets and value of the Onshore Holdco and its subsidiaries to the Registered Shareholders, during the term of the Exclusive Option Agreement, the Onshore Holdco is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of the WFOE. In addition, the Registered Shareholders are not allowed to request for any distributions, gains or other form of profits sharing and should forgo such distributions, gains or any other form of profits sharing within the scope permitted by the PRC law. In the event that the Registered Shareholders receive any distribution from the Onshore Holdco and/or its subsidiaries and subject to the PRC laws, the Registered Shareholders must immediately pay or transfer such distribution to the WFOE (or its designee). If the WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of the Onshore Holdco acquired would be transferred to the WFOE and the benefits of equity ownership and/or assets, as applicable, would flow to us and our Shareholders.

As provided in the Exclusive Option Agreement, without the prior written consent of the WFOE, the Onshore Holdco shall not, and shall procure its subsidiaries not to, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets for a value more than RMB1 million; (ii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business and any contracts entered into with any members of our Group; (iii) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party create any pledge or other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of the Onshore Holdco or not disclosed and consented to by the WFOE; (v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; (vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way. The Exclusive Option Agreement provides that the Registered Shareholders and the Onshore Holdco shall procure the subsidiaries of the Onshore Holdco to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOE and us in the event of any loss suffered from the Onshore Holdco and/or its subsidiaries can be limited to a certain extent.

### **Loan Agreement**

Pursuant to the loan agreement dated September 17, 2020 between the WFOE and the Registered Shareholders (the "**Loan Agreement**"), the WFOE made loans in an aggregate amount of RMB1 million to the Registered Shareholders solely for the capitalization of the Onshore Holdco. Pursuant to the Loan Agreement, the Registered Shareholders can only repay the loans by the sale of all their equity interest in the Onshore Holdco to the WFOE or its designated person. The Registered Shareholders must sell all of their equity interests

in the Onshore Holdco to the WFOE or its designated person and pay all of the proceeds from sale of such equity interests or the maximum amount permitted under PRC law to the WFOE. In the event that Registered Shareholders sell their equity interests to the WFOE or its designated person with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to the WFOE as the loan interest. The maturity date of the loans is on the tenth anniversary of the date when the Registered Shareholders received the loans and paid the amount as capital contribution to the Onshore Holdco. The term of the loans will be extended automatically for an additional 10 years, unless the WFOE objects, for an unlimited number of times. The loan must be repaid immediately under certain circumstances, including, among others, (i) if any other third-party claims against Registered Shareholders for an amount more than RMB100,000 and the WFOE has reasonable ground to believe that the shareholders are unable to repay the claimed amount, (ii) if a foreign investor is permitted to hold majority or 100% equity interest in the Onshore Holdco and the WFOE elects to exercise its exclusive purchase option, or (iii) if the loan agreement, relevant share pledge agreement or exclusive option agreement terminates for cause not attributable to the WFOE or is deemed to be invalid by a court.

### **Shareholders' Rights Entrustment Agreement and Powers of Attorney**

Pursuant to the shareholder's rights entrustment agreement entered into among the Registered Shareholders, the WFOE and the Onshore Holdco on September 17, 2020 (the "**Shareholders' Rights Entrustment Agreement**"), and the irrevocable power of attorney executed by each of the Registered Shareholders on the same day (the "**Power of Attorney**"), whereby the Registered Shareholders appointed the WFOE or a director of its offshore holding company or his or her successor (including a liquidator replacing the WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning the Onshore Holdco and to exercise all of its rights as a registered shareholder of the Onshore Holdco. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of the Onshore Holdco. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of the Onshore Holdco on behalf of the Registered Shareholders. The Registered Shareholders have each undertaken to transfer all assets obtained after the winding up of the Onshore Holdco to the WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws. As a result of the Shareholders' Rights Entrustment Agreement and the Powers of Attorney, we, through the WFOE, are able to exercise management control over the activities that most significantly impact the economic performance of the Onshore Holdco.

The Shareholders' Rights Entrustment Agreement also provided that, in order to avoid potential conflicts of interest, where the Registered Shareholders are officers or directors of our Group, the powers of attorney are granted in favor of other unrelated officers or the Directors of our Company.

The Shareholders' Rights Entrustment Agreement and the Powers of Attorney shall automatically terminate once the WFOE (or any member of our Group other than the Onshore Holdco and their respective subsidiaries) directly holds the entire equity interests in and/or the entire assets of the Onshore Holdco once permitted under the then PRC laws and the WFOE (or its subsidiaries) is allowed to conduct the relevant businesses under the then PRC laws, following which the WFOE is registered as the sole shareholder of the Onshore Holdco.

## Report of the Directors (Continued)

### Share Pledge Agreement

The Onshore Holdco, the Registered Shareholders and the WFOE entered into a share pledge agreement on September 17, 2020 (the “**Share Pledge Agreement**”). Under the Share Pledge Agreement, the Registered Shareholders will pledge as first charge all of their respective equity interests in the Onshore Holdco to the WFOE as collateral security for any or all of their payments due to the WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Loan Agreement and the Powers of Attorney. The Share Pledge Agreement will not terminate until (i) all obligations of the Onshore Holdco and the Registered Shareholders are satisfied in full; (ii) the WFOE exercises its exclusive option to purchase the entire equity interests held by the Registered Shareholders in the Onshore Holdco and/or the entire assets of the Onshore Holdco pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws; (iii) the WFOE exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Registered Shareholders may transfer or permit the encumbrance of any of their equity interests in and the relevant assets of the Onshore Holdco (including any equity interests in and the relevant assets of the subsidiaries of the Onshore Holdco) without the WFOE’s prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, the WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of the Onshore Holdco, which further strengthens the protection of the WFOE’s interests over the Onshore Holdco under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to the WFOE’s satisfaction within 30 days upon being notified by the WFOE, the WFOE may demand that the Registered Shareholders and/or the Onshore Holdco immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to the WFOE. The pledges under the Share Pledge Agreement has been registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended December 31, 2020.

### The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restriction

All of the Contractual Arrangements are subject to the restrictions as set out on pages 197 to 214 of the Prospectus. During the period from September 17, 2020 to December 31, 2020, there was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted, and none of the Contractual Arrangements had been unwound as the regulatory restrictions that led to their adoptions were not removed.

### Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Richard Qiangdong Liu (劉強東) and Pang Zhang (張雲), are connected persons of the Group. As of the Latest Practicable Date, Richard Qiangdong Liu (劉強東) holds more than 50% of the voting power entitled to be exercised in the general meetings of JD.com, one of our Controlling Shareholders, and Pang Zhang (張雲) is the Director of our Company.

## Report of the Directors (Continued)

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### Waiver from the Stock Exchange and annual review

The Stock Exchange has granted the Company a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject to the following conditions:

- (a) no change without independent non-executive Directors' approval;
- (b) no change without independent Shareholders' approval;
- (c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;
- (d) the Contractual Arrangements may be renewed and/or reproduced upon expiry or when justified by business expediency, without obtaining Shareholders' approval, on substantially the same terms and conditions as the Contractual Arrangements; and
- (e) our Group will disclose details relating to the Contractual Arrangements on an ongoing basis.

### Confirmation from independent non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended December 31, 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2020, (iii) no new contracts were entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the period from the Listing Date to December 31, 2020, and (iv) the Contractual Arrangements were entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the relevant agreement governing the Contractual Arrangements on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

## Report of the Directors (Continued)

### Confirmations from the Company's Independent Auditor

The Auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2020:

- (a) nothing has come to their attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board; and
- (b) nothing has come to their attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions.

### Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses overseas (the "**Qualification Requirements**"). Enterprises engaged in value-added telecom business in the PRC with foreign investors that meet these requirements must obtain approvals from MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements.

### Efforts and Actions Undertaken to Comply with the Qualification Requirements

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China. We have taken the following measures to meet the Qualification Requirements:

- For the purposes of establishing and expanding our operations overseas, we are planning to incorporate or acquire one or more offshore entities to be engaged in value-added telecom services outside the PRC.
- We registered a number of domain names in various jurisdictions including jdhealth.hk, and has, through our affiliates, submitted for registration a number of trademarks (including "京东健康" and "JDH") which will (upon their successful registration) be licensed to us for our business operations.
- We are planning to construct an overseas website that will help potential overseas users to better understand our services and businesses.

As of December 31, 2020, we have no update to disclose in respect of the Qualification Requirements.



### **Pre-emptive rights**

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

### **Tax relief and exemption**

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

### **Auditor**

The consolidated financial statements of the Group have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

### **Purchase, sale or redemption of the Company's listed securities**

During the year ended December 31, 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### **Public float**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practicable Date, the Company has maintained the prescribed percentage of public float under the Listing Rules.

### **Important events after reporting date**

Save as disclosed above, there were no important events affecting the Company which occurred after December 31, 2020 and up to the Latest Practicable Date.

By the order of the Board

**Richard Qiangdong Liu**

*Chairman*

Hong Kong, March 29, 2021

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the period from the Listing Date to December 31, 2020.

## **Corporate governance practices**

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders.

During the period from the Listing Date to December 31, 2020 (the "**Review Period**"), the Company has adopted and complied with all the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, except as disclosed in this Corporate Governance Report.

## **Directors' securities transactions**

The Company has adopted the Insider Trading Policy on terms no less exacting than those set out in the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry with all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Insider Trading Policy during the Review Period.

## Corporate Governance Report (Continued)

### Board of Directors

#### Board Composition

The Board currently comprises nine members consisting of one executive Director, five non-executive Directors and three independent non-executive Directors. The details of the Board composition are as follows:

| Name of Director   | Membership of Board Committee(s)  |
|--|---|
| <b>Executive Director:</b><br>Lijun Xin (辛利軍) ( <i>Chief Executive Officer</i> )   |   |
| <b>Non-executive Directors:</b><br>Richard Qiangdong Liu (劉強東) ( <i>Chairman</i> )<br>Lei Xu (徐雷)<br>Sandy Ran Xu (許冉)<br>Pang Zhang (張甯) <sup>1</sup><br>Yayun Li (李婭雲) <sup>2</sup><br>Qingqing Yi | Chairperson of the Nomination Committee<br>Member of the Audit Committee<br>Member of the Remuneration Committee<br>Member of the Remuneration Committee  |
| <b>Independent non-executive Directors:</b><br>Xingyao Chen (陳興堯)<br><br>Ling Li (李玲)<br><br>Jiyu Zhang (張吉豫) <sup>3</sup><br><br>Wenyi Huang (黃文藝) <sup>4</sup>                                     | Chairperson of the Audit Committee<br>Chairperson of the Remuneration Committee<br>Member of the Remuneration Committee<br>Member of the Nomination Committee<br>Member of the Audit Committee<br>Member of the Nomination Committee<br>Member of the Audit Committee<br>Member of the Nomination Committee |

Notes:

- 1 Pang Zhang (張甯) was appointed as a non-executive Director effective on March 29, 2021.
- 2 Yayun Li (李婭雲) resigned as non-executive Director effective on March 29, 2021.
- 3 Jiyu Zhang (張吉豫) was appointed as an independent non-executive Director effective on March 29, 2021.
- 4 Wenyi Huang (黃文藝) resigned as independent non-executive Director effective on March 29, 2021.

The biographical information of the Directors and the relationships between the members of the Board are disclosed under the section headed "Directors and Senior Management" on pages 23 to 28 of this annual report.

None of the members of the Board is related to one another.

## Corporate Governance Report (Continued)

### Chairman and chief executive officer

The positions of chairman and chief executive officer are held by Mr. Richard Qiangdong Liu (劉強東) and Mr. Lijun Xin (辛利軍), respectively. The chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Company's business development and the daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

### Independent non-executive Directors

During the Review Period, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers each of the independent non-executive Directors to be independent.

### Terms of appointment of non-executive Directors

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, all the directors are subject to retirement by rotation at least once every three years. Any new director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial period of three years from the date of the Prospectus or from the date of the Prospectus until the third annual general meeting of the Company since the Listing (whichever ends sooner) or for an initial period of three years from the date of appointment. Such appointments are subject to retirement as and when required under the Articles of Association, on and subject to the terms and conditions specified in the relevant letter of appointment.

### Responsibilities, accountabilities and contributions of the Board and management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.



## Corporate Governance Report (Continued)

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the business of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

### Continuous professional development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for the Directors would be arranged and reading material on relevant topics would be provided to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

## Corporate Governance Report (Continued)

During the year ended December 31, 2020, the key methods of attaining continuous professional development by each of the Directors are recognized as follows:

| <b>Name of Director</b>                    | <b>Participated in continuous professional training<sup>(1)</sup></b> |
|--|---|
| <b>Executive Director</b>                  |   |
| Lijun Xin (辛利軍)                            | √   |
| <b>Non-Executive Directors</b>             |   |
| Richard Qiangdong Liu (劉強東)                | √   |
| Lei Xu (徐雷)                                | √   |
| Sandy Ran Xu (許冉)                          | √   |
| Pang Zhang (張雱) <sup>(2)</sup>             | —   |
| Yayun Li (李姪雲) <sup>(3)</sup>              | √   |
| Qingqing Yi                                | √   |
| <b>Independent Non-Executive Directors</b> |   |
| Xingyao Chen (陳興垚)                         | √   |
| Ling Li (李玲)                               | √   |
| Jiyu Zhang (張吉豫) <sup>(4)</sup>            | —   |
| Wenyi Huang (黃文藝) <sup>(5)</sup>           | √   |

Notes:

- (1) Attended training/seminar/conference arranged by the Company or other external parties or read relevant materials.
- (2) Pang Zhang (張雱) was appointed as a non-executive Director effective on March 29, 2021. Accordingly, she did not attend the training arranged by the Company held during the year ended December 31, 2020.
- (3) Yayun Li (李姪雲) resigned as non-executive Director effective on March 29, 2021.
- (4) Jiyu Zhang (張吉豫) was appointed as an independent non-executive Director effective on March 29, 2021. Accordingly, she did not attend the training arranged by the Company held during the year ended December 31, 2020.
- (5) Wenyi Huang (黃文藝) resigned as independent non-executive Director effective on March 29, 2021.

### Board meetings, general meetings and Committee meetings

Code provision A.1.1 of the CG Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The Company was only listed on the Listing Date and no Board meeting and general meeting were held during the Review Period.

The Board will make arrangements for holding at least four regular Board meetings and a meeting between the chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors once a year.

## Corporate Governance Report (Continued)

### Attendance records of Directors

During the Review Period, the attendance record of each Directors at Board and committee meetings is detailed in the table below.

| Name of Director               | Attendance/No. of Meeting(s) |                 |                        |                      |
|--------------------------------|------------------------------|-----------------|------------------------|----------------------|
|                                | Board                        | Audit Committee | Remuneration Committee | Nomination Committee |
| Lijun Xin (辛利軍)                | Nil                          | —               | —                      | —                    |
| Richard Qiangdong Liu (劉強東)    | Nil                          | —               | —                      | Nil                  |
| Lei Xu (徐雷)                    | Nil                          | —               | —                      | —                    |
| Sandy Ran Xu (許冉)              | Nil                          | Nil             | —                      | —                    |
| Pang Zhang (張雱) <sup>1</sup>   | —                            | —               | —                      | —                    |
| Yayun Li (李姪雲) <sup>2</sup>    | Nil                          | —               | Nil                    | —                    |
| Qingqing Yi                    | Nil                          | —               | —                      | —                    |
| Xingyao Chen (陳興堯)             | Nil                          | Nil             | Nil                    | —                    |
| Ling Li (李玲)                   | Nil                          | —               | Nil                    | Nil                  |
| Jiyu Zhang (張吉豫) <sup>3</sup>  | —                            | —               | —                      | —                    |
| Wenyi Huang (黃文藝) <sup>4</sup> | Nil                          | Nil             | —                      | Nil                  |

Notes:

- 1 Pang Zhang (張雱) was appointed as a non-executive Director effective on March 29, 2021. Accordingly, she was not entitled to attend any Board and other committee meetings held during the Review Period.
- 2 Yayun Li (李姪雲) resigned as non-executive Director effective on March 29, 2021.
- 3 Jiyu Zhang (張吉豫) was appointed as an independent non-executive Director effective on March 29, 2021. Accordingly, she was not entitled to attend any Board and other committee meetings held during the Review Period.
- 4 Wenyi Huang (黃文藝) resigned as independent non-executive Director effective on March 29, 2021.

The Company was only listed on the Listing Date, and notwithstanding code provision A.2.7 of the CG Code, the chairman of the Board did not hold meetings with the independent non-executive Directors without the presence of executive Directors during the Review Period.

### Board Committees

The Board has established three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing specific aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

## Corporate Governance Report (Continued)

### Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and provide advice and comments to the Board. As of the date of this annual report, the Audit Committee comprises three members, namely Sandy Ran Xu (許冉), Xingyao Chen (陳興垚) and Jiyu Zhang (張吉豫), Sandy Ran Xu (許冉) is a non-executive Director, and Xingyao Chen (陳興垚) and Jiyu Zhang (張吉豫) are independent non-executive Directors. Xingyao Chen (陳興垚) is the chairperson of the Audit Committee. Jiyu Zhang (張吉豫) was appointed to, and Wenyi Huang (黃文藝) resigned from, the Audit Committee on March 29, 2021.

The Audit Committee is mainly responsible for, inter alia, the following matters:

- assisting the Board in reviewing the financial information and reporting process of the Company;
- monitoring and reviewing risk management and internal control systems of the Company through the internal audit department;
- reviewing the effectiveness of the internal audit function of the Company;
- reviewing the scope of audit and appointment of external auditor of the Company; and
- supervising internal investigation and reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on the Listing Date, the Audit Committee did not hold a meeting during the Review Period. The Audit Committee reviewed the annual results announcement and the annual report of the Group for year ended December 31, 2020 on March 29, 2021. During the meeting, the Audit Committee also reviewed the significant issues on the financial reporting, operational and compliance matters, risk management and internal control systems and internal audit function, scope of work and appointment of external auditor and connected transactions.

### Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. As of the date of this annual report, the Remuneration Committee comprises three members, namely Pang Zhang (張雱), Xingyao Chen (陳興垚) and Ling Li (李玲). Pang Zhang (張雱) is a non-executive Director, and Xingyao Chen (陳興垚) and Ling Li (李玲) are independent non-executive Directors. Xingyao Chen (陳興垚) is the chairperson of the Remuneration Committee. Pang Zhang (張雱) was appointed to, and Yayun Li (李姪雲) resigned from, the Remuneration Committee on March 29, 2021.



## Corporate Governance Report (Continued)

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The primary functions of the Remuneration Committee include:

- reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- reviewing and make recommendations to the Board on the remuneration of the non-executive Directors;
- reviewing and make recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management; and
- establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

As the Company was listed on the Stock Exchange on the Listing Date, the Remuneration Committee did not hold a meeting during the Review Period.

Details of the fees and other emoluments paid or payable to the Directors for the year ended December 31, 2020 are set out in Note 9 to the audited consolidated financial statements contained in this annual report.

The remuneration of the members of the senior management (including the executive Director) by band for the year ended December 31, 2020 is set out below:

|                                 | <b>Number of members of the senior management</b> |
|---------------------------------|---|
| Nil to RMB50,000,000            | 1   |
| RMB50,000,001 to RMB100,000,000 | 1   |
| Total                           | 2   |

## Corporate Governance Report (Continued)

### Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. As of the date of this annual report, the Nomination Committee comprises three members, namely Richard Qiangdong Liu (劉強東), Jiyu Zhang (張吉豫) and Ling Li (李玲). Richard Qiangdong Liu (劉強東) is a non-executive Director, and Jiyu Zhang (張吉豫) and Ling Li (李玲) are independent non-executive Directors. Richard Qiangdong Liu (劉強東) is the chairperson of the Nomination Committee. Jiyu Zhang (張吉豫) was appointed to, and Wenyi Huang (黃文藝) resigned from, the Nomination Committee on March 29, 2021.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board as per the Company's Board Diversity Policy;
- developing and formulating relevant procedures for the nomination and appointment of Directors;
- making recommendations to the Board on the appointment and succession planning of Directors; and
- assessing the independence of independent non-executive Directors.

As the Company was listed on the Stock Exchange on the Listing Date, the Nomination Committee did not hold a meeting during the Review Period.

### Board Diversity Policy

The Company has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a director of the Company, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. Pursuant to the Board Diversity Policy, the Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. The Board Diversity Policy is well implemented as evidenced by the fact that there are both female and male Directors ranging from 32 years old to 59 years old with experience from different industries and sectors. The Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, e-commerce, engineering, finance, law and computer science. They obtained degrees in various areas including business administration, economics, computer science and technology. The Board is characterised by significant diversity in terms of gender, age, education background and professional experience.

## Corporate Governance Report (Continued)

### Director Nomination Policy

In accordance with code provision L(d)(ii) of the amended CG Code, the Company has adopted a director nomination policy for election of directors (the “**Director Nomination Policy**”) on March 29, 2021.

According to the Director Nomination Policy:

Such policy sets out the criteria and procedure in the nomination and appointment of Directors, and ensures that the Board will maintain a balance of skills, experience and diversity of perspectives appropriate to the Company. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing Board effectiveness and diversity.

According to the Director Nomination Policy:

- (i) the Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee;
- (ii) the Nomination Committee shall identify, consider and recommend suitable individuals to the Board to consider and to make recommendations to the Shareholders for election of Directors at a general meeting;
- (iii) in assessing the suitability and the potential contribution to the Board of a proposed candidate, the Nomination Committee may make reference to certain selection criteria, such as integrity, professional qualifications and skills, commitment in respect of available time, and diversity in all aspects; and
- (iv) the Nomination Committee shall make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

### Corporate governance functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board would review the Company’s corporate governance policies and practices, training and continuous professional development of the directors and the senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, and the Company’s compliance with the CG Code and disclosure in this Corporate Governance Report. The Board has performed the above duties during the Review Period.

### Directors’ responsibility in respect of the consolidated financial statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company during the Review Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

The statement of the independent auditor of the Company, Deloitte Touche Tohmatsu, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor’s Report on pages 83 to 86 of this annual report.

## Corporate Governance Report (Continued)

### Dividend Policy

In accordance with code provision E.1.5 of the amended CG Code, the Company adopted a dividend policy (the “**Dividend Policy**”) on November 23, 2020, which outlines the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders.

According to the Dividend Policy:

1. Subject to Cayman Islands company law and the Articles of Association of the Company (as amended from time to time), the Board has absolute discretion on whether to declare and distribute dividends. In addition, the Shareholders in general meeting may declare dividends but no dividend may be declared in excess of the amount recommended by the Board. In either case, a dividend may only be declared and paid out of the profits and reserves of the Company that are lawfully available for distribution (including share premium), and in no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. Even if the Board decides to pay dividends, the form, frequency and amount of dividends will depend on the Company’s future operations and earnings, capital requirements and surplus, cash flows, general financial condition, contractual restrictions and other factors that the Board considers relevant.
2. Any future dividend payments to Shareholders will also depend upon the availability of dividends received from the subsidiaries of the Company. Regulations in China may restrict the ability of the Company’s PRC subsidiaries to pay dividends to the Company.
3. If the Company pays any dividends on the Shares, unless and to the extent that the rights attached to the Shares or the terms of issue thereof otherwise provide, (i) all dividends will be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on Shares in advance of calls may for this purpose be treated as paid up on the Shares, and (ii) all dividends will be apportioned and paid pro rata according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any of the Shareholders all sums of money (if any) presently payable by such Shareholders to the Company on account of calls, instalments or otherwise.
4. Any final dividend for a financial year will be subject to Shareholders’ approval. The Company may declare and pay dividends in cash or by shares. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Company’s Articles of Association and all applicable laws and regulations.
5. The Company does not have a fixed dividend payout ratio. The Company currently intends to recommend dividends commensurate with the industry average level, while maintaining adequate reserves for its operations, expansion and future growth. The Dividend Policy reflects the Board’s current views on the Company’s financial position. The Board will continue to review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount, if at all, for any given period.

## Risk management and internal control

### Risk management and internal control

Risk management is one of the core competitive competencies of the Company's business. We are committed to achieving a consistent standard of strict and effective risk management and internal control to promote the efficiency of the organization's operations, reduce the risk of asset loss, and assure, to a satisfactory degree, reliable financial reporting and compliance with laws and regulations.

The Board of Directors is responsible for the Group's risk management and internal control system and reviews the effectiveness of this system. This system is designed to manage, though not entirely eliminate, the risk of failing to achieve business objectives, and provides a satisfactory, albeit not absolute, assurance against material misrepresentations or losses. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's risk management and internal control system on an annual basis.

The Board has completed the review of the effectiveness of the Group's risk management and internal control system in fiscal year of 2020, and believes that for the year ended December 31, 2020, (a) the Group has adequate and effective internal audit functions to continuously monitor the success of its risk management and internal control system; and (b) the Group's risk management and internal control system is effective.

### Organization chart for risk management and internal control

The Group's framework for risk management and internal control includes three levels: governance, management and executive. The roles and reporting relationships of the different levels are illustrated below:



## Corporate Governance Report (Continued)

The business team assumes the main responsibility for carrying out internal control activities. To ensure that risk management measures are implemented effectively, the Group has maintained a strict internal control system as well as formulated and issued an employees' code of conduct. It has also adopted mechanisms including, but not limited to, internal inspection, risk management performance appraisal, a policy of joint accountability and rewards for risk-reporting.

The risk management teams, including the operational quality control team, finance team, legal affairs team, risk control team and information security team, monitor the Company's daily operations and business development. Every year, for major risk areas, the risk management teams and the management of each business team jointly discuss and conduct risk identification and risk assessment. They also formulate risk response measures that serve as the main guide for risk management and internal control work for the following fiscal year.

The internal audit team regularly evaluates the effectiveness of the risk management and internal control system and its implementation. The internal audit team also reports to the Audit Committee and senior management on its conclusions and the major internal control deficiencies identified.

On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's risk management and internal control system on an annual basis. The review procedures include, among other things, taking in inputs from the business teams, risk management teams, internal audit team and external auditors, reviewing relevant work reports of various departments and discussions with senior management on significant changes in risks and significant internal control deficiencies. In addition, the Audit Committee holds meetings every year to consult on, *inter alia*, the conclusions from its review on the effectiveness of the risk management and internal control system, solutions to major internal control deficiencies, the Group's major risk assessment results and the annual risk management and internal control proposal.

The Group conducts various types of risk management-related trainings every year to enhance its employees' risk awareness and ability to manage risks. The topics covered in the trainings include, among other things, external regulations, the Company's business process specifications, standards for employee conduct and network security.

### Risk management procedures

The procedures used by the Group to identify, assess and manage significant risks are as follows:

- Risk identification — Based on the Group's risk management objectives, the management level, from the standpoint of major areas such as strategic management, operations, finance, legal compliance, information technology and data security, human resources, reputation management and disaster management, identifies risk factors that affect the Group's realization of its objectives.
- Risk assessment — Regarding inherent risks and residual risks, the management, based on the two dimensions of probability and impact, further analyzes, qualitatively evaluates and scores the risks, ranking the risks on a scale of "high", "medium" and "low".
- Risk response — Risk response strategies include risk avoidance, risk transfer, mitigation and acceptance. Based on the risk identification and assessment results, the management selects appropriate response strategies and formulates measures to address specific risks.

## Corporate Governance Report (Continued)

- Risk monitoring — Through ongoing supervision, combining continuous monitoring and individual evaluation, the management team continuously evaluates the quality of the internal control system and makes adjustments when necessary.
- Risk reporting — This involves upward and downward reporting and parallel communication of information regarding risks. Risk reporting includes reporting on the effectiveness of risk management and internal control system to the Group's management, the Board of Directors and its Audit Committee. Downward reporting and parallel communication refers to communication with and providing feedback to various business teams on risk matters.

### Dealings with and disseminating inside information

The Group has adopted adequate and effective internal control measures to regulate dealings with and the dissemination of inside information. These measures also serve to prohibit the unauthorized access to and use of inside information, and to ensure that dealings with and the dissemination of inside information by the Group meets the requirements of the Securities and Futures Ordinance.

### Important risks

This year, the risk management team and the management of each business team have jointly discussed, identified, assessed and formulated response measures for important risks in various fields to guide risk management and internal control for the 2021 fiscal year. The important risks ranked as "high" are summarized below.

### Compliance risks and medical risks

The Group operates its main business in a heavily regulated environment. Due to the complexity of the Group's business and given that the "Internet + Healthcare" sector falls under an emerging industry, we face extensive and evolving regulatory requirements, including regulatory requirements regarding the internet, medical and healthcare, drug sales, advertising and other industries. If we violate any regulatory requirements or fail to timely understand, evaluate and take countermeasures in response to changing regulatory requirements, we will be subject to penalties, which will adversely affect the realization of the Group's strategic objectives, brand reputation and business continuity. In addition, with the development of our business, the number of in-house doctors and external doctors is gradually increasing. Failure to improve our organizational management system and insufficient medical personnel management may lead to challenges in managing the quality of medical services and may expose the Group to medical liability claims, adversely affecting the Group's business development and operating performance.

The Group is committed to regulatory compliance in its business development and operations, and has established stringent business process standards and internal control systems. For key areas that are regulated, specialized departments will continuously and more rigorously review the effectiveness of the control system and its implementation to ensure that the Company's operation and business development meet regulatory requirements. We have set up professional teams including teams for operation quality control, finance, legal affairs, risk control and information security, which pay attention at all times to regulatory changes in various fields, understand new regulatory requirements in a timely manner, and convey them to the business teams. These professional teams work jointly with the business teams to evaluate the impact of the new regulatory requirements on the Group's business, pre-emptively deploy business adjustments and response plans, and ensure business continuity.

## Corporate Governance Report (Continued)

To cope with the uncertainty in the interpretation and implementation of new policies, we actively participate in information sharing channels organized by the government and regulatory agencies to feedback industry information. At the same time, we employ external experts in various fields to extensively gather professional opinions on legislative interpretation to ensure full implementation of the new regulatory requirements.

The Group also emphasizes the importance of quality control for our doctor service business. The Group has therefore established a management team composed of professionals. It has also set recruitment standards and conducted performance assessments of incentive schemes for doctors. In addition, for online medical services, the Group improves and controls service quality through multi-level training and quality control. As indicated in our prospectus, we also insure the medical liability risks involved in related businesses.

### Information technology and data security risks

We are highly dependent on internet technology to provide high-quality online medical services. The Group's business will generate and process a large amount of personal, transaction, group and behavioral data, which are private and sensitive. Information system failures, network security vulnerabilities, user data leaks, loss or tampering will adversely affect the Group's reputation and business development. Particularly in the field of network security and personal healthcare data security, relevant regulatory requirements are constantly updated and increasingly stringent. If the Group fails or is deemed to fail to comply with relevant laws and regulations, we will be subject to punishment, which will have a significant negative impact on the Group's reputation and business prospects.

The Group is committed to improving system stability and protecting user data security, and has formulated and implemented strict data management standards and internal control measures. These include, but are not limited to:

- (i) investing a large amount of resources into system development, adopting powerful encryption algorithms, establishing security procedures and warning systems and continuously improving system reliability and security;
- (ii) Recording logs for all data access, modification, extraction and transmission on a daily basis, with a specialized data security team already established to continuously monitor the system's stability, ensure that data access, modification, extraction and transmission complies with internal policies and report any abnormalities or illegitimate operations to the management in a timely manner;
- (iii) formulating emergency plans and disaster recovery plans for interruptions to information system operations, conducting full data link stress tests and system safety drills on a regular basis to maintain system operations and continuously enhance the system's ability to rapidly respond to unexpected risk events;
- (iv) establishing a data backup system, regularly encrypting and storing data, carrying out backup recovery tests and checking the condition of the backup system to reduce the risk of data loss; and
- (v) implementing a mechanism for shift duty rotations, separating incompatible duties for data management personnel and organizing regular trainings for employees on information security and data protection.





## Corporate Governance Report (Continued)

### Competitive risks

China's internet healthcare industry is still in the early stages of development. There is fierce competition and great uncertainty in the industry's evolution and regulatory environment. Significant moves by major operators, new innovations in business models and new competition may all adversely affect the Group's competitive advantage and market position.

We continue to carry out our corporate mission, implement our business strategy, and maintain our competitive advantage. The Group's senior management has always been committed to innovating and diversifying business decisions and operational strategies. In the process of firmly implementing the Group's strategy, we have made great efforts to accumulate and build our core competitive advantages. The Group has deployed a professional team to conduct in-depth analyses of the competition in the industry, so that the Group's management can make informed decisions to deal with the risks of competition. The heads of the business sectors pay close attention to competition in their own sectors and report insights and judgments at regular senior management meetings.

### Risk of COVID-19 outbreak

In December 2019, a novel coronavirus appeared in Wuhan, China, named COVID-19 by the World Health Organization. After the outbreak of COVID-19, in order to curb the spread of the disease, strict prevention and control measures, including compulsory quarantine arrangements, travel restrictions, working staff arrangements and restrictions on public activities, were enforced in China. Domestic commercial activities were restricted, and many companies, production facilities and factories were temporarily closed. With the spread and outbreak of COVID-19 around the world, the global economy is facing tremendous downward pressure. At present, although the epidemic has been effectively controlled in China, the prospect of containing the epidemic globally is still bleak. The duration and impact of the epidemic are also difficult to predict. If the COVID-19 epidemic resurfaces repeatedly or continues to spread, the global economic situation will further deteriorate and market volatility will be aggravated, adversely affecting the business development and operating performance of the Group.

After the outbreak of COVID-19, the Group actively cooperated with the national epidemic prevention policy, adjusted its working mode, arranged for employees to work from home, and provided masks and protective equipment for frontline employees. At this stage, the domestic epidemic has been effectively controlled, and we have resumed work and normal operations. At present, we have formulated a comprehensive epidemic prevention plan and emergency plan. Furthermore, we have been continuously monitoring the development of the epidemic and the health of our employees, routinely ventilated and disinfected the office space, carry out nucleic acid tests and vaccination for employees, etc. to minimize the epidemic's disruption of our business activities and ensure business continuity. In the early stages of the COVID-19 epidemic, the demand for some of our healthcare products declined to some extent. With the development of the epidemic and the implementation of quarantine and travel control policies, more citizens have started to use online consultation, and their awareness of healthcare has improved significantly. This has led to the increasing demand for online medical and health services. At present, our main business has resumed steady growth.

## Corporate Governance Report (Continued)

During the fight against COVID-19, we actively pursued our commitment to corporate social responsibility — we fully utilized our core capabilities as an internet healthcare enterprise in supply chains, logistics, technology, services, etc. and fully supported the domestic anti-epidemic fight. After the outbreak, we immediately set up a working group with JD Group to lead anti-epidemic and rescue work. Such work included:

- (i) advocating and executing the Group’s public commitment to guarantee product supply on the platform without increasing prices;
- (ii) maintaining the uninterrupted operation of the platform through measures such as reducing commissions and exempting platform usage fees to reduce the economic burden on third-party businesses;
- (iii) meeting the booming public demand for online healthcare and drug distribution during the epidemic;
- (iv) developing and initiating various epidemic prevention services, such as launching a free doctor consultation and psychological counseling service platform;
- (v) becoming the first company in China to provide online registration for COVID-19 nucleic acid testing;
- (vi) assisting the Group to procure anti-epidemic materials such as medical protective supplies to facilitate in-kind donations to medical institutions, companies and social organizations in need, etc.

In the future, we will continue to work hand-in-hand with JD Group to fulfill our corporate social responsibility and provide support for possible medium-and long-term anti-epidemic work.

### Auditor’s remuneration

A breakdown of the remuneration paid/payable to the external Auditor of the Company, Deloitte Touche Tohmatsu, in respect of the audit services and the non-audit services for the year ended December 31, 2020 is set out below:

| <b>Service Category</b>  | <b>Fees Paid/Payable<br/>RMB’000</b> |
|--|--------------------------------------|
| Audit Services (including services in connection with the Listing) | 11,000                               |
| Non-audit Services*  | 5,980                                |
|  | 16,980                               |

\* Non-audit Services mainly include listing assistance services provided by reporting accountants, internal control consultation services and other listing related non-audit services.

### Company secretary

Chiu Ming King (趙明璟), our company secretary, is an executive director of Corporate Services of Vistra Corporate Services (HK) Limited. The biographical information of Mr. Chiu is disclosed under the section headed “Directors and Senior Management – Company Secretary” on page 28 of this annual report.

Mr. Chiu’s primary contact person at the Company is Dong Cao (曹冬), the chief financial officer of the Company.



## Corporate Governance Report (Continued)

During the year ended December 31, 2020, Mr. Chiu has complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

### Changes in constitutional documents

The Company had passed special resolution on 23 November 2020 to adopt an amended and restated memorandum and articles of association which came into effective from the Listing Date. Save as the above mentioned, there is no significant change in the Company's constitutional documents during the Review Period.

### Shareholders' rights

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an extraordinary general meeting by Shareholders

Pursuant to Article 12.3 of the Articles of Association, general meetings shall be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and signed by the requisitionist(s). If the Board does not within one month from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further one month, the requisitionist(s) themselves or any of them holding no less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

### Putting forward proposals at general meetings

The Board is not aware of any provisions allowing the Shareholders to put forward proposals at general meetings of the Company under the Articles of Association and the Companies Law of the Cayman Islands Law. Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

Detailed procedures for Shareholders to propose a person for election as a director of the Company are published on the Company's website.

### Putting forward enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

## Corporate Governance Report (Continued)

### Contact details

Shareholders may send their enquiries or requests as mentioned above to the following:

**Address:** 8th Floor, Building C,  
No. 18 Kechuang 11 Street,  
Yizhuang Economic and Technological Development Zone,  
Daxing District,  
Beijing 101111, People's Republic of China  
(For the attention of the Board of Directors/Company Secretary)

**Email:** ir-jdhealth@jd.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. The information of the Shareholder(s) may be disclosed as required by law.

### Communication with Shareholders and investor relations

The Company considers effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. Directors (or their delegates as appropriate), appropriate management executives and external auditor will use all reasonable endeavours to attend annual general meetings and answer enquiries from Shareholders.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and does not contain any material omission, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

# INDEPENDENT AUDITOR'S REPORT



## To the Shareholders of JD Health International Inc.

*(incorporated in Cayman Islands with limited liability)*

### Opinion

We have audited the consolidated financial statements of JD Health International Inc. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 87 to 182, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income/(loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report (Continued)

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <b><i>Sales transactions of pharmaceutical and healthcare products</i></b>  |   |
| <p>We identified the sales transactions of pharmaceutical and healthcare products as a key audit matter due to such transactions had high volume and the significance to the consolidated financial statements. As disclosed in note 5 to the consolidated financial statement, the revenue recognized by the Group from sales of pharmaceutical and healthcare products amounting to RMB16,774 million for the year ended December 31, 2020, which accounted for approximately 87% of the total revenue.</p> | <p>Our procedures in relation to the sales transactions of pharmaceutical and healthcare products included:</p>   |
| <p>A substantial portion of the sales transactions were processed on the mobile application and the website of JD Group as defined in note 1.1. Such sales transactions were identified from the system contains all sales transactions of the Group and JD Group (the "System") based on the nature of the products by matching to the product categories of the Listing Business as defined and detailed in note 1.1 to the consolidated financial statements.</p>  | <ul style="list-style-type: none"><li data-bbox="826 648 1447 728">• Understanding the relevant controls in relation to the sales transactions of pharmaceutical and healthcare products;</li><li data-bbox="826 750 1447 879">• With the assistance of the data analytics specialists, validating the sales transactions retrieved by the Group with the sales transactions extracted from the System by referencing to the product list of the Group, to confirm they are consistent;</li><li data-bbox="826 901 1447 1030">• Comparing the product list against the master category list, which defined all categories of pharmaceutical and healthcare products of the Listing Business, to determine whether the product list are consistent with the master category list;</li><li data-bbox="826 1052 1447 1192">• Checking, on a sample basis, sales transactions of the Group by tracing to the supporting documents to determine whether the product sold are related to the Listing Business and valid for inclusion in the product list of the Group;</li><li data-bbox="826 1213 1447 1379">• Checking, on a sample basis, the products of JD Group (excluding the Group's products), by inspecting the nature, category and description of such product on JD Group's mobile application and website, to confirm the product has been properly excluded from the product list of the Group.</li></ul> |

### Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## Independent Auditor's Report (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chung Chin Cheung.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 29, 2021



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

|  | Notes | Year ended December 31, |                 |
|--|-------|-------------------------|-----------------|
|  |       | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Revenue  | 5     | <b>19,382,568</b>       | 10,842,140      |
| Cost of revenue  |       | <b>(14,465,270)</b>     | (8,029,868)     |
| <b>Gross profit</b>  |       | <b>4,917,298</b>        | 2,812,272       |
| Fulfillment expenses   |       | <b>(1,994,740)</b>      | (1,169,654)     |
| Selling and marketing expenses   |       | <b>(1,434,587)</b>      | (746,014)       |
| Research and development expenses                                      |       | <b>(609,068)</b>        | (338,239)       |
| General and administrative expenses                                    |       | <b>(527,188)</b>        | (124,922)       |
| Other gains  |       | <b>47,443</b>           | 565             |
| Finance income   | 7     | <b>149,116</b>          | 31,783          |
| Finance costs  |       | <b>(3,416)</b>          | (35,502)        |
| Fair value changes of convertible preferred shares                     | 23    | <b>(17,539,858)</b>     | (1,263,130)     |
| Impairment losses under expected credit loss model,<br>net of reversal |       | <b>(117)</b>            | (1,859)         |
| Share of results of joint ventures                                     | 13    | <b>(77,024)</b>         | —               |
| <b>Loss before income tax</b>  | 6     | <b>(17,072,141)</b>     | (834,700)       |
| Income tax expense   | 11    | <b>(162,756)</b>        | (137,105)       |
| <b>Loss for the year</b>   |       | <b>(17,234,897)</b>     | (971,805)       |
| <b>Loss for the year attributable to:</b>                              |       |                         |                 |
| Owners of the Company  |       | <b>(17,234,363)</b>     | (971,805)       |
| Non-controlling interests  |       | <b>(534)</b>            | —               |
|  |       | <b>(17,234,897)</b>     | (971,805)       |
|  |       | <b>RMB</b>              | <b>RMB</b>      |
| Basic and diluted loss per share                                       | 12    | <b>(7.80)</b>           | (0.45)          |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

|  | Year ended December 31, |                 |
|--|-------------------------|-----------------|
|  | 2020<br>RMB'000         | 2019<br>RMB'000 |
| <b>Loss for the year</b>   | <b>(17,234,897)</b>     | (971,805)       |
| <b>Other comprehensive income/(loss)</b>   |                         |                 |
| <i>Items that may be reclassified subsequently to profit or loss:</i>              |                         |                 |
| Exchange differences arising on translation of foreign operations                  | <b>64,633</b>           | (9,809)         |
| <i>Items that may not be reclassified subsequently to profit or loss:</i>          |                         |                 |
| Exchange differences on translation from functional currency to reporting currency | <b>866,592</b>          | 34,920          |
| <b>Other comprehensive income for the year</b>                                     | <b>931,225</b>          | 25,111          |
| <b>Total comprehensive loss for the year</b>                                       | <b>(16,303,672)</b>     | (946,694)       |
| <b>Total comprehensive loss for the year attributable to:</b>                      |                         |                 |
| Owners of the Company  | <b>(16,303,138)</b>     | (946,694)       |
| Non-controlling interests  | <b>(534)</b>            | —               |
|  | <b>(16,303,672)</b>     | (946,694)       |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   | Notes | As of December 31, |                  |
|---|-------|--------------------|------------------|
|   |       | 2020<br>RMB'000    | 2019<br>RMB'000  |
| <b>ASSETS</b>   |       |                    |                  |
| <b>Non-current assets</b>                             |       |                    |                  |
| Intangible assets                                     |       | 28,498             | 600              |
| Property and equipment                                |       | 17,652             | 5,628            |
| Investment in an associate                            |       | 675                | —                |
| Investments in joint ventures                         | 13    | 605,721            | —                |
| Financial assets at fair value through profit or loss | 14    | 267,823            | 7,450            |
| Right-of-use assets                                   | 15    | 97,355             | 10,567           |
| Deferred tax assets                                   | 11    | 21,689             | 1,198            |
| Prepayments, other receivables and other assets       | 16    | 250,366            | 27,191           |
| Total non-current assets                              |       | 1,289,779          | 52,634           |
| <b>Current Assets</b>                                 |       |                    |                  |
| Inventories   | 17    | 1,732,390          | 1,278,339        |
| Trade and note receivables                            | 18    | 75,036             | 21,552           |
| Prepayments, other receivables and other assets       | 16    | 555,338            | 957,749          |
| Financial assets at fair value through profit or loss | 14    | 1,507,713          | —                |
| Term deposits   | 19    | 6,524,900          | 1,395,240        |
| Restricted cash                                       | 20    | 38,600             | 5,891            |
| Cash and cash equivalents                             | 20    | 32,270,792         | 4,965,272        |
| Total current assets                                  |       | 42,704,769         | 8,624,043        |
| <b>Total assets</b>                                   |       | <b>43,994,548</b>  | <b>8,676,677</b> |
| <b>Equity</b>   |       |                    |                  |
| Share capital   | 25    | 11                 | 7                |
| Reserves  |       | 57,867,592         | 909,753          |
| Accumulated losses                                    |       | (18,616,760)       | (1,368,791)      |
| <b>Equity attributable to owners of the Company</b>   |       | <b>39,250,843</b>  | <b>(459,031)</b> |
| <b>Non-controlling interests</b>                      |       | <b>501</b>         | <b>—</b>         |
| <b>Total equity</b>                                   |       | <b>39,251,344</b>  | <b>(459,031)</b> |

## Consolidated Statement of Financial Position (Continued)

|  | Notes | As of December 31, |                 |
|--|-------|--------------------|-----------------|
|  |       | 2020<br>RMB'000    | 2019<br>RMB'000 |
| <b>Liabilities</b>   |       |                    |                 |
| <b>Non-current liabilities</b>                             |       |                    |                 |
| Convertible preferred shares                               | 23    | —                  | 7,584,420       |
| Lease liabilities  | 15    | <b>61,410</b>      | 6,412           |
| Total non-current liabilities                              |       | <b>61,410</b>      | 7,590,832       |
| <b>Current liabilities</b>                                 |       |                    |                 |
| Trade payables   | 21    | <b>2,899,599</b>   | 444,984         |
| Income tax payables  |       | <b>132,182</b>     | —               |
| Contract liabilities                                       | 5     | <b>179,462</b>     | 87,687          |
| Financial liabilities at fair value through profit or loss | 24    | <b>143,113</b>     | —               |
| Lease liabilities  | 15    | <b>28,568</b>      | 4,851           |
| Accrued expenses and other payables                        | 22    | <b>1,298,870</b>   | 1,007,354       |
| Total current liabilities                                  |       | <b>4,681,794</b>   | 1,544,876       |
| <b>Total liabilities</b>                                   |       | <b>4,743,204</b>   | 9,135,708       |
| <b>Total equity and liabilities</b>                        |       | <b>43,994,548</b>  | 8,676,677       |

The consolidated financial statements on pages 87 to 182 were approved and authorized for issue by the Board of Directors on March 29, 2021 and are signed on its behalf by:

**Lijun Xin**  
Director

**Sandy Ran Xu**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | Notes | Attributable to owners of the Company |          |               |                      |                    |                            |                    |              | Non-controlling interests | Total        |
|--|-------|---------------------------------------|----------|---------------|----------------------|--------------------|----------------------------|--------------------|--------------|---------------------------|--------------|
|  |       | Paid-in capital/                      | Treasury | Share premium | Contribution reserve | Statutory reserves | Other reserve <sup>1</sup> | Accumulated losses | Sub-total    |                           |              |
|  |       | share capital                         | shares   | premium       | reserve              | reserves           | reserve <sup>1</sup>       | losses             | Sub-total    |                           |              |
|  |       | RMB'000                               | RMB'000  | RMB'000       | RMB'000              | RMB'000            | RMB'000                    | RMB'000            | RMB'000      | RMB'000                   | RMB'000      |
| <b>As of January 1, 2019</b>   |       | 2,000                                 | —        | —             | 778,100              | —                  | 63,891                     | (94,770)           | 749,221      | —                         | 749,221      |
| Loss for the year  |       | —                                     | —        | —             | —                    | —                  | —                          | (971,805)          | (971,805)    | —                         | (971,805)    |
| Other comprehensive income for the year  |       | —                                     | —        | —             | —                    | —                  | 25,111                     | —                  | 25,111       | —                         | 25,111       |
| Total comprehensive income/(loss) for the year   |       | —                                     | —        | —             | —                    | —                  | 25,111                     | (971,805)          | (946,694)    | —                         | (946,694)    |
| Issuance of ordinary shares by the Company   | 25    | 7                                     | —        | —             | —                    | —                  | —                          | —                  | 7            | —                         | 7            |
| Share-based payment expenses   | 26    | —                                     | —        | —             | —                    | —                  | 52,728                     | —                  | 52,728       | —                         | 52,728       |
| Net return to JD Group <sup>2</sup>  |       | —                                     | —        | —             | (259,671)            | —                  | —                          | (302,216)          | (561,887)    | —                         | (561,887)    |
| Effect arising from reorganization   |       | (2,000)                               | —        | —             | —                    | —                  | —                          | —                  | (2,000)      | —                         | (2,000)      |
| Effect arising from Series A Preference Shares financing <sup>3</sup>                          |       | —                                     | —        | —             | 249,594              | —                  | —                          | —                  | 249,594      | —                         | 249,594      |
| <b>As of December 31, 2019</b>   |       | 7                                     | —        | —             | 768,023              | —                  | 141,730                    | (1,368,791)        | (459,031)    | —                         | (459,031)    |
| Loss for the year  |       | —                                     | —        | —             | —                    | —                  | —                          | (17,234,363)       | (17,234,363) | (534)                     | (17,234,897) |
| Other comprehensive income for the year  |       | —                                     | —        | —             | —                    | —                  | 931,225                    | —                  | 931,225      | —                         | 931,225      |
| Total comprehensive income/(loss) for the year   |       | —                                     | —        | —             | —                    | —                  | 931,225                    | (17,234,363)       | (16,303,138) | (534)                     | (16,303,672) |
| Issuance of ordinary shares by the Company   | 25    | 2                                     | —        | 26,124,855    | —                    | —                  | —                          | —                  | 26,124,857   | —                         | 26,124,857   |
| Conversion of convertible preferred shares to ordinary shares upon the initial public offering | 25    | 2                                     | —        | 29,911,834    | —                    | —                  | —                          | —                  | 29,911,836   | —                         | 29,911,836   |
| Acquisition of a non-wholly owned subsidiary   |       | —                                     | —        | —             | —                    | —                  | —                          | —                  | —            | 1,035                     | 1,035        |
| Share issuance costs   | 35    | —                                     | —        | (403,980)     | —                    | —                  | —                          | —                  | (403,980)    | —                         | (403,980)    |
| Issuance of share awards   | 25    | —                                     | —        | —             | —                    | —                  | —                          | —                  | —            | —                         | —            |
| Share-based payment expenses   | 26    | —                                     | —        | —             | —                    | —                  | 380,299                    | —                  | 380,299      | —                         | 380,299      |
| Appropriations to statutory reserves   | 2.21  | —                                     | —        | —             | —                    | 13,606             | —                          | (13,606)           | —            | —                         | —            |
| <b>As of December 31, 2020</b>   |       | 11                                    | —        | 55,632,709    | 768,023              | 13,606             | 1,453,254                  | (18,616,760)       | 39,250,843   | 501                       | 39,251,344   |

\* less than RMB1,000.

- Other reserve consists of share-based payment expenses from the deemed contribution of JD.com, Inc., share awards under the Company's share award scheme and exchange differences on foreign currency translation recognized in other comprehensive income/(loss).
- The net return to JD Group represents the retained profits returned to JD Group arising from the Listing Business prior to the Closing Date of Series A Preference Shares financing (as defined in Note 1.2).
- The effect arising from Series A Preference Shares financing represents the profits generated/funds utilized by the Remaining Listing Business as defined in Note 1.2 in JD Group and was recognized as the amounts due from/due to related parties after the Closing Date of Series A Preference Shares financing.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Prior to the completion of the Spin-off, as defined in Note 1.1 and detailed in Note 1.2, the Listing Business were carried out by the PRC Operating Entities and certain subsidiaries and consolidated affiliated entities of JD Group other than the PRC Operating Entities. No separate bank accounts were maintained by the Remaining Listing Business. The treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group. The net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group. Prior to the Closing Date of Series A Preference Share financing as set out in Note 1.2, the Group was not able to receive and retain the profits arising from the Remaining Listing Business. Accordingly, the funds generated or utilized by JD Group were presented as movements in the equity while there are no cash and cash equivalents balance for the Remaining Listing Business and there were no cash received/paid directly by the Group in relation to the operation of the Remaining Listing Business. After the Closing Date of Series A Preference Share financing, the Group was eligible to receive and retain the profits arising from the Remaining Listing Business accumulated in JD Group since January 1, 2017. Accordingly, the profits and funds generated or utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017 were recognized as the amounts due from/to related parties without any cash flow from/to the Remaining Listing Business.

After the completion of the Spin-off, as the Listing Business were carried out by the PRC Operating Entities, the treasury and cash disbursement functions were administrated under the Group. The profits and funds generated or utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017 and prior to the completion of the Spin-off were settled in cash by JD Group to the Group as set out in Note 30.

For the purpose of presenting a completed set of financial information of the Group after and prior to the Spin-off, the following comprises the information of cash inflow/outflow of the Group, cash inflow/outflow of the Remaining Listing Business which was received/paid via JD Group prior to completion of the Spin-off, and information of cash inflow/outflow of the Group post to completion of the Reorganization and the Spin-off.

## Consolidated Statement of Cash Flows (Continued)

|   | Note   | Year ended December 31, |                 |
|---|--------|-------------------------|-----------------|
|   |        | 2020<br>RMB'000         | 2019<br>RMB'000 |
| <b>OPERATING ACTIVITIES</b>                                       |        |                         |                 |
| Cash generated from operations                                    | 30 (a) | <b>3,759,326</b>        | 522,741         |
| Interest received   |        | <b>114,998</b>          | 24,079          |
| Income tax paid   |        | <b>(174,860)</b>        | (137,350)       |
| <b>Net cash generated from operating activities</b>               |        | <b>3,699,464</b>        | 409,470         |
| <b>Investing activities</b>                                       |        |                         |                 |
| Placement of restricted cash                                      |        | <b>(48,640)</b>         | (9,302)         |
| Withdrawal of restricted cash                                     |        | <b>15,931</b>           | 7,275           |
| Placement of term deposits  |        | <b>(6,650,170)</b>      | (1,414,160)     |
| Maturity of term deposits   |        | <b>1,347,480</b>        | —               |
| Purchase of financial assets at fair value through profit or loss |        | <b>(5,408,110)</b>      | —               |
| Maturity of financial assets at fair value through profit or loss |        | <b>3,836,884</b>        | —               |
| Payment for investment in an associate                            |        | <b>(675)</b>            | —               |
| Payments for investments in joint ventures                        |        | <b>(683,204)</b>        | —               |
| Prepayments for investments in equity investees                   |        | <b>(773)</b>            | (26,747)        |
| Refund of deposit paid for acquisition of an investment*          |        | <b>98,558</b>           | —               |
| Deposits returned to former investor**                            |        | <b>(80,125)</b>         | —               |
| Net cash outflow on acquisition of a subsidiary                   |        | <b>(3,501)</b>          | —               |
| Loan to a joint venture   |        | <b>(227,451)</b>        | —               |
| Purchases of property and equipment                               |        | <b>(15,699)</b>         | (5,186)         |
| Purchases of intangible assets                                    |        | <b>(21,910)</b>         | (503)           |
| Payments for right-of-use assets                                  |        | <b>(1,179)</b>          | —               |
| <b>Net cash used in investing activities</b>                      |        | <b>(7,842,584)</b>      | (1,448,623)     |

\* Represents the amount received from a third party which the Group planned to invest in previously.

\*\* Represents the amount paid to a third party which was the former investor of an investment holding company established by the Group for future investment. Because such investment arrangement was terminated and the Group obtained the ownership of the investment holding company, the Group returned the investment deposits received from the third party.

## Consolidated Statement of Cash Flows (Continued)

|   | Year ended December 31, |                 |
|---|-------------------------|-----------------|
|   | 2020<br>RMB'000         | 2019<br>RMB'000 |
| <b>FINANCING ACTIVITIES</b>   |                         |                 |
| Repayment for borrowings  | (5,000)                 | —               |
| Principal portion of lease payments                                   | (21,210)                | (1,530)         |
| Interest paid   | (2,443)                 | (243)           |
| (Payment to)/advance from JD Group                                    | (216,710)               | 202,234         |
| Net proceeds from issuance of ordinary shares                         | 25,790,983              | 7               |
| Net proceeds from issuance of convertible preferred shares            | 6,483,067               | 6,310,651       |
| Payment for reorganization  | —                       | (2,000)         |
| <b>Net cash generated from financing activities</b>                   | <b>32,028,687</b>       | 6,509,119       |
| <b>Net increase in cash and cash equivalents</b>                      | <b>27,885,567</b>       | 5,469,966       |
| Net return to JD Group  | —                       | (561,887)       |
| Cash and cash equivalents at the beginning of the year                | 4,965,272               | 16,213          |
| Effects of foreign exchange rate changes on cash and cash equivalents | (580,047)               | 40,980          |
| <b>Cash and cash equivalents at the end of the year</b>               | <b>32,270,792</b>       | 4,965,272       |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 General information, history, reorganization and basis of presentation of consolidated financial statements

### 1.1 General information

The Company was incorporated in the Cayman Islands in November 2018 as an exempted company registered under the laws of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section “Corporate Information” of the annual report. The Company acts as an investment holding company and its subsidiaries, as set out in Note 32 (collectively the “Group”), engage in a comprehensive “Internet + Healthcare” ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management, intelligent healthcare solutions to the customers, and a variety of marketing services to the business partners (collectively the “Listing Business”). The Group’s principal operations and geographic markets are in the People’s Republic of China (the “PRC”).

JD Jiankang Limited is the immediate parent company of the Company and owned by JD.com, Inc., which is the Company’s ultimate parent company. JD.com, Inc., its subsidiaries and consolidated affiliated entities, excluding the Group, are collectively referred to as “JD Group”.

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on December 8, 2020 (the “Listing”).

The consolidated financial statements are presented in Renminbi (“RMB”), which is different from the Company’s functional currency of United States dollars (“USD”). The management adopted RMB as the presentation currency as the management controls and maintains the performance and financial position of the Group based on RMB.

### 1.2 History, reorganization and basis of presentation of consolidated financial statements

The consolidated financial statements have been prepared based on the accounting policies set out in Note 2, which conform with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (the “IASB”) and the conventions applicable for the Reorganization (details are set out below).

Historically and up to the completion of the equity transfers of the relevant entities as mentioned below and the Spin-off as defined below, the Listing Business were carried out by (1) Yinchuan JD Online Hospital Co., Ltd. (“Yinchuan JD Online Hospital”) and Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd., two wholly-owned domestic companies of JD Group, and their subsidiaries established in the PRC (collectively the “PRC Operating Entities”) and (2) certain subsidiaries and consolidated affiliated entities of JD Group (collectively the “Remaining JD Group”, and the portion of the Listing Business carried out by the Remaining JD Group is referred to as “Remaining Listing Business”).

## **1 General information, history, reorganization and basis of presentation of consolidated financial statements (Continued)**

### **1.2 History, reorganization and basis of presentation of consolidated financial statements (Continued)**

The Group underwent a reorganization (the “Reorganization”) that involved equity transfers of the PRC Operating Entities to the Company and its subsidiaries, which principally involved the following:

In November 2018, the Company was incorporated in the Cayman Islands with an authorized share capital of USD50,000 divided into 50,000 shares at USD1.00 each, of which 1 share was allotted to and subscribed by JD Jiankang Limited.

In December 2018, JD Health (Cayman), Inc. (“JD Health Cayman”) was incorporated in the Cayman Islands and 1 share was allotted to and subscribed by the Company. Since then, JD Health Cayman is wholly owned by the Company.

In January 2019, JD Health (HK) Limited (“JD Health HK”) was incorporated in Hong Kong and 1 share was allotted to and subscribed by JD Health Cayman. Since then, JD Health HK is wholly owned by JD Health Cayman.

In June 2019, Beijing Jingdong Jiankang Co., Ltd. (“Beijing Jingdong Jiankang”) was incorporated in the PRC as a wholly foreign-owned subsidiary of JD Health HK.

In June 2019, Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (“Suqian Jingdong Tianning”) was incorporated in the PRC by three of JD Group’s management members (“Nominee Shareholders”). In the same month, Beijing Jingdong Jiankang, Suqian Jingdong Tianning and its Nominee Shareholders entered into a series of agreements, which enables Beijing Jingdong Jiankang to obtain control over Suqian Jingdong Tianning and its subsidiaries. See the section headed “Contractual Arrangements” below for further details.

Subsequently in July 2019, all the equity interests of the PRC Operating Entities were transferred to Suqian Jingdong Tianning at a cash consideration of RMB2,000,000. Upon the completion of the transfer, the PRC Operating Entities became the subsidiaries of Suqian Jingdong Tianning and the Reorganization was completed. As both Suqian Jingdong Tianning and the PRC Operating Entities were under the common control of JD Group, the transfers of the PRC Operating Entities have been accounted for as business combination involving entities under common control using the principle of merger accounting.

## **1 General information, history, reorganization and basis of presentation of consolidated financial statements (Continued)**

### **1.2 History, reorganization and basis of presentation of consolidated financial statements (Continued)**

Upon the completion of the Reorganization, the Company became the holding company of the PRC Operating Entities.

The Company has substantially completed the spin-off of the Remaining Listing Business before the date of the Listing, which included the transfer of relevant management and employees, operating assets and liabilities, retained profits, as well as the replacement of the business contracts of counter parties to the Group (the "Spin-off"). Upon the completion of the Spin-off, the entire Listing Business became operated and controlled by the Group.

Prior to the completion of Reorganization, the Company and those companies newly set up during the Reorganization did not involve in any other business and the Reorganization had not resulted in any change of economic substance and their operations did not meet the definition of a business. The Reorganization were merely the recapitalization of the PRC Operating Entities with no change in management of such business and its ultimate owners. The Group resulting from the Reorganization and the Spin-off is regarded as a continuation of the Listing Business under JD Group. The consolidated financial statements have been prepared and presented on the basis as if the Company had always been the holding company of the Listing Business and using the carrying value of the Listing Business for both years presented as if the Reorganization had been completed before the earliest date presented.

The consolidated statement of profit or loss, consolidated statement of comprehensive income/(loss), consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended December 31, 2020 and 2019, include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence prior to the Listing, and the Listing Business had been operated by the Group throughout the years ended December 31, 2020 and 2019, or since their respective dates of incorporation, where there is a shorter period.

The consolidated statement of financial position of the Group as of December 31, 2019 has been prepared to present the assets and liabilities of the companies now comprising the Group at the carrying amounts shown in the financial statements of the relevant entities, as if the current group structure had been in existence and the Listing Business had been operated by the Group at December 31, 2019, taking into account their respective dates of incorporation.

Throughout the Spin-off and before the Listing, to the extent the assets, liabilities, income and expenses that were specifically identified to the Listing Business, such items were included in the consolidated financial statements throughout the years before the Listing. To the extent the assets, liabilities, income and expenses that were impracticable to identify specifically, these items were allocated to the Listing Business on the basis set out below (such items included certain fulfillment expenses, selling and marketing expenses, research and development expenses, general and administrative expenses and income tax expense). Items that did not meet the criteria above were not included in the consolidated financial statements of the Group.

## **1 General information, history, reorganization and basis of presentation of consolidated financial statements (Continued)**

### **1.2 History, reorganization and basis of presentation of consolidated financial statements (Continued)**

In May 2019, the Company entered into a subscription agreement for the series A preference shares (the "Series A Preference Shares") financing with certain third-party investors (the "Series A Share Subscription Agreement"), details are set out in Note 23. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between JD Group and the Group were established and became effective since the end of June 2019 (the "Closing Date"), which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and others. Such arrangements of the related party transactions affected the consolidated financial statements as below.

Prior to the Closing Date of Series A Preference Shares financing, where the balances with JD Group did not meet the definition of financial assets or financial liabilities with the Remaining JD Group under the IFRSs, they were classified as an equity component and be presented in the manner of equity, typically aggregated with the retained profits of the Remaining Listing Business, as "net return to JD Group".

Prior to the Closing Date of Series A Preference Shares financing, expenses which were impracticable to be specifically identified to the Listing Business were determined on the following basis: (1) items included in selling and marketing expenses, research and development expenses, general and administrative expenses that are impracticable to be specifically identified were allocated from JD Group's respective expenses based on proportion of the fulfilled order volume of the Listing Business to that of the Listing Business and JD Group; (2) order processing fees (payment fees) generated from orders of the Listing Business included in fulfillment expenses were allocated based on the percentage of the fulfilled order volume of the Listing Business to that of the Listing Business and JD Group; (3) income tax expense was calculated based on the tax rate of the entities that the Listing Business were spun off from, as if the Listing Business was a separate tax reporting entity.

After the Closing Date of Series A Preference Shares financing and prior to the launch of CCT Arrangements as set out below, revenue or expenses that were generated from/charged by JD Group in accordance with the related party transactions listed out in Series A Share Subscription Agreement was recognized by the Group directly in accordance to terms stipulated on the Series A Share Subscription Agreement. Other items of expenses which were impracticable to be specifically identified to the Listing Business were determined as same as before the Series A Share Subscription Agreement became effective.

The directors of the Company believe that prior to the Listing, the method of the allocation and the recognition of the above expense items formed a reasonable basis of presenting the operating results of the Listing Business on a stand-alone basis, and other than those items mentioned above, all other items of assets and liabilities, income and expenses of the Listing Business were specifically identified.

## 1 General information, history, reorganization and basis of presentation of consolidated financial statements (Continued)

### 1.2 History, reorganization and basis of presentation of consolidated financial statements (Continued)

In November 2020, the Group entered into a series of continuing connected transaction arrangements (the “CCT Arrangements”) with JD Group, in respect of which the Group has complied with the disclosure requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”). Majority of related party transactions between the Group and JD Group are recognized based on the terms stipulated in the CCT Arrangements.

#### **Contractual Arrangements**

In June 2019, to comply with the relevant laws and regulations in the PRC which prohibit or restrict foreign ownership of the companies engaged in retail pharmaceutical product business and the online hospital service carried out by the Group, Beijing Jingdong Jiankang entered into a series of contractual arrangements (collectively, the “Contractual Arrangements”) with Suqian Jingdong Tianning and its Nominee Shareholders, including loan agreement, exclusive purchase option agreement, exclusive technology consulting and services agreement, equity pledge agreement, powers of attorney, and business operation agreement. These Contractual Arrangements can be extended at Beijing Jingdong Jiankang’s options prior to the expiration date.

The Contractual Arrangements enable Beijing Jingdong Jiankang to control Suqian Jingdong Tianning by:

- Irrevocably exercising equity holders’ voting rights of Suqian Jingdong Tianning;
- Exercising effective financial and operational control over of Suqian Jingdong Tianning;
- Receiving substantially all of the economic interest returns generated by Suqian Jingdong Tianning in consideration for the technology consulting and services provided by Beijing Jingdong Jiankang. Beijing Jingdong Jiankang has obligation to grant interest-free loans to the relevant Nominee Shareholders of Suqian Jingdong Tianning with the sole purpose of providing funds necessary for the capital contribution to Suqian Jingdong Tianning;
- Obtaining an irrevocable and exclusive right which Beijing Jingdong Jiankang may exercise at any time to purchase all or part of the equity interests in Suqian Jingdong Tianning from the Nominee Shareholders at a minimum purchase price permitted under the PRC laws and regulations; and
- Obtaining a pledge over the entire equity interests of Suqian Jingdong Tianning from its Nominee Shareholders as collateral security for all of Suqian Jingdong Tianning’s payments due to Beijing Jingdong Jiankang and to secure performance of Suqian Jingdong Tianning’s obligation under the Contractual Arrangements.

## **1 General information, history, reorganization and basis of presentation of consolidated financial statements (Continued)**

### **1.2 History, reorganization and basis of presentation of consolidated financial statements (Continued)**

#### **Contractual Arrangements (Continued)**

In April 2020, two of the Nominee Shareholders have been changed to another two management members of the Group. The original Contractual Arrangements were terminated and replaced with a separate series of the Contractual Arrangements which were terminated and replaced with the current set of the Contractual Arrangements in September 2020. No substantial terms of the Contractual Arrangements were modified.

Total assets of the Group's consolidated affiliated entities were RMB748 million as of December 31, 2020 (2019: RMB638 million), and that balance has been reflected in the Group's consolidated financial statements with intercompany balances between the consolidated affiliated entities, the subsidiaries of the consolidated affiliated entities and other entities within the Group eliminated.

Total revenue of the Group's consolidated affiliated entities was RMB4,916 million for the years ended December 31, 2020 (2019: RMB2,547 million), and that amount has been reflected in the Group's consolidated financial statements with intercompany transactions between the consolidated affiliated entities, the subsidiaries of the consolidated affiliated entities and other entities within the Group eliminated.

## **2 Summary of significant accounting policies and basis of preparation of consolidated financial statements**

### **2.1 Application of amendments to IFRSs and basis of preparation of consolidated financial statements**

The Group has consistently applied IFRSs, amendments to IFRSs and the related interpretations issued by the IASB that are effective for the annual period beginning on January 1, 2020, for the years ended December 31, 2020 and 2019, except that the Group has early applied the Amendments to IFRS 16 *Covid-19-Related Rent Concessions* for the year ended December 31, 2020.

The application of IFRSs, amendments to IFRSs and the related interpretations had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.1 Application of amendments to IFRSs and basis of preparation of consolidated financial statements (Continued)

#### New and amended to IFRSs in issue but not yet effective

New standards and amendments to existing standards that have been issued but not yet effective for the financial year beginning January 1, 2020 and not been early adopted by the Group during the year ended December 31, 2020 are as follows:

| Standards/Amendments                                     | Content   | Effective for annual periods beginning on or after |
|--|---|--|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform — Phase 2  | January 1, 2021                                    |
| Amendments to IFRS 3                                     | Reference to the Conceptual Framework   | January 1, 2022                                    |
| Amendments to IAS 16                                     | Property, Plant and Equipment: Proceeds before Intended Use                           | January 1, 2022                                    |
| Amendments to IAS 37                                     | Onerous Contracts — Cost of Fulfilling a Contract                                     | January 1, 2022                                    |
| Amendments to IFRS Standards                             | Annual Improvements to IFRS Standards 2018–2020                                       | January 1, 2022                                    |
| Amendments to IAS 1                                      | Classification of Liabilities as Current or Non-current                               | January 1, 2023                                    |
| IFRS 17  | Insurance Contracts and the related Amendments  | January 1, 2023                                    |
| Amendments to IFRS 10 and IAS 28                         | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined                                   |
| Amendments to IAS 1 and IFRS Practice Statement 2        | Disclosure of Accounting Policies   | January 1, 2023                                    |
| Amendments to IAS 8                                      | Definition of Accounting Estimates  | January 1, 2023                                    |

The Group expects that amendments listed above are unlikely to have any material impact on the Group's consolidated financial statements in the foreseeable future.

The consolidated financial statements have been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.1 Application of amendments to IFRSs and basis of preparation of consolidated financial statements (Continued)

#### **New and amended to IFRSs in issue but not yet effective (Continued)**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets* ("IAS 36").

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.



## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including affiliated entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

## Notes to the Consolidated Financial Statements (Continued)

### **2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)**

#### **2.2 Basis of Consolidation (Continued)**

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### **2.3 Merger accounting for business combination involving business under common control**

The Group resulting from the above mentioned Reorganization and Spin-off was regarded as a continuing entity. Up to the date of the Listing, the financial information was prepared on a combined basis. A single uniform set of accounting policies was adopted by the combined entities. Therefore, the consolidated financial statements include the financial statement items of the combining entities or businesses in which the common control combination occurred as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses were combined using the existing book values from the controlling party's perspective. No amount was recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

#### **2.4 Investments in an associate and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.4 Investments in an associate and joint ventures (Continued)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results, and assets and liabilities of an associate and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or joint ventures, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## Notes to the Consolidated Financial Statements (Continued)

### 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

#### 2.5 Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

The Group mainly through its and JD Group's mobile apps and www.jd.com website engages primarily in the sale of pharmaceutical and healthcare products sourced from manufacturers and distributors in the PRC, offers an online marketplace that enables third-party merchants to sell their products to consumers, and provides internet healthcare, health management and intelligent healthcare solutions services to its customers. Customers place orders for those products or services online primarily through the Group's and JD Group's mobile apps and www.jd.com website. Payment for the purchased products or services is generally made either before delivery or upon delivery.

The Group evaluates whether it is appropriate to record the gross amounts of product sales or services provided and related costs, or the net amount earned as commissions. When the Group is a principal, that the Group obtains control of the specified goods or services before they are transferred to the customers, the revenue should be recognized in the gross amount of consideration to which it expects to be entitled in exchange for the specified goods or services transferred. When the Group is an agent and its obligation is to facilitate third parties in fulfilling their performance obligation for specified goods or services, in which case the Group does not control the specified goods or services provided by third parties before those goods or services are transferred to the customer, the revenue should be recognized in the net amount for the amount of commission which the Group earns in exchange for arranging for the specified goods or services to be provided by other parties.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.5 Revenue from contracts with customers (Continued)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price (“SSP”) basis. The SSP of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If an SSP is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

#### **Product Revenue**

The Group primarily sells pharmaceutical and healthcare products through online direct sales. The Group recognizes the product revenue from the online direct sales on a gross basis as the Group is acting as a principal in these transactions and is responsible for fulfilling the promise to provide the specified goods. Product revenue is recognized at the point of delivery of products, net of discounts and return allowances.

#### **Service Revenue**

The service revenue primarily consists of commission fees charged to third-party merchants for participating in the online marketplace mainly through the Group’s and JD Group’s mobile apps and www.jd.com website. The Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants a fixed rate commission fee based on the sales amount, net of discounts and return allowances. Commission fee revenue is recognized on a net basis at the point of delivery of products.

The Group provides online marketing services to advertisers including third-party merchants and suppliers on its and JD Group’s various website channels and third-party marketing affiliate’s websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which third-party merchants and suppliers are charged based on display per thousand impressions or per effective click on their products or service listings. The Group recognizes revenue from pay for performance marketing services at point of time when each effective click is generated. The Group recognizes revenue from advertising placements ratably over time as the customer simultaneously receives and consumes the benefits throughout the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.5 Revenue from contracts with customers (Continued)

#### Service Revenue (Continued)

The Group provides internet healthcare, health management and intelligent healthcare solutions services to customers on the Group's and JD Group's mobile apps and www.jd.com website. The services mainly include online consultation, hospital or doctor referral, health check-ups, genetic testing and beauty care. The Group recognizes revenue overtime during the service period or at point in time when such services are rendered. Revenue from such services is recognized on a gross basis when the Group has the ability to determine the pricing and nature of the services, and is responsible for the services provided as the Group is acting as a principal and obtains control of the specified services before they are transferred to the customers. Revenue is recognized on a net basis when the Group charges commissions from such services as the Group is acting as an agent.

The Group also renders platform services through its platform to the platform merchants, such as order management, client management, and other merchants operational and maintenance supports. The platform usage fee collected from platform merchants shall be recognized as revenue over the service period as the platform merchants simultaneously receive the relevant services throughout the period.

### 2.6 Contract balances

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

Unearned revenue consists of payments received or awards to customers related to unsatisfied performance obligations at the end of the period, included in contract liabilities in the Group's consolidated statement of financial position.

Timing of revenue recognition may differ from the timing of invoicing to customers. Trade receivables represent amounts invoiced and revenue recognized prior to invoicing when the Group has satisfied the Group's performance obligation and has the unconditional right to payment.

For online retail business with return conditions, the Group estimates the possibility of return based on the historical experience. Liabilities for return allowances are included in "Accrued expenses and other payables". The estimated return of product sold associated with the Group's liabilities for return allowances are the Group's assets, which are included in "Prepayments, other receivables and other assets".

The Group applied a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. The Group has no material incremental costs of obtaining contracts with customers that the Group expects the benefit of those costs to be longer than one year which need to be recognized as assets.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.7 Cost of revenue

Cost of revenue consists primarily of purchase price of products, inbound shipping charges and write-downs of inventories. Shipping charges to receive products from the suppliers are included in inventories, and recognized as cost of revenue upon sale of the products to the customers.

The Group periodically receives considerations from certain vendors, representing rebates for products sold and subsidies for the sales of the vendors' products over a period of time. The rebates are not sufficiently separable from the Group's purchase of the vendors' products and they do not represent a reimbursement of costs incurred by the Group to sell vendors' products. The Group accounts for the rebates received from its vendors as a reduction to the prices it pays for the products purchased and therefore the Group records such amounts as a reduction of cost of revenue when recognized in the consolidated statement of profit or loss.

### 2.8 Fulfillment expenses

Fulfillment expenses consist primarily of (i) expenses incurred in the Group's procurement operations, including personnel cost and miscellaneous expenses, (ii) expenses charged by JD Group for warehousing and logistic services, payment services and customer services, and (iii) lease expenses of warehouses and physical stores.

### 2.9 Research and development expenses

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2020 (2019: nil).

### 2.10 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.10 Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.11 Leases

#### **Definition of a lease**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### **The Group as a lessee**

##### ***Allocation of consideration to components of a contract***

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless such allocation cannot be made reliably. Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

##### ***Short-term leases***

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.



## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.11 Leases (Continued)

#### **The Group as a lessee (Continued)**

##### ***Right-of-use assets***

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item in the consolidated statement of financial position.

##### ***Lease liabilities***

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.11 Leases (Continued)

#### **The Group as a lessee (Continued)**

##### ***Lease liabilities (Continued)***

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

##### ***Lease modifications***

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.11 Leases (Continued)

#### **The Group as a lessee (Continued)**

##### ***Lease modifications (Continued)***

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liabilities, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

### 2.12 Foreign currency translation

The Group's reporting currency is RMB. The functional currency of the Company is USD as its key activities and transactions are denominated in USD. The functional currency of the Group's subsidiaries incorporated in Cayman Islands, BVI and Hong Kong is USD. The Group's PRC subsidiaries and consolidated affiliated entities determined their functional currency to be RMB.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of other reserve (attributed to non-controlling interests as appropriate).

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.13 Employee benefits

#### **Employee leave entitlement**

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick and maternity leave are not recognized until the time of leave.

#### **Pension obligations and other social welfare benefits**

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries, including consolidated affiliated entities of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions.

#### **Bonus plan**

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonuses as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonuses are expected to be settled within one year and are measured at the amounts expected to be paid when they are settled.

#### **Short-term employee benefits**

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave) after deducting any amount already paid.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.14 Share-based payments

Prior to the launch of JD Health Share Incentive Plan as set out below, the Group did not have its own share incentive plan. Share-based awards to the Group's employees were granted under a share incentive plan of JD Group ("JD Group Share Incentive Plan"). The consolidated financial statements include allocation of the expenses recorded at JD Group based on the Group's employees participating under JD Group Share Incentive Plan. JD Group granted its service-based restricted share units ("RSUs") and share options to the Group's eligible employees, which were treated as deemed contribution from JD Group and recorded in other reserves in the Group's consolidated statement of financial position.

In 2020, the Group launched the Pre-IPO ESOP, the Post-IPO Share Awards Scheme and the Post-IPO Share Option Scheme (collectively the "JD Health Share Incentive Plan") as defined in Note 26. The fair value of the services received in exchange for the grant of options is recognized as an expense in the consolidated statement of profit or loss.

#### **Equity-settled share-based payment transactions**

Equity-settled share-based payments to employees and non-employees providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed using graded vesting method over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (other reserves). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves. For RSUs/share options that vest immediately at the date of grant, the fair value of the RSUs/share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognized in other reserves will continue to be held in other reserves. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will continue to be held in other reserves. Forfeitures are estimated based on the historical experience and revised in the subsequent periods if actual forfeitures differ from those estimates.

When RSUs granted are vested, the amount previously recognized in other reserves will continue to be held in other reserves.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.14 Share-based payments (Continued)

#### **Equity-settled share-based payment transactions (Continued)**

Equity-settled share-based payments transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

#### **Modifications to equity-settled transactions**

If a share-based award is modified after the grant date, the Group recognized additional compensation expenses in an amount equal to the excess of the fair value of the modified equity instrument over the fair value of the original equity instrument immediately before modification. The additional compensation expenses are recognized immediately on the date of modification or over the remaining requisite service period, depending on the vesting status of the award.

### 2.15 Taxation

Income tax expense represents the sum of the current tax and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from profit/(loss) before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.15 Taxation (Continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.16 Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives are as follows:

| Category             | Estimated useful lives |
|----------------------|------------------------|
| Electronic equipment | 3–5 years              |
| Office equipment     | 5 years                |
| Vehicles             | 5 years                |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

### 2.17 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful lives of intangible assets are as follows:

| Category     | Estimated useful lives |
|--------------|------------------------|
| Domain names | 10–15 years            |
| Licenses     | 2 years                |
| Software     | 3–5 years              |



## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.18 Impairment on property and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### 2.19 Inventories

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost of inventory is determined using the weighted average method. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased, but has arrangements to return unsold goods with certain vendors. Write downs are recorded in cost of revenue in the consolidated statement of profit or loss.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade and note receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### (a) Financial assets

##### ***Classification and subsequent measurement of financial assets***

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (a) Financial assets (Continued)

##### ***Classification and subsequent measurement of financial assets (Continued)***

All other financial assets are subsequently measured at FVTPL.

##### **Amortized cost and interest income**

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

##### **Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in "other gains".

##### ***Impairment of financial assets***

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and note receivables, other receivables, term deposit, restricted cash, cash and cash equivalent), which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade and note receivables.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (a) Financial assets (Continued)

##### ***Impairment of financial assets (Continued)***

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

##### **Significant increase in credit risk**

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (a) Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

##### **Definition of default**

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### **Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

##### **Write-off policy**

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (a) Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

##### **Measurement and recognition of ECL**

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the directors of the Company to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and note receivables and other receivables where the corresponding adjustment is recognized through a loss allowance account.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (a) Financial assets (Continued)

##### Measurement and recognition of ECL (Continued)

##### *Derecognition of financial assets*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

#### (b) Financial liabilities and equity

##### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

##### *Financial liabilities*

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

##### *Financial liabilities at amortized cost*

Financial liabilities including trade payables and other payables are subsequently measured at amortized cost, using the effective interest method.

##### *Derecognition of financial liabilities*

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### (c) Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (c) Derivative financial instruments (Continued)

##### ***Embedded derivatives***

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortized cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

#### (d) Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### (e) Convertible preferred shares

Series A Preference Shares and Series B Preference Shares (collectively the “Convertible Preferred Shares”) issued by the Company are convertible at the option of the holders of Convertible Preferred Shares or automatically converted under certain events. Convertible Preferred Shares are not redeemable, but the Company is required to pay dividends to the holders of Convertible Preferred Shares up to the purchase price of Convertible Preferred Shares when certain conditions are met. The details of these Convertible Preferred Shares are set out in Note 23.

Each of Convertible Preferred Shares shall be convertible, at the option of the holder of the Convertible Preferred Shares, at any time after the date of issuance of such Convertible Preferred Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Convertible Preferred Shares purchase price by the conversion price then applicable to such Convertible Preferred Shares. The conversion price is subject to adjustments when any equity securities of the Company are issued at a price per share lower than the purchase price of Convertible Preferred Shares.



## 2 Summary of significant accounting policies and basis of preparation of consolidated financial statements (Continued)

### 2.20 Financial instruments (Continued)

#### (e) Convertible preferred shares (Continued)

The Convertible Preferred Shares include contractual obligation to deliver dividend up to the purchase price to holders of Convertible Preferred Shares, and when the Convertible Preferred Shares are converted to fully paid and non-assessable ordinary shares of the Company, the number of ordinary shares to be converted is not fixed due to the potential adjustments aforementioned to the conversion price under certain circumstances. The Convertible Preferred Shares are initially recognized at fair value. The Group does not account for the embedded derivatives separately from the host contract and designates the entire Convertible Preferred Shares as financial liabilities at FVTPL with fair value change recognized in “fair value changes of convertible preferred shares” in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

### 2.21 Statutory reserves

In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve and the discretionary surplus reserve before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve is 10%. The amount to be transferred to the discretionary surplus reserve is determined by the equity owners of these companies. When the balance of the statutory surplus reserve reaches 50% of the registered capital, such transfer needs not to be made. Both the statutory surplus reserve and discretionary surplus reserve can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve shall not be less than 25% of the registered capital.

## 3 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires the directors of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenue and expenses during the reporting periods in the consolidated financial statements and accompanying notes.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the Group’s financial position and results of operation are addressed below:

### 3 Critical accounting estimates and judgements (Continued)

#### **Consolidation of affiliated entities**

The Group obtained control over a PRC domestic company, Suqian Jingdong Tianning, by entering into a series of the Contractual Arrangements with the PRC domestic company and its respective Nominee Shareholders. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the PRC domestic company and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC domestic company. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Beijing Jingdong Jiankang, Suqian Jingdong Tianning and its respective Nominee Shareholders are in compliance with the relevant PRC Laws and are legally enforceable.

#### **Impairment of inventories**

Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment.

#### **Rebates and subsidies**

Rebates are earned upon reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on the Group's past experiences and current forecasts, a portion of the rebates is recognized as the Group makes progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through the Group and are recorded as a reduction of cost of revenue when the sales have been completed and the amount is determinable.

#### **Estimation of the fair value of the call option and put option**

The fair value of the call option and put option associated with the investments in joint ventures of the Group, in the absence of an active market, is estimated by using appropriate valuation techniques. The Group applied the Black-Scholes model to determine the fair value of the options. Key assumptions and key inputs such as the timing of expiration and volatility were based on the Group's best estimates and subject to uncertainty and might materially differ from the actual results. Further details are included in Note 14 and Note 24.

## Notes to the Consolidated Financial Statements (Continued)

### 4 Segment information

The Group operates a comprehensive “Internet + Healthcare” ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management and intelligent healthcare solutions to the customers.

The Group’s chief operating decision maker, who has been identified as the CEO, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and no other discrete financial information is provided to the CEO. Hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reports. As the Group’s non-current assets are all located in the PRC and most of the Group’s revenue are derived from the PRC, no geographical information is presented. During the year ended December 31, 2020, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group’s revenue (2019: nil).

### 5 Revenue

(a) Disaggregation of revenue from contracts with customers:

|   | Year ended December 31, |                 |
|---|-------------------------|-----------------|
|   | 2020<br>RMB'000         | 2019<br>RMB'000 |
| <b>Type of goods or services:</b>               |                         |                 |
| Product revenue:                                |                         |                 |
| Sales of pharmaceutical and healthcare products | <b>16,773,547</b>       | 9,434,984       |
| Service revenue:                                |                         |                 |
| Marketplace, advertising and other services     | <b>2,609,021</b>        | 1,407,156       |
| <b>Total</b>                                    | <b>19,382,568</b>       | 10,842,140      |
| <b>Timing of revenue recognition:</b>           |                         |                 |
| A point in time                                 | <b>19,148,744</b>       | 10,673,558      |
| Overtime  | <b>233,824</b>          | 168,582         |
| <b>Total</b>                                    | <b>19,382,568</b>       | 10,842,140      |

## Notes to the Consolidated Financial Statements (Continued)

### 5 Revenue (Continued)

(b) Contract liabilities

The Group collected payments in advance from customers primarily for sales of pharmaceutical and healthcare products and marketplace service fees. The Group has recognized the following liabilities related to contracts with customers under “contract liabilities”:

|                      | As of December 31, |                 |
|----------------------|--------------------|-----------------|
|                      | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Contract liabilities | <b>179,462</b>     | 87,687          |

The directors of the Company expect that all of the contract liabilities as of December 31, 2020 will be recognized as revenue within one year (2019: within one year). The Group applies the practical expedient of not disclosing the transaction price allocated to the remaining performance obligation as the original expected duration of all the contracts of the Group are within one year or less.

(c) Revenue recognized in relation to contract liabilities

The following table shows the amount of the revenue recognized during the year ended December 31, 2020 relates to carried-forward contract liabilities:

|   | Year ended December 31, |                 |
|---|-------------------------|-----------------|
|   | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Revenue recognized that was included in the contract liabilities balance at the beginning of the year | <b>87,687</b>           | 40,519          |

As of January 1, 2019, contract liabilities amounted to RMB41 million.

## Notes to the Consolidated Financial Statements (Continued)

### 6 Loss before income tax

Loss before income tax has been arrived at after charging:

|   | Year ended December 31, |                 |
|---|-------------------------|-----------------|
|   | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Cost of inventories sold  | <b>14,330,050</b>       | 8,011,511       |
| Impairment provision for inventories  | <b>81,963</b>           | 981             |
| Expenses of logistics and warehousing services <sup>***</sup>   | <b>1,252,080</b>        | 818,932         |
| Expenses of technology and traffic support services allocated/<br>provided by JD Group <sup>**</sup>    | <b>908,163</b>          | 528,154         |
| Expenses related to other support services <sup>**</sup>  | <b>17,088</b>           | 62,825          |
| Expenses of payment services <sup>***</sup>   | <b>201,411</b>          | 133,045         |
| Promotion and advertising expenses  | <b>886,073</b>          | 456,681         |
| Employee benefit expenses (Note 8)  | <b>1,000,348</b>        | 272,028         |
| Depreciation of property and equipment and right-of-use assets and<br>amortization of intangible assets | <b>27,221</b>           | 7,423           |
| Auditor's remuneration  | <b>11,000</b>           | 708             |

\* Primarily consisted of the services allocated/provided by JD Group.

\*\* Prior to the Closing Date of Series A Preference Shares financing, the expenses of logistics and warehousing services, the expenses of technology and traffic support services, the expenses related to other support services and expenses of payment services were allocated on the basis as set out in Note 1.2. After the Closing Date of Series A Preference Shares financing, the expenses aforesaid were charged by JD Group in accordance with the terms and pricing policies of the related party transactions listed out in Series A Share Subscription Agreement and are set out in Note 31, except for the expenses related to other support services which are allocated on the basis as set out in Note 1.2. After the launch of CCT Arrangements, the majority of the transactions between JD Group and the Group are continuing connected transactions and recognized based on the terms stipulated in CCT Arrangements as set out in Note 1.2.

## Notes to the Consolidated Financial Statements (Continued)

### 7 Finance income

|  | Year ended December 31, |                 |
|--|-------------------------|-----------------|
|  | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Interest income from term deposits and bank balances | <b>149,116</b>          | 31,783          |

### 8 Employee benefit expenses

|  | Year ended December 31, |                 |
|--|-------------------------|-----------------|
|  | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Salaries and bonuses                   | <b>519,561</b>          | 168,849         |
| Share-based payment expenses (Note 26) | <b>380,299</b>          | 52,728          |
| Welfare, medical and other benefits    | <b>100,488</b>          | 50,451          |
| Total                                  | <b>1,000,348</b>        | 272,028         |

The employee benefit expenses include the remuneration of directors and the CEO during the reporting periods.

## Notes to the Consolidated Financial Statements (Continued)

### 9 Directors' and the CEO's emoluments

Directors' and the CEO's remuneration for the year ended December 31, 2020, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

#### (a) The remuneration of directors and the CEO

| Name                                 | For the year ended December 31, 2020 |   |   |  |                  |
|--------------------------------------|--------------------------------------|---|---|--|------------------|
|                                      | Salaries and bonuses<br>RMB'000      | Share-based compensation expenses<br>RMB'000<br>(Note 26) | Pension costs – defined contribution plans<br>RMB'000 | Welfare, medical and other benefits<br>RMB'000 | Total<br>RMB'000 |
| Executive director and CEO:          |                                      |   |   |  |                  |
| Lijun Xin <sup>1</sup>               | 3,192                                | 65,237  | 48  | 284  | 68,761           |
| Non-executive directors:             |                                      |   |   |  |                  |
| Richard Qiangdong Liu <sup>8</sup>   | –                                    | 227,537   | –   | –  | 227,537          |
| Lei Xu <sup>3/10</sup>               | –                                    | –   | –   | –  | –                |
| Sidney Xuande Huang <sup>4/10</sup>  | –                                    | –   | –   | –  | –                |
| Jingyang Wu <sup>5</sup>             | –                                    | –   | –   | –  | –                |
| Guiyong Cui <sup>6</sup>             | –                                    | –   | –   | –  | –                |
| Sandy Ran Xu <sup>7/10</sup>         | –                                    | –   | –   | –  | –                |
| Yayun Li <sup>7/10</sup>             | –                                    | –   | –   | –  | –                |
| Qingqing Yi <sup>7</sup>             | –                                    | –   | –   | –  | –                |
| Independent non-executive directors: |                                      |   |   |  |                  |
| Xingyao Chen <sup>9</sup>            | 24                                   | –   | –   | –  | 24               |
| Ling Li <sup>9</sup>                 | 24                                   | –   | –   | –  | 24               |
| Wenyi Huang <sup>9</sup>             | 24                                   | –   | –   | –  | 24               |
|                                      | <b>3,264</b>                         | <b>292,774</b>  | <b>48</b>   | <b>284</b>                                     | <b>296,370</b>   |

## Notes to the Consolidated Financial Statements (Continued)

### 9 Directors' and the CEO's emoluments (Continued)

#### (a) The remuneration of directors and the CEO (Continued)

| Name                                | For the year ended December 31, 2019 |   |  |  |  | Total<br>RMB'000 |
|-------------------------------------|--------------------------------------|---|--|--|--|------------------|
|                                     | Salaries and<br>bonuses<br>RMB'000   | Share-based<br>compensation<br>expenses<br>RMB'000<br>(Note 26) | Pension<br>costs — defined<br>contribution<br>plans<br>RMB'000 | Welfare,<br>medical and<br>other benefits<br>RMB'000 |  |                  |
| Executive director and CEO:         |                                      |   |  |  |  |                  |
| Lijun Xin <sup>1</sup>              | 2,594                                | 16,421  | 51   | 279  |  | 19,345           |
| Non-executive directors:            |                                      |   |  |  |  |                  |
| Nani Wang <sup>2/10</sup>           | —                                    | —   | —  | —  |  | —                |
| Lei Xu <sup>3/10</sup>              | —                                    | —   | —  | —  |  | —                |
| Sidney Xuande Huang <sup>4/10</sup> | —                                    | —   | —  | —  |  | —                |
| Jingyang Wu <sup>5</sup>            | —                                    | —   | —  | —  |  | —                |
| Guiyong Cui <sup>6</sup>            | —                                    | —   | —  | —  |  | —                |
|                                     | 2,594                                | 16,421  | 51   | 279  |  | 19,345           |

#### Notes:

- Appointed as the person in charge of the Group (similar to the CEO) since January 2017, and appointed as executive director since June 2019 and CEO since July 2019.
- Appointed as non-executive director since November 2018 and resigned in June 2019.
- Appointed as non-executive director since June 2019.
- Appointed as non-executive director since June 2019 and resigned in August 2020.
- Appointed as non-executive director since July 2019 and resigned in August 2020.
- Appointed as non-executive director since October 2019 and resigned in August 2020.
- Appointed as non-executive director since August 2020.
- Appointed as non-executive director since September 2020.
- Appointed as independent non-executive director since November 2020.
- These non-executive directors served as management in JD Group and their emoluments are borne and paid by JD Group.



## 9 Directors' and the CEO's emoluments (Continued)

### (a) The remuneration of directors and the CEO (Continued)

No emoluments were paid or payable to the non-executive directors of the Company during the year ended December 31, 2020, except for Mr. Richard Qiangdong Liu as set out in Note 26 (2019: nil).

The emoluments of the executive director and the CEO shown above were mainly for his management services rendered to the Company and the Group.

### (b) Benefits and interests of directors

Except for directors disclosed above, there is no other benefits offered to the other directors.

### (c) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the year ended December 31, 2020 (2019: nil).

### (d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the year or at any time during the year ended December 31, 2020 (2019: nil).

### (e) Information about loans, quasi-loans and other dealings in favor of directors, their controlled bodies and connected entities

No loans, quasi-loans and other dealings in favor of directors, their controlled bodies corporate and connected entities subsisted at the end of the year or at any time during the year ended December 31, 2020 (2019: nil).

### (f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2020 (2019: nil).

## Notes to the Consolidated Financial Statements (Continued)

### 10 Five highest paid employees

The five highest paid employees include two directors whose remuneration is set out in Note 9 during the year ended December 31, 2020 (2019: one). The emoluments payable to the remaining three individuals, who are neither a director nor the CEO of the Company, during the year ended December 31, 2020 (2019: four), were as follows:

|  | Year ended December 31, |                 |
|--|-------------------------|-----------------|
|  | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Salaries and bonuses                       | 5,708                   | 4,714           |
| Share-based payment expenses               | 19,965                  | 13,239          |
| Pension costs — defined contribution plans | 154                     | 182             |
| Welfare, medical and other benefits        | 465                     | 513             |
| <b>Total</b>                               | <b>26,292</b>           | <b>18,648</b>   |

The number of the highest paid employees whose emoluments fell within the following bands:

|  | Number of individuals<br>Year ended December 31, |          |
|--|--|----------|
|  | 2020   | 2019     |
| Emolument bands (in Hong Kong dollars ("HKD")) |  |          |
| Nil to HKD3,000,000                            | —  | 2        |
| HKD3,000,001 to HKD6,000,000                   | —  | —        |
| HKD6,000,001 to HKD9,000,000                   | 1  | 2        |
| HKD9,000,001 to HKD12,000,000                  | 1  | —        |
| HKD12,000,001 to HKD15,000,000                 | 1  | —        |
| <b>Total</b>                                   | <b>3</b>   | <b>4</b> |

During the year ended December 31, 2020, no emoluments were paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of office (2019: nil). None of directors, the CEO and employees waived or agreed to waive any emoluments during the year ended December 31, 2020 (2019: nil).

## 11 Income tax expense

### Income tax

#### Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

#### British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains.

#### Hong Kong

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HKD2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HKD2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HKD2 million.

#### PRC

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for PRC operating entities is 25%.

Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) ("Western Regions Catalog"), subject to certain general restrictions described in the EIT Law and the related regulations. Prior to the completion of the Spin-off, the Group's online marketing service business that is subject to the Spin-off from JD Group, was operated by the entities qualified as the enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate. Therefore, the enterprise income tax (the "EIT") of such online marketing service business was estimated by treating as separate tax payer using the tax rate of 15%. Upon the completion of the Spin-off, the online marketing service business was operated by the entity qualified as the enterprise within the Western Regions Catalog and enjoyed 15% preferential income tax rate.

**11 Income tax expense (Continued)****Income tax (Continued)****PRC (Continued)*****Withholding tax on undistributed dividends***

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a foreign investment enterprise ("FIE") to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during the year ended December 31, 2020 (2019: nil). Therefore, the Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities.

The income tax expense of the Group is analyzed as follows:

|                     | <b>Year ended December 31,</b> |         |
|---------------------|--------------------------------|---------|
|                     | <b>2020</b>                    | 2019    |
|                     | <b>RMB'000</b>                 | RMB'000 |
| Current income tax: |                                |         |
| PRC EIT             | <b>183,247</b>                 | 137,350 |
| Deferred income tax | <b>(20,491)</b>                | (245)   |
| <b>Total</b>        | <b>162,756</b>                 | 137,105 |

**11 Income tax expense (Continued)****Income tax (Continued)****PRC (Continued)*****Withholding tax on undistributed dividends (Continued)***

The income tax expense for the year can be reconciled to the loss before income tax per the consolidated statement of profit or loss as follows:

|   | <b>Year ended December 31,</b> |           |
|---|--------------------------------|-----------|
|   | <b>2020</b>                    | 2019      |
|   | <b>RMB'000</b>                 | RMB'000   |
| Loss before income tax  | <b>(17,072,141)</b>            | (834,700) |
| Tax calculated at PRC statutory income tax rate of 25%  | <b>(4,268,035)</b>             | (208,675) |
| Tax effects of:   |                                |           |
| — Expenses that are not deductible in determining taxable profit                                | <b>18,535</b>                  | 9,082     |
| — Super deduction for research and development expenses   | <b>(25,666)</b>                | (10,767)  |
| — Utilization of tax losses previously not recognized   | <b>(31,472)</b>                | (370)     |
| — Different tax rates available to different jurisdictions                                      | <b>(6,039)</b>                 | 2         |
| — Tax effect of tax-exempt entities   | <b>4,485,680</b>               | 311,978   |
| — Preferential income tax rates applicable to subsidiaries and consolidated affiliated entities | <b>(58,880)</b>                | (7,517)   |
| — Share of results of joint ventures  | <b>19,256</b>                  | —         |
| — Tax losses/deductible temporary differences not recognized                                    | <b>29,377</b>                  | 43,372    |
| <b>Total income tax expense</b>   | <b>162,756</b>                 | 137,105   |

**Deferred tax**

The following is the analysis of the deferred tax balances for financial reporting purposes:

|                     | <b>As of December 31,</b> |         |
|---------------------|---------------------------|---------|
|                     | <b>2020</b>               | 2019    |
|                     | <b>RMB'000</b>            | RMB'000 |
| Deferred tax assets | <b>21,689</b>             | 1,198   |

## Notes to the Consolidated Financial Statements (Continued)

### 11 Income tax expense (Continued)

#### Deferred tax (Continued)

The following is the deferred tax assets recognized and movements thereon during the reporting periods:

|                                | Impairment<br>provision for<br>inventories<br>RMB'000 | Credit loss<br>allowance<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------|---|-------------------------------------|------------------|
| <b>As of January 1, 2019</b>   | 953   | —                                   | 953              |
| Credited to profit or loss     | 245   | —                                   | 245              |
| <b>As of December 31, 2019</b> | 1,198   | —                                   | 1,198            |
| Credited to profit or loss     | <b>18,899</b>   | <b>1,592</b>                        | <b>20,491</b>    |
| <b>As of December 31, 2020</b> | <b>20,097</b>   | <b>1,592</b>                        | <b>21,689</b>    |

As of December 31, 2020, the Group had deductible temporary differences of RMB9,018,000 (2019: RMB7,311,000), from certain PRC entities. No deferred tax assets have been recognized in relation to such deductible temporary difference as it is uncertain that taxable profit will be available against which the deductible temporary differences can be utilized.

As of December 31, 2020, the Group had unused tax losses of RMB165 million (2019: RMB251 million) from certain PRC entities. Due to the unpredictability of future profit streams, no deferred tax asset had been recognized for these unused tax losses. As of December 31, 2020, these unrecognized tax losses will expire from 2021 to 2025.

### 12 Loss per share

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

- (a) Basic loss per share

|   | Year ended 31 December |               |
|---|------------------------|---------------|
|   | 2020                   | 2019          |
| Loss for the year attributable to owners of the Company<br>(RMB'000)                  | <b>(17,234,363)</b>    | (971,805)     |
| Weighted average number of ordinary shares for the purpose<br>of basic loss per share | <b>2,208,523,703</b>   | 2,149,253,732 |
| Basic loss per share attributable to owners of the Company<br>(RMB per share)         | <b>(7.80)</b>          | (0.45)        |

## Notes to the Consolidated Financial Statements (Continued)

### 12 Loss per share (Continued)

(b) Diluted loss per share

As the Group incurred losses for the year ended December 31, 2020, the potential ordinary shares were excluded in the calculation of the diluted loss per share as their effect would result in a decrease in loss per share, which is anti-dilutive. Accordingly, diluted loss per share for the year ended December 31, 2020 was the same as basic loss per share of the year (2019: the same as basic loss per share of the corresponding year).

### 13 Investments in joint ventures

|  | <b>As of<br/>December 31,<br/>2020<br/>RMB'000</b> |
|--|--|
| <b>As of January 1, 2020</b>   | —  |
| Cost of unlisted investments in joint ventures*                      | 682,745  |
| Share of post-acquisition loss and other comprehensive income/(loss) | (77,024)   |
| <b>As of December 31, 2020</b>                                       | <b>605,721</b>                                     |

\* including another insignificant joint venture other than Tangshan Hongci

The details of the primary investment in the joint venture as of December 31, 2020 are as follows:

| Name of entity  | Place of incorporation and principal place of operation | Principal activities                      | Percentage of equity interest | Percentage of voting rights |
|-----------------|---|---|-------------------------------|-----------------------------|
| Tangshan Hongci | Mainland China  | Healthcare enterprise management services | 49%                           | 49%                         |

In April 2020, the Group entered into a series of agreements with Tangshan Hongci Healthcare Management Co., Ltd.\*\* (“Tangshan Hongci”) (唐山弘慈醫療管理有限公司) and its shareholders, pursuant to which the Group injected approximately RMB668 million in cash to Tangshan Hongci for an equity interest of 49% on June 1, 2020. The Group accounts for the investee as a joint venture due to the veto rights that the Group entitled in making significant decisions in the board and shareholder meetings, which enable the Group to share the control with the existing shareholder of Tangshan Hongci. In addition, the Group entered into a loan agreement with Tangshan Hongci, pursuant to which the Group provided a three-year interest-bearing loan of approximately RMB227 million to Tangshan Hongci.

\*\* The English name of the joint venture is translated from its registered Chinese name for identification only.

## Notes to the Consolidated Financial Statements (Continued)

### 13 Investments in joint ventures (Continued)

Associated with the investment into Tangshan Hongci, the Group is entitled to a call option to acquire additional equity interest of 21% or above in Tangshan Hongci at a pre-determined schedule with the consideration calculated based on a pre-determined formula. Upon initial recognition, the Group's call option was classified as financial asset measured at FVTPL. Further details are set out in Note 14. The Group did not consider the call option may provide a potential voting power since it is not substantive as the option was out-of-the-money.

In addition, the Group has granted a put option to the existing shareholder of Tangshan Hongci, by which the existing shareholder shall have the right to request the Group to buy out their shares at a pre-determined schedule with put price calculated based on a pre-determined formula when the joint venture achieved certain pre-determined operating targets. Upon initial recognition, the put option granted by the Group was classified as financial liability measured at FVTPL. Further details are set out in Note 24.

Set out below is the summarized financial information of Tangshan Hongci.

|  | <b>As of<br/>December 31,<br/>2020<br/>RMB'000</b>                               |
|--|--|
| <b>Summarized consolidated statement of financial position</b>                                       |  |
| Non-current assets   | <b>2,859,597</b>   |
| Current assets   | <b>309,659</b>   |
| Non-current liabilities  | <b>1,308,763</b>   |
| Current liabilities  | <b>621,591</b>   |
| Equity attributable to owners of Tangshan Hongci   | <b>734,164</b>   |
| Non-controlling interest   | <b>504,738</b>   |
| <b>Summarized consolidated statement of profit or loss and<br/>other comprehensive income/(loss)</b> |  |
|  | <b>For the period from<br/>June 1, 2020 to<br/>December 31, 2020<br/>RMB'000</b> |
| Revenue for the period   | <b>245,604</b>   |
| Loss and total comprehensive loss for the period   | <b>(204,729)</b>   |



**13 Investments in joint ventures (Continued)**

|   | As of<br>December 31,<br>2020<br>RMB'000 |
|---|--|
| <b>Reconciliation to carrying amount</b>  |  |
| Equity attributable to owners of Tangshan Hongci                                    | 734,164                                  |
| Proportion of the Group's ownership interest in Tangshan Hongci                     | 49%                                      |
| Adjustment:   |  |
| — Goodwill, intangible asset, revaluation of property and land use right and others | 230,681                                  |
| Carrying amount   | 590,421                                  |

The aggregate share of profit/(loss) and other comprehensive income of the joint venture that is not individually material is insignificant to the Group.

There are no contingent liabilities relating to the Group's interests in joint ventures.

**14 Financial assets at FVTPL**

|   | As of December 31, |                 |
|---|--------------------|-----------------|
|   | 2020<br>RMB'000    | 2019<br>RMB'000 |
| <b>Non-current:</b>                     |                    |                 |
| Equity investments in private companies | 107,745            | 7,450           |
| Call option*                            | 160,078            | —               |
|   | 267,823            | 7,450           |
| <b>Current:</b>                         |                    |                 |
| Wealth management products**            | 1,507,713          | —               |
|   | 1,775,536          | 7,450           |

\* Details are set out in Note 13.

\*\* The wealth management products purchased by the Group is structured products with the expected rates of return ranging from 1.48% to 3.15% as of December 31, 2020, which was indexed to foreign exchange rate or interest rate. The Group managed and evaluated the performance of investments on a fair value basis in accordance with the Group's risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

## Notes to the Consolidated Financial Statements (Continued)

### 14 Financial assets at FVTPL (Continued)

The fair value of call option was estimated as of the date of grant and December 31, 2020, using a Black-Scholes model, taking into account the terms and conditions of the options granted.

The following table lists the inputs to the model used:

|                         | As of<br>the date of<br>grant | As of<br>December 31,<br>2020 |
|-------------------------|-------------------------------|-------------------------------|
| Expected volatility     | 34.8%                         | 41.6%                         |
| Risk-free interest rate | 2.04%                         | 2.85%                         |

Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to expiration. The Group estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date. In addition to the assumptions adopted above, projections of future performance were also factored into the determination of the fair value of the call option on valuation date.

### 15 Leases

The Group leases certain of its offline pharmacies, offices, warehouses and staff quarters under operating lease arrangements, which are negotiated for terms ranging from 1 to 6 years.

#### (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year ended December 31, 2020 are as follows:

|  | As of December 31, |         |
|--|--------------------|---------|
|  | 2020               | 2019    |
|  | RMB'000            | RMB'000 |
| Carrying amount at the beginning of the year | 10,567             | 3,025   |
| Additions                                    | 101,104            | 9,667   |
| Depreciation charge                          | (14,316)           | (2,125) |
| Carrying amount at the end of the year       | 97,355             | 10,567  |

## Notes to the Consolidated Financial Statements (Continued)

### 15 Leases (Continued)

#### (b) Lease liabilities

The carrying amounts of the Group's lease liabilities and the movements during the year ended December 31, 2020 are as follows:

|  | As of December 31, |                 |
|--|--------------------|-----------------|
|  | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Carrying amount at the beginning of the year | 11,263             | 3,126           |
| New leases                                   | 99,925             | 9,667           |
| Accretion of interest recognized             | 2,358              | 243             |
| Payments                                     | (23,568)           | (1,773)         |
| Carrying amount at the end of the year       | 89,978             | 11,263          |

|                                    | As of December 31, |                 |
|------------------------------------|--------------------|-----------------|
|                                    | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Analyzed as:                       |                    |                 |
| Non-current                        | 61,410             | 6,412           |
| Current                            | 28,568             | 4,851           |
|                                    | 89,978             | 11,263          |
| Present value of lease liabilities |                    |                 |
| — within one year                  | 28,568             | 4,851           |
| — between 1 and 2 years            | 21,557             | 3,206           |
| — between 2 and 5 years            | 39,853             | 3,012           |
| — over 5 years                     | —                  | 194             |
|                                    | 89,978             | 11,263          |

The lease liabilities were measured at the present value of the lease payments that are not yet paid using incremental borrowing rates. The weighted average incremental borrowing rates are set out in Note 29. All leases are entered at fixed rates.

The maturity analysis of lease liabilities at each reporting date and total cash outflow for leases during the reporting periods are set out in Note 29 and Note 30, respectively.

## Notes to the Consolidated Financial Statements (Continued)

### 16 Prepayments, other receivables and other assets

|   | As of December 31, |                 |
|---|--------------------|-----------------|
|   | 2020<br>RMB'000    | 2019<br>RMB'000 |
| <b>Current:</b>                                 |                    |                 |
| Amounts due from related parties                | <b>385,828</b>     | 929,665         |
| Advance to suppliers                            | <b>81,009</b>      | 11,140          |
| Recoverable value-added tax                     | <b>38,107</b>      | 5,905           |
| Interest receivable                             | <b>34,763</b>      | 7,721           |
| Prepaid expense                                 | <b>6,674</b>       | 822             |
| Amounts due from employees*                     | <b>4,438</b>       | —               |
| Estimated return of products sold               | <b>3,841</b>       | 2,396           |
| Others  | <b>678</b>         | 100             |
|   | <b>555,338</b>     | 957,749         |
| <b>Non-current:</b>                             |                    |                 |
| Amounts due from a related party (Note 31)      | <b>234,527</b>     | —               |
| Amounts due from employees*                     | <b>13,669</b>      | —               |
| Prepayments for investments in equity investees | —                  | 26,760          |
| Others  | <b>2,170</b>       | 431             |
|   | <b>250,366</b>     | 27,191          |

\* Mainly the first-home interest-free or low-interest loans provided by the Group to its employees.

### 17 Inventories

|                            | As of December 31, |                 |
|----------------------------|--------------------|-----------------|
|                            | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Products                   | <b>1,819,147</b>   | 1,283,133       |
| Less: impairment provision | <b>(86,757)</b>    | (4,794)         |
|                            | <b>1,732,390</b>   | 1,278,339       |

## Notes to the Consolidated Financial Statements (Continued)

### 18 Trade and note receivables

|                                      | As of December 31, |                 |
|--------------------------------------|--------------------|-----------------|
|                                      | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Trade receivables from third parties | 79,634             | 27,080          |
| Less: allowance for ECL              | (6,369)            | (6,252)         |
| Note receivables                     | 1,771              | 724             |
|                                      | <b>75,036</b>      | <b>21,552</b>   |

The Group applies the simplified approach under IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

As of January 1, 2019, trade receivables from contracts with customers amounted to RMB13 million.

The Group's trading terms with some of its customers are on credit. The Group primarily allows a credit period of 30 days. Trade receivables are settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables from third parties based on invoice date is as follows:

|                         | As of December 31, |                 |
|-------------------------|--------------------|-----------------|
|                         | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Within 3 months         | 71,412             | 13,921          |
| 3 to 6 months           | 1,685              | 3,799           |
| 6 to 12 months          | 1,744              | 8,791           |
| Over 12 months          | 4,793              | 569             |
|                         | <b>79,634</b>      | <b>27,080</b>   |
| Less: allowance for ECL | (6,369)            | (6,252)         |
|                         | <b>73,265</b>      | <b>20,828</b>   |

The Group held notes received for future settlement of trade receivables with insignificant amount. The Group continues to recognize their full carrying amounts at the end of each reporting period. All notes received by the Group are with a maturity period of less than one year.

As of December 31, 2020, included in the Group's trade receivables balance was debtors with aggregate carrying amount of RMB17 million (2019: RMB11 million), which was past due but not considered credit-impaired as of the reporting date. The Group has not provided an impairment loss as the Group is satisfied with the past subsequent settlement record and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

## Notes to the Consolidated Financial Statements (Continued)

### 19 Term deposits

|                      | As of December 31, |           |
|----------------------|--------------------|-----------|
|                      | 2020               | 2019      |
|                      | RMB'000            | RMB'000   |
| Term deposits in USD | <b>6,524,900</b>   | 1,395,240 |

The Group's term deposits are bank deposits redeemable on maturity, with original maturities over three months but below one year. The weight-average interest rates of the term deposits were 2.47% per annum for the year ended December 31, 2020 (2019: 2.70% per annum).

### 20 Cash and cash equivalents and restricted cash

#### Cash and cash equivalents

|                        | As of December 31, |           |
|------------------------|--------------------|-----------|
|                        | 2020               | 2019      |
|                        | RMB'000            | RMB'000   |
| Cash and bank balances | <b>32,270,792</b>  | 4,965,272 |

Cash and cash equivalents are denominated in the following currencies:

|       | As of December 31, |           |
|-------|--------------------|-----------|
|       | 2020               | 2019      |
|       | RMB'000            | RMB'000   |
| RMB   | <b>1,518,345</b>   | 4,242     |
| USD   | <b>23,088,138</b>  | 4,961,030 |
| HKD   | <b>7,664,309</b>   | —         |
| Total | <b>32,270,792</b>  | 4,965,272 |

#### Restricted cash

Restricted cash represents deposits held in designated bank accounts for issuance of bank acceptance. The Group held restricted cash of RMB39 million as of December 31, 2020 (2019: RMB6 million).

## Notes to the Consolidated Financial Statements (Continued)

### 21 Trade payables

Trade payables primarily consist of payables to suppliers.

The credit period of trade payables is mainly ranging from 30 to 60 days. An aging analysis of the trade payables based on the invoice date is as follows:

|                 | As of December 31, |                 |
|-----------------|--------------------|-----------------|
|                 | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Within 3 months | 2,066,689          | 444,984         |
| 3 to 6 months   | 750,321            | —               |
| 6 to 12 months  | 82,589             | —               |
| <b>Total</b>    | <b>2,899,599</b>   | 444,984         |

### 22 Accrued expenses and other payables

Accrued expenses and other payables consist of the following:

|   | As of December 31, |                 |
|---|--------------------|-----------------|
|   | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Deposits received*                          | 793,593            | 11,378          |
| Salary and welfare payables                 | 145,703            | 53,931          |
| Advances from customers                     | 129,787            | —               |
| Listing expenses and issuance costs payable | 102,532            | —               |
| Other tax payables                          | 25,867             | 3,344           |
| Liabilities for return allowances           | 3,855              | 2,295           |
| Amounts due to a related party (Note 31)    | —                  | 925,850         |
| Others                                      | 97,533             | 10,556          |
| <b>Total</b>                                | <b>1,298,870</b>   | 1,007,354       |

\* Mainly represents the deposits received from third-party merchants from the online marketplace business.

## Notes to the Consolidated Financial Statements (Continued)

### 23 Convertible preferred shares

In May 2019, the Company entered into Series A Share Subscription Agreement with a group of third-party investors. The Company issued 186,276,119 Series A Preference Shares at USD5.00 (equivalent to RMB34.81) per share for a total cash proceed of approximately USD931 million (equivalent to RMB6,482 million), representing 13.5% of the ownership of the Company on a fully diluted basis. The Series A Preference Shares are convertible at the option of the holders of Series A Preference Shares or automatically converted under certain events.

In February 2020, the Company underwent a 1:2 share split, having 372,552,238 Series A Preference Shares issued and outstanding with a par value of USD0.0000005 per share. All preferred shares and per share information were adjusted retrospectively for both years to reflect the share split.

In August 2020, the Company entered into definitive agreements for the series B preference shares (the "Series B Preference Shares") with a group of third-party investors. The total amount of financing raised was USD914 million (RMB6,314 million) and 130,319,819 Series B Preference Shares with a par value of USD0.0000005 per share were issued, representing 4.5% of the ownership of the Company on a fully diluted basis. The Series B Preference Shares are convertible at the option of the holder of Series B Preference Shares or automatically converted under certain events.

In December 2020, the Company's shares have been listed on the Hong Kong Stock Exchange. Upon the completion of its Listing, all the Series A Preference Shares and the Series B Preference Shares have been converted into ordinary shares on a conversion ratio of 1:1.

The rights, preferences and privileges of Convertible Preferred Shares are as follows:

#### **Dividend Rights**

Dividends shall only be payable to the Convertible Preferred Shares investors in cash on a pro rata basis for each of Convertible Preferred Shares held by them at an annual simple rate ("Rate X") of purchase price of each of Convertible Preferred Share if a qualified IPO has not occurred by the fifth anniversary after the Closing Date.

For the period from the fifth anniversary of the Closing Date till the end of the fiscal year of 2024, the Company shall accrue, declare and pay dividends to the Convertible Preferred Shares investors in cash on a pro rata basis for each of Convertible Preferred Shares held by them at an annual simple rate ("Rate Y") of purchase price of each of Convertible Preferred Share, which is higher than the Rate X.

For each fiscal year from 2025 until the date of the earlier of the qualified IPO and all the dividends that have been accrued for each of Convertible Preferred Shares has reached the purchase price of Convertible Preferred Shares, the Company shall accrue, declare and pay dividends to holders of the Convertible Preferred Shares in cash on a pro rata basis for each of Convertible Preferred Shares held by them at Rate Y of purchase price of each of Preferred Shares per annum, after that no further obligation for the Company to accrue, declare and pay preferred dividends to the holders of the Convertible Preferred Shares.



## 23 Convertible preferred shares (Continued)

### Dividend Rights (Continued)

Upon the qualified IPO by the end of the fiscal year during which the seventh anniversary of the Closing Date occurs, any and all preferred dividends that have been accrued or declared prior to the qualified IPO shall be automatically and immediately canceled and terminated, and each holder of Convertible Preferred Shares shall duly and unconditionally pay the Company an amount equal to the total amount of all the preferred dividends that the Company has paid to such holder before the consummation of the qualified IPO, and the Company will have no obligation to pay any of such preferred dividends.

However, the maximum amount of the preferred dividends can be paid is limited to an amount determined by the accumulated profit and the working capital of the Company.

### Voting Rights

Each of Convertible Preferred Shares shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Convertible Preferred Shares. The holders of the Series A Preference Shares, Series B Preference Shares and the holders of ordinary shares shall vote together and not as a separate class.

### Liquidation Rights

In case of any liquidation event, all assets and funds of the Company legally available for distribution to the holders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the holders of the Company as follows:

The Convertible Preferred Shares shareholders shall be entitled to receive the amount equal to one hundred percent of the applicable purchase price of such Convertible Preferred Shares plus interest on such purchase price at Rate X and minus all declared and paid dividends on such Convertible Preferred Shares.

### Conversion Rights

Each of the Convertible Preferred Shares shall be convertible, at the option of the holders of the Convertible Preferred Shares, at any time after the date of issuance of such Convertible Preferred Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Convertible Preferred Shares purchase price by the conversion price then applicable to such Convertible Preferred Shares. The conversion price of each of Convertible Preferred Shares is the same as its original issuance price if no adjustments to conversion price have occurred. The conversion price is subject to adjustments when any equity securities of the Company are issued at a price per share lower than the purchase price of Convertible Preferred Shares. Each of the Convertible Preferred Shares shall automatically be converted into ordinary shares at the conversion price then applicable to such Convertible Preferred Shares, respectively, (i) upon the consummation of an IPO; or (ii) with respect to the Convertible Preferred Shares, in the event that Convertible Preferred Shares shareholders holding at least 70% of the Convertible Preferred Shares in issue elect to convert the Convertible Preferred Shares.

## Notes to the Consolidated Financial Statements (Continued)

### 23 Convertible preferred shares (Continued)

#### Conversion Rights (Continued)

The movements of the convertible preferred shares are set out as below:

|   | RMB'000             |
|---|---------------------|
| <b>As of January 1, 2019</b>  | —                   |
| Issuance of Series A Preference Shares                                      | 6,313,002           |
| Change in fair value of Series A Preference Shares                          | 1,263,130           |
| Currency translation differences  | 8,288               |
| <b>As of December 31, 2019</b>  | 7,584,420           |
| Issuance of Series A Preference Shares                                      | <b>168,862</b>      |
| Issuance of Series B Preference Shares                                      | <b>6,314,205</b>    |
| Change in fair value of convertible preferred shares                        | <b>17,539,858</b>   |
| Conversion of convertible preferred shares upon the initial public offering | <b>(29,911,836)</b> |
| Currency translation differences  | <b>(1,695,509)</b>  |
| <b>As of December 31, 2020</b>  | —                   |

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of convertible preferred shares at the end of each reporting period. Key assumptions are set as below:

|   | As of December 31,<br>2019 |
|---|----------------------------|
| Discount rate                               | 15.0%                      |
| Risk-free interest rate                     | 2.28%                      |
| Discount for lack of marketability ("DLOM") | 20%                        |
| Volatility                                  | 30%                        |

Discount rate was estimated by weighted average cost of capital as of each valuation date. The Group estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date plus country risk spread. The DLOM was estimated based on the option-pricing method. Under the option pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before respective valuation date and with similar span as time to expiration. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of convertible preferred shares on each valuation date.

## 24 Financial liabilities at FVTPL

|             | <b>As of December 31,<br/>2020<br/>RMB'000</b> |
|-------------|--|
| Put option* | <b>143,113</b>                                 |

\* Details are set out in Note 13.

The fair value of put option was estimated using a Black-Scholes model, taking into account the terms and conditions upon which the option is granted.

The following table lists the inputs to the model used:

|                         | <b>As of<br/>the date of<br/>grant</b> | <b>As of<br/>December 31,<br/>2020</b> |
|-------------------------|--|--|
| Expected volatility     | <b>37.8%</b>                           | <b>47.2%</b>                           |
| Risk-free interest rate | <b>1.72%</b>                           | <b>2.60%</b>                           |

Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to expiration. The Group estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date. In addition to the assumptions adopted above, projections of future performance were also factored into the determination of the fair value of the put option on valuation date.

## 25 Share capital

In July 2019, all the equity interests of PRC Operating Entities were transferred to Suqian Jingdong Tianning at an amount of RMB2,000,000. As of January 1, 2019, since the equity interest of PRC Operating Entities has not been transferred to the Suqian Jingdong Tianning and the Company has already been incorporated, the paid-in capital/share capital of the Group represents the paid-in capital of PRC Operating Entities and the share capital of the Company. As of December 31, 2019 and 2020, the share capital of the Group represents the share capital of the Company as the transfer of equity interests of PRC Operating Entities was completed.

### Authorized

The Company was incorporated in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands in November 2018 with an authorized share capital of USD50,000 divided into 50,000 shares at a par value of USD1.00 each. Upon incorporation of the Company, one share was issued at par value of USD1.00, equivalent to approximately RMB6.93.

## Notes to the Consolidated Financial Statements (Continued)

### 25 Share capital (Continued)

#### Authorized (Continued)

In June 2019, each authorized and issued share at a par value of USD1.00 was subdivided into 1,000,000 shares at a par value of USD0.000001 each, such that the authorized shares of 50,000 of the Company was divided into 50,000,000,000 shares, out of which 49,781,223,881 shares were ordinary shares at a nominal or par value of USD0.000001 each and 218,776,119 shares were preferred shares at a nominal or par value of USD0.000001 each, of which 218,776,119 are designated as Series A Preference Shares.

In February 2020, Company underwent another 1:2 share split to each authorized and issued shares, such that the share capital of the Company is USD50,000 divided into 99,562,447,762 ordinary Shares at a nominal or par value of USD0.0000005 each and 437,552,238 preferred shares at a nominal or par value of USD0.0000005 each, of which 437,552,238 were designated as Series A Preference Shares.

In August 2020, 135,948,562 ordinary Shares were designated as Series B Preference Shares at a nominal or par value of USD0.0000005 each.

In December 2020, 372,552,238 Series A Preference Shares and 130,319,819 Series B Preference Shares were converted into ordinary Shares at a nominal or par value of USD0.0000005 each, as set out in Note 23.

#### Issued

|  | Number of<br>ordinary shares | Nominal value of<br>ordinary shares<br>USD | Nominal value of<br>ordinary shares<br>RMB |
|--|------------------------------|--|--|
| <b>As of January 1, 2019<sup>1</sup></b>   | 1                            | 1  | 7  |
| Split of shares <sup>2</sup>   | 999,999                      | —  | —  |
| Issuance of ordinary shares <sup>2</sup>   | 1,073,626,866                | 1,074                                      | 7,381                                      |
| <b>As of December 31, 2019</b>   | 1,074,626,866                | 1,075                                      | 7,388                                      |
| Split of shares <sup>3</sup>   | <b>1,074,626,866</b>         | —  | —  |
| Issuance of ordinary shares to Amazing Start <sup>4</sup>                                | <b>93,056,322</b>            | <b>47</b>                                  | <b>304</b>                                 |
| Conversion of convertible preferred shares upon the initial public offering <sup>5</sup> | <b>502,872,057</b>           | <b>251</b>                                 | <b>1,642</b>                               |
| Issuance of ordinary shares upon the Listing <sup>6</sup>                                | <b>439,185,000</b>           | <b>220</b>                                 | <b>1,435</b>                               |
| <b>As of December 31, 2020</b>   | <b>3,184,367,111</b>         | <b>1,593</b>                               | <b>10,769</b>                              |

Notes:

- In November 2018, the Company was incorporated with an authorized share capital of USD1.00, consisting of 1 ordinary share at USD1.00 par value, which had been issued in November 2018 and was fully paid in April 2019.
- In June 2019, the 1 ordinary share was subdivided by 1:1,000,000 and additional 1,073,626,866 new shares were issued at a par value of USD0.000001 per share to JD Jiankang Limited. The newly issued ordinary shares were fully paid in June 2019.

## 25 Share capital (Continued)

### Issued (Continued)

Notes: (Continued)

3. In February 2020, the Company underwent another 1:2 share split, having 2,149,253,732 ordinary shares issued and outstanding with a par value of USD0.0000005 per share.
4. In November 2020, 93,056,322 ordinary shares were issued to Amazing Start Management Limited (the "Amazing Start"), which is wholly owned by The Core Trust Company Limited, being the trustee holding the shares on trust for the benefit of the participants of the Pre-IPO ESOP as defined in Note 26. As the Company has the control over Amazing Start, the shares held by the trustee were consolidated and presented as treasury shares in the consolidated financial statements.
5. In December 2020, upon the completion of the Listing, 372,552,238 Series A Preference Shares with a par value of USD0.0000005 per share and 130,319,819 Series B Preference Shares with a par value of USD0.0000005 per share have been converted into 502,872,057 ordinary shares on a one-to-one basis, as set out in Note 23.
6. In December 2020, upon completion of the Listing, the Company issued 439,185,000 ordinary shares (including the exercise of the over-allotment option of the Listing) at par value of USD0.0000005 for cash consideration of HK\$70.58 per share (exclusive of brokerage, SFC transaction levy and stock exchange trading fee). The proceeds of HK\$1,702 (equivalent to RMB1,435) representing par value of the ordinary shares of the Company, were credited to the Company's share capital. The remaining net proceeds of HK\$30,998 million (equivalent to RMB26,125 million) were credited to the Company's share premium. The listing expenses amounted to RMB64 million were charged to the consolidated statement of profit or loss for the year ended December 31, 2020.

## 26 Share-based payments

Prior to the launch of the JD Health Share Incentive Plan, the Group did not have its own share incentive plan. The employees of the Group were eligible for JD Group Share Incentive Plan, which included share options and RSUs. Accordingly, the Group accounted for such plans by measuring the services received from the grantees in accordance with the requirement applicable to equity-settled share-based payment transactions, and recognized a corresponding increase in equity as a deemed contribution from JD Group in accordance with IFRS 2.

On September 14, 2020, a pre-IPO employee share incentive plan (the "Pre-IPO ESOP") was conditionally approved and adopted by the board of the Company. The maximum aggregate number of underlying shares which may be issued pursuant to all awards under the Pre-IPO ESOP is 238,805,970 shares as of September 14, 2020. As of December 31, 2020, the Company has granted certain options under the Pre-IPO ESOP. The Company does not plan to grant further awards under the Pre-IPO ESOP after the Listing. The exercise price of the options under the Pre-IPO ESOP is USD0.0000005 per Share. No consideration was payable by the grantees for the grant of the options under the Pre-IPO ESOP. As of December 31, 2020, 93,056,322 ordinary shares have been issued to Amazing Start.

## Notes to the Consolidated Financial Statements (Continued)

### 26 Share-based payments (Continued)

In November, 2020, a post-IPO share option scheme (the "Post-IPO Share Option Scheme") and a post-IPO share awards scheme (the "Post-IPO Share Awards Scheme") (collectively the "Post-IPO ESOP") were approved and adopted by the Company. The total number of shares which may be issued upon exercise of all options to be granted under the Post-IPO ESOP is 312,708,211 shares as of December 31, 2020. The Post-IPO ESOP commenced in November, 2020 and will be valid and effective for the period of ten years commencing on the Listing Date. As of December 31, 2020, no share options were granted under the Post-IPO ESOP.

The table below sets forth share-based payment expenses for RSUs and share options during the years ended December 31, 2020 and 2019:

|               | Year ended December 31, |         |
|---------------|-------------------------|---------|
|               | 2020                    | 2019    |
|               | RMB'000                 | RMB'000 |
| RSUs          | 47,614                  | 51,380  |
| Share options | 332,685                 | 1,348   |
|               | <b>380,299</b>          | 52,728  |

#### 26.1 JD Group Share Incentive Plan

JD Group granted share-based awards to eligible employees and non-employees pursuant to the share incentive plan, which was adopted in November, 2014 and governed the terms of the awards.

The RSUs and share options are generally service-based and scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of JD Group Share Incentive Plan, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years.

The Group recognizes share-based payment expenses in its consolidated statement of profit or loss based on awards ultimately expected to vest, after considering estimated forfeitures of the Group. The number of share options granted expected to vest has been reduced to reflect historical experience of forfeiture of certain percentage of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted.

**26 Share-based payments (Continued)****26.1 JD Group Share Incentive Plan (Continued)****Share options**

A summary of activities of the service-based share options is presented as follows:

|  | Number of<br>share options | Weighted average<br>exercise price<br>USD | Weighted average<br>remaining<br>contractual term<br>Year |
|--|----------------------------|---|---|
| <b>Outstanding as of January 1, 2019</b>   | 297,004                    | 10.35                                     | 6.0   |
| Exercised                                  | (17,756)                   | 3.96                                      |   |
| Transfer*                                  | 14,250                     | 3.96                                      |   |
| <b>Outstanding as of December 31, 2019</b> | 293,498                    | 10.42                                     | 5.0   |
| Exercised                                  | <b>(17,250)</b>            | <b>3.96</b>                               |   |
| Forfeited or cancelled**                   | <b>(75,588)</b>            | <b>11.14</b>                              |   |
| <b>Outstanding as of December 31, 2020</b> | <b>200,660</b>             | <b>10.71</b>                              | <b>4.1</b>  |

\* The transfer represents the addition or deduction of share options that were previously granted to employees who transferred into or out of the Listing Business during the year ended December 31, 2019.

\*\* The number was primarily consisted of the share options canceled by JD Group which was replaced with the new issued share options by the Company under JD Health Share Incentive Plan.

The number of exercisable share options as of December 31, 2020 was 200,660 (2019: 226,826).

The fair value of share options was estimated using the binominal option-pricing model. The determination of estimated fair value of share-based payment awards on the grant date is affected by the fair value of JD.com, Inc.'s ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include the expected volatility of the shares of JD.com, Inc. over the expected term of the awards, actual and projected employee share option exercise behaviors, a risk-free interest rate and expected dividends, if any.

## Notes to the Consolidated Financial Statements (Continued)

### 26 Share-based payments (Continued)

#### 26.1 JD Group Share Incentive Plan (Continued)

##### RSUs

A summary of activities of the service-based RSUs is presented as follows:

|   | Number of RSUs     | Weighted-<br>average grant-<br>date fair value<br>USD |
|---|--------------------|---|
| <b>Unvested as of January 1, 2019</b>   | 1,611,542          | 14.03   |
| Granted                                 | 454,140            | 14.67   |
| Vested                                  | (374,976)          | 13.65   |
| Transfer*                               | 1,485,538          | 14.61   |
| Forfeited or canceled                   | (22,456)           | 16.06   |
| <b>Unvested as of December 31, 2019</b> | <b>3,153,788</b>   | <b>14.43</b>  |
| Granted                                 | <b>454,550</b>     | <b>21.71</b>  |
| Vested                                  | <b>(516,174)</b>   | <b>14.95</b>  |
| Transfer*                               | <b>(95,108)</b>    | <b>1.00</b>   |
| Forfeited or canceled**                 | <b>(2,462,998)</b> | <b>15.51</b>  |
| <b>Unvested as of December 31, 2020</b> | <b>534,058</b>     | <b>17.85</b>  |

\* The transfer represents the addition or deduction of RSUs that were previously granted to employees who transferred into or out of the Listing Business during the reporting periods.

\*\* The number was primarily consisted of the RSUs canceled by JD Group which was replaced with the new issued share options by the Company under JD Health Share Incentive Plan.

The estimated compensation cost of RSUs was based on the fair value of JD.com, Inc.'s ordinary shares on the date of the grant. The Group recognizes the compensation cost, net of estimated forfeitures, over the vesting term of the RSUs.



## 26 Share-based payments (Continued)

### 26.2 JD Health Share Incentive Plan

The Group grants share-based awards to eligible employees and non-employees pursuant to JD Health Share Incentive Plan, which governs the terms of the awards. The Company adopted the JD Health Share Incentive Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of the Group.

In October 2020, with the approvals of the board of directors of the Company, the Company granted to directors, senior management and other connected persons of the Company and other employees of the Group to subscribe for an aggregate of 94,770,812 shares. This includes options granted to Mr. Richard Qiangdong Liu, the non-executive director of the Company, to acquire 53,042,516 ordinary shares of the Company according to the Pre-IPO ESOP, subject to a six year vesting schedule. Since then, no shares under Pre-IPO ESOP has been granted.

As of December 31, 2020, the Group has reserved 312,708,211 shares under Post-IPO ESOP which are available to be granted as share-based awards under the JD Health Share Incentive Plan (2019: nil).

The share options are generally scheduled to be vested between one to six years. All, one-second, one-third, one-fourth, one-fifth, or one-sixth of the awards, which are with service conditions, shall be vested upon agreed dates and the remaining of the awards shall be vested on straight line basis at the anniversary years. Certain share options granted with performance conditions, shall be vested upon the end of the calendar quarter if performance conditions met and the remaining of awards shall be vested on a straight-line basis at the end of the remaining calendar quarters if performance conditions met.

#### Share options

(a) Service-based share options

A summary of activities of the service-based share options is presented as follows:

|  | Number of<br>share options | Weighted average<br>exercise price<br>USD | Weighted average<br>remaining<br>contractual term<br>Year |
|--|----------------------------|---|---|
| <b>Outstanding as of commencement date</b> | —                          | —   |   |
| Granted                                    | 74,066,222                 | 0.0000005                                 |   |
| Forfeited                                  | (39,344)                   | 0.0000005                                 |   |
| <b>Outstanding as of December 31, 2020</b> | <b>74,026,878</b>          | <b>0.0000005</b>                          | <b>9.8</b>  |

The number of exercisable share options as of December 31, 2020 was 303,481 (2019: nil).

## Notes to the Consolidated Financial Statements (Continued)

### 26 Share-based payments (Continued)

#### 26.2 JD Health Share Incentive Plan (Continued)

##### Share options (Continued)

(a) Service-based share options (Continued)

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The fair value of the share options is estimated based on the fair value of the Company's ordinary shares on the date of grant using the binominal option-pricing model with the following assumptions:

|  | Year ended<br>December 31,<br>2020 |
|--|------------------------------------|
| Expected volatility  | 31.6%                              |
| Risk-free interest rate (per annum)                                    | 1.71%–1.76%                        |
| Expected dividend yield  | —                                  |
| Expected term (in years)   | 10                                 |
| Fair value of the underlying shares on the date of option grants (USD) | 7.45                               |

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The weighted average grant date fair value of options granted for the year ended December 31, 2020 was USD7.45 per share.

(b) Performance-based share options

A summary of activities of the performance-based share options is presented as follows:

|  | Number of<br>share options | Weighted average<br>exercise price<br>USD | Weighted average<br>remaining<br>contractual term<br>Year |
|--|----------------------------|---|---|
| <b>Outstanding as of commencement date</b> | —                          | —   |   |
| Granted                                    | 20,704,590                 | 0.0000005                                 |   |
| <b>Outstanding as of December 31, 2020</b> | 20,704,590                 | 0.0000005                                 | 9.7   |

The number of exercisable performance-based share options as of December 31, 2020 was nil (2019: nil). At the end of each reporting year, the Group revises its estimates of the number of options that are expected to vest based on performance conditions, with the impact of the revision to original estimates, if any, in profit or loss, along with a corresponding adjustment to equity.

## 26 Share-based payments (Continued)

### 26.2 JD Health Share Incentive Plan (Continued)

#### Share options (Continued)

##### (b) Performance-based share options (Continued)

Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The fair value of the share options is estimated based on the fair value of the Company's ordinary shares on the date of grant using the binominal option-pricing model with the following assumptions:

|  | <b>Year ended<br/>December 31, 2020</b> |
|--|---|
| Expected volatility  | <b>31.6%</b>                            |
| Risk-free interest rate (per annum)                                    | <b>1.71%</b>                            |
| Expected dividend yield  | —                                       |
| Expected term (in years)   | <b>10</b>                               |
| Fair value of the underlying shares on the date of option grants (USD) | <b>7.45</b>                             |

The volatility factor estimated was based on the historical share price movement of the comparable companies for the period of time close to the expected time to exercise. The weighted average grant date fair value of options granted for the year ended December 31, 2020 was USD7.45 per share.

#### Modifications to share-based payment arrangements

During the year ended December 31, 2020, JD Group canceled certain number of unvested share options and RSUs under JD Group Share Incentive Plan which were granted to the employees of the Group, and concurrently the Company granted to the same employees certain share options under the Pre-IPO ESOP of the Group. The Company accounted for such arrangement as a modification and recognized the incremental fair value as share-based payment expenses over the remaining new vesting period.

## 27 Dividends

No dividends had been paid or declared by the Company for the year ended December 31, 2020, nor has any dividend been proposed since December 31, 2020 (2019: nil).

## 28 Capital commitments

The Group had no material capital commitment as of December 31, 2020 (2019: nil).

## Notes to the Consolidated Financial Statements (Continued)

### 29 Financial instruments

#### 29.1 Financial instruments by categories

|   | Notes | As of December 31, |                 |
|---|-------|--------------------|-----------------|
|   |       | 2020<br>RMB'000    | 2019<br>RMB'000 |
| <b>Financial assets</b>                 |       |                    |                 |
| Financial assets at fair value:         |       |                    |                 |
| Financial assets at FVTPL               | 14    | <b>1,775,536</b>   | 7,450           |
| Financial assets at amortized cost      |       | <b>39,585,401</b>  | 7,325,872       |
| <b>Financial liabilities</b>            |       |                    |                 |
| Financial liabilities at fair value:    |       |                    |                 |
| Convertible preferred shares            | 23    | —                  | 7,584,420       |
| Financial liabilities at FVTPL          | 24    | <b>143,113</b>     | —               |
| Financial liabilities at amortized cost |       | <b>3,959,315</b>   | 1,392,771       |

#### 29.2 Financial risk management

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the directors of the Company.

The Group's major financial instruments include financial assets at FVTPL, trade and note receivables, other receivables, term deposits, restricted cash, cash and cash equivalents, lease liabilities, financial liabilities at FVTPL, trade payables and other payables. Details of the financial instruments are disclosed in respective notes. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

##### (a) Market risk

###### **Foreign exchange risk**

The functional currency of the Group's entities incorporated in Cayman Islands, BVI and Hong Kong is USD. The Group's PRC subsidiaries and consolidated affiliated entities determined their functional currency to be RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

## 29 Financial instruments (Continued)

### 29.2 Financial risk management (Continued)

#### (a) Market risk (Continued)

##### **Foreign exchange risk (Continued)**

During the reporting periods, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant. The directors of the Company consider that any reasonable changes in foreign exchange rates of other currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

##### **Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest risk. The Group's cash flow interest rate risk primarily arose from cash and cash equivalents and restricted cash, details of which have been disclosed in Note 20. The Group's fair value interest risk primarily arises from term deposit and lease liabilities, details of which have been disclosed in Note 19 and Note 15, respectively.

If the interest rate had been 50 basis points higher/lower, the loss before income tax for the year ended December 31, 2020 would have been approximately RMB54 million lower/higher (2019: RMB9 million), mainly as a result of higher/lower interest income on floating-rate cash and cash equivalents and restricted cash.

##### **Price risk**

The Group is exposed to price risk in respect of its equity investments in private companies and call option measured as financial assets at FVTPL, wealth management products and put option measured as financial liability at FVTPL. The above financial instruments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

##### **Sensitivity analysis**

Fair value of convertible preferred shares is affected by changes in the Group's equity value, the sensitivity analysis of which has been disclosed in Note 29.4. The fair value change of call option, put option and equity investments in private companies is considered immaterial.

## 29 Financial instruments (Continued)

### 29.2 Financial risk management (Continued)

#### (b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's credit risk is mainly associated with cash and cash equivalents, restricted cash, term deposits, trade and note receivables and other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's cash and cash equivalents, restricted cash and term deposits are mainly deposited in state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of default in relation to these financial institutions. The Group considers the instruments have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant during the reporting periods. The Group considers that there is no significant credit risk and does not generate any material losses due to the default of the other parties.

In order to minimize credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and note receivables and other receivables to categorize exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

## 29 Financial instruments (Continued)

### 29.2 Financial risk management (Continued)

#### (b) Credit risk (Continued)

The table below set forth how the Group defines the credit risk grading of its counterparties and its accounting policies for recognition of ECL:

| Category   | Group definition of category  | Basis for recognition of ECL                               |   |
|------------|---|--|---|
| Performing | Trade receivables and other receivables<br>The Counterparties have a low risk of default and a strong capacity to meet contractual cash flows | Trade receivables<br>Lifetime ECL<br>— not credit-impaired | Other receivables<br>12m ECL. Where the expected lifetime of an asset is less than 12 months, ECL are measured at its expected lifetime |
| Doubtful   | There has been a significant increase in credit risk since initial recognition  | Lifetime ECL — not credit-impaired                         |   |
| In default | There is evidence indicating the asset is credit-impaired   | Lifetime ECL — credit impaired                             |   |
| Write-off  | There is evidence indicating that debtor is in severe financial difficulty and the Group has no realistic prospect of recovery                | Asset is written off                                       |   |

The directors of the Company estimate the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

## Notes to the Consolidated Financial Statements (Continued)

### 29 Financial instruments (Continued)

#### 29.2 Financial risk management (Continued)

##### (b) Credit risk (Continued)

On that basis, the loss allowance as of December 31, 2020 and 2019 was determined as follows for trade receivables:

##### As of December 31, 2020

| <b>Provision on collective basis</b> | <b>Within<br/>3 months</b> | <b>3 to 6<br/>months</b> | <b>6 to 12<br/>months</b> | <b>Total</b>   |
|--------------------------------------|----------------------------|--------------------------|---------------------------|----------------|
| Lifetime expected credit loss rate   | <b>0.39%</b>               | <b>12.63%</b>            | <b>62.33%</b>             |                |
| Gross carrying amount (RMB'000)      | <b>71,412</b>              | <b>1,685</b>             | <b>1,744</b>              | <b>74,841</b>  |
| Loss allowance (RMB'000)             | <b>(276)</b>               | <b>(213)</b>             | <b>(1,087)</b>            | <b>(1,576)</b> |

##### As of December 31, 2019

| <b>Provision on collective basis</b> | <b>Within<br/>3 months</b> | <b>3 to 6<br/>months</b> | <b>6 to 12<br/>months</b> | <b>Total</b> |
|--------------------------------------|----------------------------|--------------------------|---------------------------|--------------|
| Lifetime expected credit loss rate   | 0.31%                      | 9.61%                    | 60.00%                    |              |
| Gross carrying amount (RMB'000)      | 13,921                     | 3,799                    | 8,791                     | 26,511       |
| Loss allowance (RMB'000)             | (43)                       | (365)                    | (5,275)                   | (5,683)      |

The following table shows the movement in lifetime ECL that has been recognized for trade receivables under the simplified approach.

|   | <b>Lifetime ECL<br/>(not credit-<br/>impaired)<br/>RMB'000</b> | <b>Lifetime ECL<br/>(credit-<br/>impaired)<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|---|--|--|--------------------------|
| As of January 1, 2019                   | 4,393  | —  | 4,393                    |
| Impairment losses recognized            | 1,290  | 569  | 1,859                    |
| As of December 31, 2019                 | 5,683  | 569  | 6,252                    |
| Impairment losses (reversed)/recognized | <b>(4,107)</b>   | <b>4,224</b>   | <b>117</b>               |
| <b>As of December 31, 2020</b>          | <b>1,576</b>   | <b>4,793</b>   | <b>6,369</b>             |



## 29 Financial instruments (Continued)

### 29.2 Financial risk management (Continued)

#### (b) Credit risk (Continued)

No allowance has been provided for note receivables since the balances are all with the banks which have low credit risks during the year ended December 31, 2020.

No concentration of credit risk noted on the trade and note receivables of the Group for both years.

For other receivables, the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, qualitative information that is reasonable, including but not limited to credit background of the debtors, and forward-looking information. The Group believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended December 31, 2020, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognized.

In addition, the management is of the opinion that there has no default occurred for trade receivables past due 90 days or more other than those identified as credit-impaired and the balances are still considered fully recoverable due to long-term/on-going relationship and good repayment record from these customers.

#### (c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details remaining contractual maturity of the Group's financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities on the earliest date which the Group can be required to pay. The maturity dates are based on the agreed repayment dates.

## Notes to the Consolidated Financial Statements (Continued)

### 29 Financial instruments (Continued)

#### 29.2 Financial risk management (Continued)

##### (c) Liquidity risk (Continued)

The table includes both interest and principal cash flows.

|  | The Group                                    |                               |  |  |  |                            |                  |
|--|--|-------------------------------|--|--|--|----------------------------|------------------|
|  | Weighted<br>average<br>interest<br>rate<br>% | Carrying<br>amount<br>RMB'000 | On demand<br>or less than<br>1 year<br>RMB'000 | Between<br>1 and 2<br>years<br>RMB'000 | Between<br>2 and 5<br>years<br>RMB'000 | Over<br>5 years<br>RMB'000 | Total<br>RMB'000 |
| <b>As of December 31, 2020</b>   |  |                               |  |  |  |                            |                  |
| Trade payables   | —  | 2,899,599                     | 2,899,599                                      | —                                      | —                                      | —                          | 2,899,599        |
| Lease liabilities  | 4.67   | 89,978                        | 29,194   | 23,152                                 | 46,341                                 | —                          | 98,687           |
| Financial liabilities<br>included in accrued<br>expenses and<br>other payables | —  | 1,059,716                     | 1,059,716                                      | —                                      | —                                      | —                          | 1,059,716        |
|  |  | <b>4,049,293</b>              | <b>3,988,509</b>                               | <b>23,152</b>                          | <b>46,341</b>                          | <b>—</b>                   | <b>4,058,002</b> |
| <b>As of December 31, 2019</b>   |  |                               |  |  |  |                            |                  |
| Trade payables   | —  | 444,984                       | 444,984  | —                                      | —                                      | —                          | 444,984          |
| Lease liabilities  | 4.71   | 11,263                        | 4,940  | 3,454                                  | 3,477                                  | 263                        | 12,134           |
| Financial liabilities<br>included in accrued<br>expenses and<br>other payables | —  | 947,787                       | 947,787  | —                                      | —                                      | —                          | 947,787          |
| Convertible preferred<br>shares  | —  | 7,584,420                     | —  | —                                      | —                                      | 6,313,002                  | 6,313,002        |
|  |  | <b>8,988,454</b>              | <b>1,397,711</b>                               | <b>3,454</b>                           | <b>3,477</b>                           | <b>6,313,265</b>           | <b>7,717,907</b> |

Details of the description of convertible preferred shares and financial liabilities at FVTPL are presented in Note 23 and Note 24, respectively.

## 29 Financial instruments (Continued)

### 29.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and reserves) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends to pay to shareholders, capital to return to shareholders, new shares to issue, shares of the Company to repurchase and debts to raise/repay. In the opinion of the directors of the Company, the Group's capital risk is low.

### 29.4 Fair value measurement of financial instruments

#### **Determination of fair value and fair value hierarchy**

IFRS 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value.

The level of fair value calculation is determined by the lowest level input that is significant in the overall calculation. As such, the significance of the input should be considered from an overall perspective in the calculation of fair value.

For Level 2 financial instruments, valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyze and interpret information related to market transactions and other key valuation model inputs from multiple sources, and through the use of widely accepted internal valuation models, provide a theoretical quote on various securities.

## Notes to the Consolidated Financial Statements (Continued)

### 29 Financial instruments (Continued)

#### 29.4 Fair value measurement of financial instruments (Continued)

##### Determination of fair value and fair value hierarchy (Continued)

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measurement within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement.

The following tables provide the fair value measurement hierarchy of the Group's financial assets and liabilities:

|                                | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>As of December 31, 2020</b> |                    |                    |                    |                  |
| Assets:                        |                    |                    |                    |                  |
| Financial assets at FVTPL      | —                  | 1,507,713          | 267,823            | 1,775,536        |
| Liabilities:                   |                    |                    |                    |                  |
| Financial liabilities at FVTPL | —                  | —                  | 143,113            | 143,113          |
| <b>As of December 31, 2019</b> |                    |                    |                    |                  |
| Assets:                        |                    |                    |                    |                  |
| Financial assets at FVTPL      | —                  | —                  | 7,450              | 7,450            |
| Liabilities:                   |                    |                    |                    |                  |
| Convertible preferred shares   | —                  | —                  | 7,584,420          | 7,584,420        |

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the year ended December 31, 2020, there were no transfers among different levels of fair values measurement (2019: nil).

**29 Financial instruments (Continued)****29.4 Fair value measurement of financial instruments (Continued)****Determination of fair value and fair value hierarchy (Continued)**

Reconciliation of Level 3 fair value measurements:

|   | Financial<br>assets at<br>FVTPL<br>RMB'000 | Financial<br>liabilities<br>at FVTPL<br>RMB'000 | Convertible<br>preferred<br>shares<br>RMB'000 |
|---|--|---|---|
| <b>As of January 1, 2019</b>  | 7,409                                      | —   | —   |
| Issuance  | —  | —   | 6,313,002                                     |
| Changes in fair value   |  |   |   |
| — Fair value changes of equity investments in a private company measured as financial assets at FVTPL | 41   | —   | —   |
| — Fair value changes of convertible preferred shares  | —  | —   | 1,263,130                                     |
| — Currency translation differences  | —  | —   | 8,288   |
| <b>As of December 31, 2019</b>  | 7,450                                      | —   | 7,584,420                                     |
| Issuance  | —  | —   | <b>6,483,067</b>                              |
| Addition  | <b>236,365</b>                             | <b>135,906</b>                                  | —   |
| Conversion of convertible preferred shares upon the initial public offering                           | —  | —   | <b>(29,911,836)</b>                           |
| Changes in fair value   |  |   |   |
| — Fair value changes of equity investments in private companies measured as financial assets at FVTPL | <b>295</b>                                 | —   | —   |
| — Fair value changes of options   | <b>23,713</b>                              | <b>7,207</b>                                    | —   |
| — Fair value changes of convertible preferred shares  | —  | —   | <b>17,539,858</b>                             |
| — Currency translation differences  | —  | —   | <b>(1,695,509)</b>                            |
| <b>As of December 31, 2020</b>  | <b>267,823</b>                             | <b>143,113</b>                                  | —   |

**Valuation techniques**

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

## 29 Financial instruments (Continued)

### 29.4 Fair value measurement of financial instruments (Continued)

#### Valuation techniques (Continued)

As the investments in equity investments measured as financial assets at FVTPL are not traded in an active market, its fair values have been determined by using the market approach. The fair value change of the financial assets at FVTPL were not material for the years ended December 31, 2020 (2019: nil).

During the year ended December 31, 2020, the fair value change arose from the financial assets at FVTPL and financial liabilities at FVTPL were insignificant. The directors of the Company consider that any reasonable changes in the key assumptions as disclosed in Note 14 and Note 24, respectively, would not result in a significant change in the Group's results. Accordingly, no sensitivity analysis is presented.

Fair value of convertible preferred shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the year ended December 31, 2019 would have been approximately RMB213 million higher/lower. There would be no impact for the year ended December 31, 2020 as convertible preferred shares had been converted.

The carrying amount of the Group's financial assets, including cash and cash equivalents, restricted cash, term deposits, trade and note receivables and other receivables and the Group's financial liabilities, including trade payables and accrued expenses and other payables, approximate their fair values.

## Notes to the Consolidated Financial Statements (Continued)

### 30 Note to consolidated statement of cash flows

#### (a) Reconciliation of loss for the year to cash generated from operations:

|  | Year ended December 31, |                 |
|--|-------------------------|-----------------|
|  | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Loss for the year  | <b>(17,234,897)</b>     | (971,805)       |
| Adjustments for:   |                         |                 |
| Income tax expense   | <b>162,756</b>          | 137,105         |
| Depreciation and amortization  | <b>27,221</b>           | 7,423           |
| Share-based payment expenses   | <b>380,299</b>          | 52,728          |
| Fair value changes of convertible preferred shares                     | <b>17,539,858</b>       | 1,263,130       |
| Fair value gains on financial assets at FVTPL                          | <b>(60,495)</b>         | (41)            |
| Fair value loss on financial liabilities at FVTPL                      | <b>7,207</b>            | —               |
| Finance income   | <b>(149,116)</b>        | (31,783)        |
| Finance costs  | <b>3,416</b>            | 35,502          |
| Impairment losses under expected credit loss model, net of reversal    | <b>117</b>              | 1,859           |
| Impairment provision for inventories                                   | <b>81,963</b>           | 981             |
| Share of results of joint ventures                                     | <b>77,024</b>           | —               |
| Foreign exchange losses, net   | <b>8,169</b>            | —               |
| Changes in working capital:  |                         |                 |
| Increase in inventories  | <b>(522,207)</b>        | (164,025)       |
| Increase in trade and note receivables                                 | <b>(47,659)</b>         | (3,379)         |
| Decrease/(Increase) in prepayments, other receivables and other assets | <b>402,374</b>          | (160,080)       |
| Increase in trade payables   | <b>2,448,140</b>        | 104,755         |
| Increase in contract liabilities                                       | <b>91,775</b>           | 47,168          |
| Increase in accrued expenses and other payables                        | <b>543,381</b>          | 203,203         |
| Cash generated from operations   | <b>3,759,326</b>        | 522,741         |

There were no material non-cash investing and financing activities for the years ended December 31, 2020 except disclosed elsewhere in the consolidated financial statements (2019: nil).

## Notes to the Consolidated Financial Statements (Continued)

### 30 Note to consolidated statement of cash flows (Continued)

#### (b) Reconciliation of liabilities arising from financing activities

|   | Convertible<br>preferred<br>shares<br>RMB'000 | Lease<br>liabilities<br>RMB'000 | Advance<br>from/<br>(payment<br>to)<br>JD Group<br>RMB'000 | Issuance<br>costs<br>payables**<br>RMB'000 | Short-<br>term<br>borrowing<br>RMB'000 | Total<br>RMB'000    |
|---|---|---------------------------------|--|--|--|---------------------|
| <b>At January 1, 2019</b>   | —   | 3,126                           | 14,676   | —  | —                                      | 17,802              |
| Financing cash flows  | 6,313,002                                     | (1,773)                         | 202,234  | —  | —                                      | 6,513,463           |
| Funds utilized by the Remaining<br>Listing Business                               | —   | —                               | 727,940  | —  | —                                      | 727,940             |
| Offset the amounts due from JD Group  | —   | —                               | (19,000)   | —  | —                                      | (19,000)            |
| New leases entered  | —   | 9,667                           | —  | —  | —                                      | 9,667               |
| Finance costs   | —   | 243                             | —  | —  | —                                      | 243                 |
| Fair value changes of convertible<br>preferred shares                             | 1,263,130                                     | —                               | —  | —  | —                                      | 1,263,130           |
| Currency translation differences  | 8,288   | —                               | —  | —  | —                                      | 8,288               |
| <b>At December 31, 2019</b>   | 7,584,420                                     | 11,263                          | 925,850  | —  | —                                      | 8,521,533           |
| Financing cash flows  | <b>6,483,067</b>                              | <b>(23,568)</b>                 | <b>(216,710)</b>   | <b>(1,951)*</b>                            | <b>(5,000)</b>                         | <b>6,235,838</b>    |
| Accrued issuance costs  | —   | —                               | —  | <b>72,057</b>                              | —                                      | <b>72,057</b>       |
| Borrowing arose from acquisition of<br>a subsidiary                               | —   | —                               | —  | —  | <b>5,000</b>                           | <b>5,000</b>        |
| Funds generated by the Remaining<br>Listing Business                              | —   | —                               | <b>(727,940)</b>   | —  | —                                      | <b>(727,940)</b>    |
| Offset the amounts due from JD Group  | —   | —                               | <b>18,800</b>  | —  | —                                      | <b>18,800</b>       |
| New leases entered  | —   | <b>99,925</b>                   | —  | —  | —                                      | <b>99,925</b>       |
| Finance costs   | —   | <b>2,358</b>                    | —  | —  | —                                      | <b>2,358</b>        |
| Fair value changes of convertible<br>preferred shares                             | <b>17,539,858</b>                             | —                               | —  | —  | —                                      | <b>17,539,858</b>   |
| Conversion of convertible<br>preferred shares upon the initial<br>public offering | <b>(29,911,836)</b>                           | —                               | —  | —  | —                                      | <b>(29,911,836)</b> |
| Currency translation differences  | <b>(1,695,509)</b>                            | —                               | —  | —  | —                                      | <b>(1,695,509)</b>  |
| <b>At December 31, 2020</b>   | —   | <b>89,978</b>                   | —  | <b>70,106</b>                              | —                                      | <b>160,084</b>      |

\* The amount has been included in the net proceeds from issuance of ordinary shares in the consolidated statement of cash flows.

\*\* The amount has been included in the listing expenses and issuance costs payables as set out in Note 22.



### 31 Related party transactions

The following significant transactions are carried out between the Group and its related parties during the year ended December 31, 2020. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

#### (a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the year ended December 31, 2020.

| Name of related parties   | Relationship   |
|---|--|
| JD.com, Inc.  | Ultimate parent company of the Company   |
| JD Jiankang Limited   | Immediate parent company of the Company  |
| JD Group  | Controlled by JD.com, Inc.   |
| Tangshan Hongci   | Joint venture of the Company   |
| Jingdong Digits Technology Holding Co., Ltd. and its subsidiaries ("JD Digits") | Controlled by Mr. Richard Qiangdong Liu, the controlling shareholder of JD.com, Inc. |

#### (b) Significant transactions with related parties

Prior to the Closing Date of Series A Preference Shares financing, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to the Remaining Listing Business were carved out from JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Closing Date of Series A Preference Shares financing, details of which are set out in Note 23, these transactions have been recorded in the consolidated financial statements based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were the revenue and expenses of the Group and therefore, the disclosure of significant transactions with related parties set out below have not included these transactions.

After the Closing Date of the Series A Preference Share financing and prior to the launch of CCT Arrangements based on the terms stipulated in the Series A Share Subscription Agreements, terms and pricing policies of these transactions entered into by JD Group for the Group or between JD Group and the Group were established. Upon and after the launch of CCT Arrangements, the majority of the transactions between JD Group and the Group are continuing connected transactions and recognized based on the terms stipulated in CCT Arrangements as set out in Note 1.2.

## Notes to the Consolidated Financial Statements (Continued)

### 31 Related party transactions (Continued)

#### (b) Significant transactions with related parties (Continued)

The related party transactions with other related parties other than JD Group were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties. The Group's pricing policies of the transactions with related parties are determined on the basis of mutual negotiations between the relevant parties.

Details of significant transactions with related parties recorded with above terms and pricing policies during the year ended December 31, 2020 are separately shown as follows:

|  | Notes | Year ended December 31, |                 |
|--|-------|-------------------------|-----------------|
|  |       | 2020<br>RMB'000         | 2019<br>RMB'000 |
| <b>Services provided to related parties:</b>   |       |                         |                 |
| Marketing services provided to JD Group  |       | <b>446,463</b>          | 59,707          |
| Other services provided to JD Group  |       | <b>11,618</b>           | —               |
| Services provided to JD Digits   |       | <b>1,252</b>            | —               |
| <b>Services and products received from related parties:</b>  |       |                         |                 |
| Logistics and warehousing services received from JD Group  | 1     | <b>1,247,314</b>        | 446,841         |
| Technology and traffic support services received from JD Group   | 2     | <b>908,163</b>          | 288,279         |
| Marketing services received from JD Group  | 3     | <b>241,767</b>          | —               |
| Payment services received from JD Group  | 4     | <b>172,720</b>          | 74,941          |
| Shared services received from JD Group   | 5     | <b>116,038</b>          | 34,659          |
| Share-based payments received from JD.com, Inc. to pay the Group's employees for the services provided | 6     | <b>49,271</b>           | 52,728          |
| Loyalty program services received from JD Group  | 7     | <b>42,114</b>           | 14,205          |
| Services received from JD Digits   |       | <b>22,475</b>           | —               |
| Others   |       | <b>13,016</b>           | 161             |
| <b>Others:</b>   |       |                         |                 |
| Interest income from Tangshan Hongci   |       | <b>7,076</b>            | —               |

#### Services provided to related parties

The Group provides marketing services to JD Group. The Group charges JD Group marketing service fees calculated in accordance with the CCT Arrangements.

### 31 Related party transactions (Continued)

#### (b) Significant transactions with related parties (Continued)

##### Services and products received from related parties

1. JD Group provides various logistics services to the Group in exchange for service fees, including but not limited to warehouse operation and storage services, domestic and international delivery services, customs registration and clearance services, standard and special packaging services and other value-added logistics services from time to time. The logistics service fees are determined after arm's length negotiations, and are charged based on a variety of factors including storage space taken and the weights and the delivery distances of the packages.
2. JD Group provides to the Group technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding activities, operational support and advertisement access for the Group's merchants and suppliers. JD Group charges commissions by applying a fixed rate on the fulfilled order volume of healthcare products and services generated through JD Group's online platforms.
3. JD Group provides marketing services to the Group. JD Group charges the Group marketing service fees calculated in accordance with the underlying standard marketing service agreements.
4. The Group, through JD Group, uses certain payment services through payment channels provided by third-party payment service providers to JD Group on a cost basis, as the related costs are first settled by JD Group and later settled in full (on a cost basis) by the Group. This allows the Group to utilize the payment services to enable efficient, safe and prompt real-time payment for its online transactions.
5. JD Group provides back-office administrative support services to the Group, including but not limited to cloud service, provision of servers, and maintenance and related customer services. The Group pays JD Group the actual costs incurred during the service process.
6. JD Group grants RSUs and share options to the Group's eligible employees under JD Group Share Incentive Plan.
7. Given that the Group's businesses are operated on JD Group's platforms, the customers of the Group participate in the customer loyalty programs of JD Group and use such loyalty points across the platforms of both JD Group and the Group for the purchase of products and services. The Group pays JD Group based on the number of loyalty points it granted and unit cost.

## Notes to the Consolidated Financial Statements (Continued)

### 31 Related party transactions (Continued)

(c) The Group had the following balances with the major related parties:

|  | As of December 31, |                 |
|--|--------------------|-----------------|
|  | 2020<br>RMB'000    | 2019<br>RMB'000 |
| Amounts due from JD Group                    | <b>334,905</b>     | 928,098         |
| Amounts due from Tangshan Hongci             | <b>234,527</b>     | —               |
| Amounts due from other major related parties | <b>50,923</b>      | 1,567           |
| Amounts due to JD Group                      | —                  | 925,850         |

After the Closing Date of Series A Preference Shares financing and prior to the Listing, the amounts due from/due to JD Group mainly represented the profits generated/funds utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017.

The amounts due from JD Group, which are trade in nature, unsecured and non-interest bearing.

The amounts due from Tangshan Hongci are a three-year interest-bearing loan, as set out in Note 13.

The amounts due from other major related parties included in prepayments, other receivables and other assets are trade in nature, unsecured and non-interest bearing.

#### (d) Key management personnel compensation

The remuneration of directors and other key management personnel is as follows:

|  | Year ended December 31, |                 |
|--|-------------------------|-----------------|
|  | 2020<br>RMB'000         | 2019<br>RMB'000 |
| Salaries and bonuses                       | <b>4,854</b>            | 3,898           |
| Share-based payments                       | <b>299,082</b>          | 21,463          |
| Pension costs — defined contribution plans | <b>96</b>               | 102             |
| Welfare, medical and other benefits        | <b>549</b>              | 521             |
|  | <b>304,581</b>          | 25,984          |

**32 Particulars of principal subsidiaries and consolidated affiliated entities**

Details of the principal subsidiaries directly and indirectly held by the Company are set out below:

| Name of subsidiaries**                           | Place of incorporation/<br>registration/<br>operations | Paid up<br>issued/<br>registered<br>capital | Proportion<br>ownership interest<br>attributable by<br>the Company |      | Principal activities                                 |
|--|--|---|--|------|--|
|  |  |   | December 31,   |      |  |
|  |  |   | 2020   | 2019 |  |
| JD Health HK                                     | Hong Kong,<br>China                                    | HKD10,000                                   | <b>100%</b>  | 100% | Worldwide online shopping                            |
| Beijing Jingdong Jiankang                        | Mainland<br>China                                      | RMB100,000,000                              | <b>100%</b>  | 100% | Online retail of healthcare products                 |
| Guanghan Jingdong Hongjian<br>Jiankang Co., Ltd. | Mainland<br>China                                      | RMB1,000,000                                | <b>100%</b>  | 100% | Online retail of healthcare products                 |
| Beijing Jingdong Hongjian<br>Jiankang Co., Ltd.  | Mainland<br>China                                      | RMB1,000,000                                | <b>100%</b>  | 100% | Procurement and online retail of healthcare products |
| Guangxi Jingdong Tuoxian<br>E-commerce Co., Ltd. | Mainland<br>China                                      | RMB2,000,000                                | <b>100%</b>  | 100% | Technical and advertising services                   |
| Shenyang Jingdong Hongjian<br>Trade Co., Ltd.    | Mainland<br>China                                      | RMB1,000,000                                | <b>100%</b>  | —    | Online retail of healthcare products                 |
| Guangzhou Jingdong Hongjian<br>Trade Co., Ltd.   | Mainland<br>China                                      | RMB1,000,000                                | <b>100%</b>  | —    | Online retail of healthcare products                 |

## Notes to the Consolidated Financial Statements (Continued)

### 32 Particulars of principal subsidiaries and consolidated affiliated entities (Continued)

Details of the principal consolidated affiliated entities of the Company are set out below:

| Name of affiliated entities <sup>*/**</sup>    | Place of incorporation/<br>registration/<br>operations | Paid up<br>issued/<br>registered<br>capital | Proportion<br>ownership interest<br>attributable by<br>the Company<br>December 31, |      | Principal activities                           |
|--|--|---|--|------|--|
|  |  |   | 2020   | 2019 |  |
| Suqian Jingdong Tianning                       | Mainland<br>China                                      | RMB1,000,000                                | 100%   | 100% | Pharmacy sales and<br>healthcare services      |
| Jingdong Pharmacy (Qingdao)<br>Chain Co., Ltd. | Mainland<br>China                                      | RMB10,000,000                               | 100%   | 100% | Online retail of<br>pharmaceutical<br>products |
| Jingdong Pharmacy (Huizhou)<br>Co., Ltd.       | Mainland<br>China                                      | RMB10,000,000                               | 100%   | 100% | Online retail of<br>pharmaceutical<br>products |
| Jingdong Pharmacy Taizhou<br>Chain Co., Ltd.   | Mainland<br>China                                      | RMB10,000,000                               | 100%   | 100% | Online retail of<br>pharmaceutical<br>products |
| Yinchuan JD Online Hospital                    | Mainland<br>China                                      | RMB10,000,000                               | 100%   | 100% | Online hospital<br>services                    |

\* As describe in Note 1, the Company does not have directly or indirectly legal ownership in equity of these affiliated entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these affiliated entities, the Company and its legal owned subsidiaries have power over these affiliated entities, have rights to variable returns from its involvement with these affiliated entities and have the ability to affect those returns through their power over these affiliated entities and are considered to have control over these affiliated entities. Consequently, the Company regards these affiliated entities as its indirect subsidiaries.

\*\* The English names of the subsidiaries and consolidated affiliated entities established in the PRC are translated from their registered Chinese names for identification only.

The above table lists the subsidiaries and consolidated affiliated entities of the Company that the directors of the Company believe to principally affect the results or assets of the Group. In the opinion of the directors of the Company, to give details of other subsidiaries would, result in particulars of excessive length.

The voting power of the subsidiaries and consolidated affiliated entities held by the Company are same with the ownership interest held by the Company.

None of the subsidiaries and consolidated affiliated entities had issued any debt securities during the year ended December 31, 2020.

## Notes to the Consolidated Financial Statements (Continued)

### 33 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2020 (2019: nil).

### 34 Subsequent Events

There were no material subsequent events during the period from December 31, 2020 to the approval date of these consolidated financial statements by the Board of Directors on March 29, 2021.

### 35 Statement of financial position and reserve movement of the Company

#### Statement of financial position of the Company

|   | As of December 31 |             |
|---|-------------------|-------------|
|   | 2020              | 2019        |
|   | RMB'000           | RMB'000     |
| <b>ASSETS</b>                                   |                   |             |
| <b>Non-current assets</b>                       |                   |             |
| Investment in a subsidiary                      | —*                | —*          |
| Total non-current assets                        | —*                | —*          |
| <b>Current assets</b>                           |                   |             |
| Prepayments, other receivables and other assets | 849,812           | 787,594     |
| Term deposits                                   | 6,524,900         | 1,395,240   |
| Cash and cash equivalents                       | 30,930,123        | 4,961,023   |
| Total current assets                            | 38,304,835        | 7,143,857   |
| <b>Total assets</b>                             | <b>38,304,835</b> | 7,143,857   |
| <b>Equity</b>                                   |                   |             |
| Share capital                                   | 11                | 7           |
| Reserves  | 57,652,813        | 811,802     |
| Accumulated losses                              | (19,451,117)      | (1,252,372) |
| <b>Total equity</b>                             | <b>38,201,707</b> | (440,563)   |
| <b>Liabilities</b>                              |                   |             |
| <b>Non-current liabilities</b>                  |                   |             |
| Convertible preferred shares                    | —                 | 7,584,420   |
| Total non-current liabilities                   | —                 | 7,584,420   |

## Notes to the Consolidated Financial Statements (Continued)

### 35 Statement of financial position and reserve movement of the Company (Continued)

#### Statement of financial position of the Company (Continued)

|                                     | As of December 31 |                 |
|-------------------------------------|-------------------|-----------------|
|                                     | 2020<br>RMB'000   | 2019<br>RMB'000 |
| <b>Current liabilities</b>          |                   |                 |
| Accrued expenses and other payables | 95,169            | —               |
| Income tax payables                 | 7,959             | —               |
| Total current liabilities           | 103,128           | —               |
| <b>Total liabilities</b>            | 103,128           | 7,584,420       |
| <b>Total equity and liabilities</b> | 38,304,835        | 7,143,857       |

\* less than RMB1,000.

#### Reserve movement of the Company

|   | Note | Share premium<br>RMB'000 | Contribution reserve<br>RMB'000 | Other reserve<br>RMB'000 | Total<br>RMB'000 |
|---|------|--------------------------|---------------------------------|--------------------------|------------------|
| <b>As of January 1, 2019</b>  |      | —                        | —                               | 2,166                    | 2,166            |
| Contribution from the Remaining Listing Business                            |      | —                        | 768,023                         | —                        | 768,023          |
| Share-based payment expenses  |      | —                        | —                               | 16,422                   | 16,422           |
| Currency translation differences  |      | —                        | —                               | 25,191                   | 25,191           |
| <b>As of December 31, 2019</b>  |      | —                        | 768,023                         | 43,779                   | 811,802          |
| Issuance of new ordinary shares   | 25   | 26,124,855               | —                               | —                        | 26,124,855       |
| Conversion of convertible preferred shares upon the initial public offering | 25   | 29,911,834               | —                               | —                        | 29,911,834       |
| Share issuance costs*   |      | (403,980)                | —                               | —                        | (403,980)        |
| Share-based payment expenses  |      | —                        | —                               | 339,085                  | 339,085          |
| Currency translation differences  |      | —                        | —                               | 869,217                  | 869,217          |
| <b>As of December 31, 2020</b>  |      | 55,632,709               | 768,023                         | 1,252,081                | 57,652,813       |

\* The issuance costs paid mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB404 million were treated as a deduction against the share premium arising from the issuance.



# DEFINITIONS

|  |  |
|--|--|
| <b>“ADSs”</b>                                  | American Depositary Shares (each representing two Class A ordinary shares) of JD.com   |
| <b>“affiliate(s)”</b>                          | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person   |
| <b>“annual active user accounts”</b>           | user accounts that made at least one purchase during the past trailing twelve months ended on the applicable date, including through JD Pharmacy, online marketplace and omnichannel initiative  |
| <b>“Articles” or “Articles of Association”</b> | the articles of association of our Company conditionally adopted on November 23, 2020 and effective on December 8, 2020  |
| <b>“associate(s)”</b>                          | has the meaning ascribed to it under the Listing Rules   |
| <b>“Auditor”</b>                               | Deloitte Touche Tohmatsu, the auditor of the Company   |
| <b>“Audit Committee”</b>                       | the audit committee of the Company   |
| <b>“Board of Directors” or “Board”</b>         | our Board of Directors   |
| <b>“BVI”</b>                                   | the British Virgin Islands   |
| <b>“CG Code”</b>                               | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules  |
| <b>“China”, or “the PRC”</b>                   | the People’s Republic of China and, except where the context requires and only for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. “Chinese” shall be construed accordingly                                  |
| <b>“Class A ordinary share(s)”</b>             | Class A ordinary shares in the share capital of JD.com with par value of US\$0.00002 each, conferring a holder of a Class A ordinary share to one vote per share on any resolution tabled at JD.com’s general meeting  |
| <b>“Class B ordinary share(s)”</b>             | Class B ordinary shares in the share capital of JD.com with par value of US\$0.00002 each, conferring weighted voting rights in JD.com such that a holder of a Class B ordinary share is entitled to 20 votes per share on any resolution tabled at JD.com’s general meeting |

## Definitions (Continued)

|  |   |
|--|---|
| <b>“Company”, “our Company”, or “the Company”</b>              | JD Health International Inc. (京東健康股份有限公司), an exempted company with limited liability incorporated in the Cayman Islands on November 30, 2018   |
| <b>“Companies Law”</b>   | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands  |
| <b>“Companies Ordinance”</b>                                   | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time  |
| <b>“connected person(s)”</b>                                   | has the meaning ascribed to it under the Listing Rules  |
| <b>“connected transaction(s)”</b>                              | has the meaning ascribed to it under the Listing Rules  |
| <b>“Consolidated Affiliated Entities”</b>                      | the entities we control through the Contractual Arrangements, namely the Onshore Holdco and its respective subsidiaries   |
| <b>“Contractual Arrangement(s)”</b>                            | the series of contractual arrangements entered into between, among others, the WFOE, the Onshore Holdco and the Registered Shareholders   |
| <b>“Controlling Shareholder(s)”</b>                            | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to JD Jiankang, JD.com, Mr. Richard Qiangdong Liu (劉強東), Max Smart Limited and Fortune Rising Holdings Limited |
| <b>“Director(s)”</b>   | the director(s) of our Company  |
| <b>“Global Offering”</b>                                       | the Hong Kong Public Offering and the International Offering as defined in the Prospectus   |
| <b>“Group”, “our Group”, “the Group”, “we”, “us”, or “our”</b> | the Company, its subsidiaries and the Consolidated Affiliated Entities from time to time  |
| <b>“HK” or “Hong Kong”</b>                                     | the Hong Kong Special Administrative Region of the PRC  |
| <b>“Hong Kong dollars” or “HK dollars” or “HK\$”</b>           | Hong Kong dollars, the lawful currency of Hong Kong   |
| <b>“IFRSs”</b>   | International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board  |

## Definitions (Continued)

|                                    |   |
|------------------------------------|---|
| <b>“JD.com”</b>                    | JD.com, Inc., one of our Controlling Shareholders, a company incorporated in the BVI on November 6, 2006 and subsequently redomiciled to the Cayman Islands on January 16, 2014 as an exempted company registered by way of continuation under the laws of the Cayman Islands and the shares of which are listed on the Main Board (stock code: 9618) under Chapter 19C of the Listing Rules and the ADSs of which are listed on Nasdaq under the symbol “JD” |
| <b>“JD Group”</b>                  | JD.com and its subsidiaries and consolidated affiliated entities, excluding our Group upon the Reorganization and including our Group prior to the Reorganization   |
| <b>“JD Jiankang”</b>               | JD Jiankang Limited, a company incorporated in the BVI on April 24, 2019, wholly-owned by JD.com and one of our Controlling Shareholders  |
| <b>“JD Logistics”</b>              | JD.com’s logistics business that provides integrated supply chain and logistics services to JD.com and third-party business partners across a wide range of industries  |
| <b>“JD Share(s)”</b>               | Class A ordinary shares and Class B ordinary shares in the share capital of JD.com  |
| <b>“Jiangsu Jingdong Hongyuan”</b> | Jiangsu Jingdong Hongyuan Information Technology Co., Ltd. (江蘇京東弘元信息技術有限公司), a company incorporated under the laws of PRC on August 2, 2019, a wholly-owned subsidiary of the Onshore Holdco and one of our Consolidated Affiliated Entities  |
| <b>“Jingdong Pharmacy Qingdao”</b> | Jingdong Pharmacy (Qingdao) Co., Ltd. (京東大藥房(青島)連鎖有限公司), a company incorporated under the laws of PRC on January 22, 2010, an indirectly wholly-owned subsidiary of the Onshore Holdco and one of our Consolidated Affiliated Entities  |
| <b>“Jingdong Pharmacy Taizhou”</b> | Jingdong Pharmacy Taizhou Chain Co., Ltd. (京東大藥房泰州連鎖有限公司), a company incorporated under the laws of PRC on October 23, 2017, a wholly-owned subsidiary of the Jingdong Pharmacy Qingdao and one of our Consolidated Affiliated Entities   |
| <b>“Jingdong Shanyuan”</b>         | Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd. (京東 善元(青島)電子商務有限公司), a company incorporated under the laws of PRC on August 28, 2013, the holding company of Jingdong Pharmacy Qingdao and one of our Consolidated Affiliated Entities   |
| <b>“Latest Practicable Date”</b>   | April 13, 2021  |

## Definitions (Continued)

|                                       |  |
|---------------------------------------|--|
| <b>“Listing”</b>                      | the listing of the Shares on the Main Board  |
| <b>“Listing Date”</b>                 | December 8, 2020, the date on which the Shares were listed on the Stock Exchange   |
| <b>“Listing Rules”</b>                | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time   |
| <b>“Main Board”</b>                   | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange  |
| <b>“MIIT”</b>                         | the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry)   |
| <b>“Nomination Committee”</b>         | the nomination committee of the Company  |
| <b>“Onshore Holdco”</b>               | Suqian Jingdong Tianning Jiankang Technology Co., Ltd. (宿遷京東天寧健康科技有限公司), a company established in the PRC on June 10, 2019 and our Consolidated Affiliated Entity  |
| <b>“Model Code”</b>                   | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules  |
| <b>“Post-IPO Share Award Scheme”</b>  | the post-IPO share award scheme adopted by our Company on November 23, 2020  |
| <b>“Post-IPO Share Option Scheme”</b> | the post-IPO share option scheme adopted by the Company on November 23, 2020   |
| <b>“PRC Legal Adviser”</b>            | Shihui Partners, our legal adviser on PRC law  |
| <b>“Pre-IPO ESOP”</b>                 | the pre-IPO employee share incentive plan adopted by our Company on September 14, 2020   |
| <b>“Series A Preference Shares”</b>   | the series A preference shares of our Company with par value of US\$0.0000005 each, of which 372,552,238 series A preference shares had been in issue and held by the Series A Preference Shareholders and Novacare Investment Limited before the conversion into ordinary shares upon the Listing |

## Definitions (Continued)

|   |   |
|---|---|
| <b>“Series A Preference Shareholders”</b>       | CJD eHealthcare Investment Limited, Triton Bidco Limited, China Life Chengda (Shanghai) Healthcare Equity Investment Center (Limited Partnership) (國壽成達(上海)健康產業股權投資中心(有限合夥)), CICC e-Healthcare Investment Limited, Eastar Medical Investment, L.P., Skycus China Fund, L.P., Danqing Fund II Investment L.P.) (蘇州丹青二期創新醫藥產業投資合夥企業(有限合夥)), Danqing-JDH Investment L.P. and Qianshan Health L.P. |
| <b>“Series A Share Subscription Agreement”</b>  | Series A Preference Shares Subscription Agreement by and among the Company and each of the Series A Preference Shareholders (or their affiliates) and Novacare Investment Limited (through its representative) dated as of May 9, 2019, as amended from time to time  |
| <b>“Series B Preference Shares”</b>             | the series B preference shares of our Company with par value of US\$0.0000005 each, of which 130,319,819 series B preference shares had been in issue and held by the Series B Preference Shareholders before the conversion into ordinary shares upon the Listing  |
| <b>“Series B Preference Shareholders”</b>       | SUM XI Holdings Limited, CJD eHealthcare Investment Limited, Triton Bidco Limited, CICC e-Healthcare Investment Limited and Domking Medical Investment, L.P.  |
| <b>“Series B Share Subscription Agreements”</b> | Series B Preference Shares subscription agreements by and among the Company and each of the Series B Preference Shareholders dated on or around August 17, 2020, as amended from time to time   |
| <b>“Prospectus”</b>                             | the prospectus of the Company dated November 26, 2020   |
| <b>“Registered Shareholders”</b>                | the registered shareholders of the Onshore Holdco, namely Richard Qiangdong Liu (劉強東), Yayun Li (李姪雲) and Pang Zhang (張雱)   |
| <b>“Reporting Period”</b>                       | year ended December 31, 2020  |
| <b>“Remuneration Committee”</b>                 | the remuneration committee of the Company   |
| <b>“Reorganization”</b>                         | the corporate restructuring of the Group in preparation for the Listing, as described in the section headed “History, Reorganization and Corporate Structure—Corporate Reorganization” in the Prospectus  |
| <b>“RMB” or “Renminbi”</b>                      | Renminbi, the lawful currency of PRC  |
| <b>“SFO”</b>                                    | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |

## Definitions (Continued)

|   |   |
|---|---|
| <b>“Share(s)”</b>                                     | ordinary share(s) in the share capital of our Company with a par value of US\$0.0000005 each  |
| <b>“Shareholder(s)”</b>                               | holder(s) of our Share(s)   |
| <b>“State Council”</b>                                | the State Council of the PRC (中華人民共和國國務院)   |
| <b>“Stock Exchange” or “Hong Kong Stock Exchange”</b> | The Stock Exchange of Hong Kong Limited   |
| <b>“subsidiary” or “subsidiaries”</b>                 | has the meaning ascribed to it thereto in section 15 of the Companies Ordinance   |
| <b>“substantial shareholder(s)”</b>                   | has the meaning ascribed to it in the Listing Rules   |
| <b>“U.S. SEC”</b>                                     | the Securities and Exchange Commission of the United States   |
| <b>“United States”, “U.S.” or “US”</b>                | the United States of America, its territories, its possessions and all areas subject to its jurisdiction  |
| <b>“US dollars”, “U.S. dollars”, “US\$” or “USD”</b>  | United States dollars, the lawful currency of the United States   |
| <b>“WFOE”</b>   | Beijing Jingdong Jiankang Co., Ltd. (北京京東健康有限公司), a company established in the PRC on June 6, 2019 and a wholly-owned subsidiary of our Company |
| <b>“%”</b>  | per cent  |



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