You should read the following discussion and analysis in conjunction with our audited combined financial information as of and for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 included in the Accountants' Report set out in Appendix I to this document, together with the respective accompanying notes. Our audited combined financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this document, including "Risk Factors" and "Business."

OVERVIEW

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

Retail pharmacy. Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. Our direct sales business operates mainly through *JD Pharmacy* ("京東大藥房"). We have established a supply chain network with industry-leading pharmaceutical companies and healthcare product suppliers. In addition, we partner with JD Group to utilize its nationwide network of fulfillment infrastructures, including 11 drug warehouses and over 230 other warehouses as of June 30, 2020. Our online marketplace leverages our brand recognition, large and growing user base, and proprietary technology platform, and offers more diversified pharmaceutical and healthcare products that supplement those of *JD Pharmacy*. Our omnichannel initiative meets users' needs for urgent medication and offers same-day, next-day and 30-minute, 24/7 on-demand delivery services. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. In 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, revenue from our retail pharmacy business accounted for a majority of our total revenue, of which (i) sales of pharmaceutical and healthcare products accounted for 88.4%, 88.8%, 87.0%, 87.5% and 87.6% of our total revenue, respectively and (ii) the marketplace service revenue accounted for 7.9%, 7.4%, 7.3%, 7.3% and 6.8% of our total revenue, respectively.

Online healthcare services. In addition to our retail pharmacy business, we also provide comprehensive online healthcare services, such as online consultation and prescription renewal, chronic disease management, family doctor and consumer healthcare. These services are offered on a 24/7 basis, providing a convenient and trustworthy user experience. We have assembled a team of in-house doctors and external medical professionals across departments and specialties and partnered with numerous third-party hospitals and healthcare institutions. By providing our strong supply chain capabilities and technology-driven solutions, our platform connects doctors and hospitals with users, and extends their service capabilities to cover preventive care, aftercare and health management. In addition, we are developing our consumer healthcare services. By collaborating with offline consumer healthcare institutions, our platform allows users to make appointments and pay for services such as general physical exams, aesthetic medicines, dental care, vaccination appointments and genetic tests. During the COVID-19 pandemic, we were the first company in China to offer online appointments for COVID-19 nucleic acid testing service. For each period of the Track Record Period, revenue from our online healthcare services accounted for an insignificant portion of our total revenue.

We have experienced significant growth during the Track Record Period. Our total revenue increased from RMB5.6 billion in 2017 to RMB8.2 billion in 2018 and further to RMB10.8 billion in 2019. Our total revenue increased from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020.

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

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

BASIS OF PRESENTATION

We were incorporated as an exempted company with limited liability under the laws of the Cayman Islands in November 2018. Immediately prior to the incorporation of our Company, our business was managed by JD.com, Inc. We have become the holding company of the business previously managed by JD.com, Inc. after a series of reorganization transactions, including obtaining control over and becoming the primary beneficiary of Suqian Tianning by entering into a series of contractual arrangements with Suqian Tianning and its shareholders. In addition, we are in the process of a spin-off for our remaining business operations conducted under certain subsidiaries and consolidated affiliated entities of JD Group (collectively the "Remaining Listing Business"), which includes the transfer of relevant management and employees, operating assets and liabilities, retained profits, as well as the replacement of the counterparty of business contracts to us. We refer to such reorganization and spin-off transactions collectively as the Reorganization in this document. We had not been involved in any other business prior to the Reorganization. The Reorganization was merely a recapitalization of our business with no change in the management of such business. Accordingly, the business we are operating is regarded as a continuation of the business previously operated by JD Group, and the historical financial information of our Group has been prepared and presented using the carrying value for all periods presented as if the Reorganization had been completed before the Track Record Period. To the extent the assets, liabilities, income and expenses that are specifically identified to our business, such items are included throughout the Track Record Period.

We have adopted a "carve-out" approach to present our financial information in accordance with the "Carve outs" section in the HKSIR 200 and taken into consideration the recognition, measurement, presentation and disclosure requirements under IFRS, and disclosed the basis of preparation and presentation of historical financial information on pages 293 to 297 and pages I-13 to I-17 in the Accountants' Report as set out in Appendix I to this document.

The combined statements of profit or loss, combined statements of comprehensive income/(loss), the combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group and the Remaining Listing Business as if the current group structure had been in existence and the Listing Business had been operated by the Group throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period.

The combined statements of financial position of the Group as of December 31, 2017, 2018, 2019 and June 30, 2020 have been prepared to present the assets and liabilities of the companies now comprising the Group and the Remaining Listing Business at the carrying amounts shown in the financial statements of the relevant entities, as if the current group structure had been in existence and the Listing Business had been operated by the Group at those dates taking into account their respective dates of incorporation.

To the extent the assets, liabilities, income and expenses are specifically identified to our business, such items are included throughout the Track Record Period. To the extent the assets, liabilities, income and expenses that are impracticable to be identified specifically, these items are allocated to us on the basis set out below (such items include certain fulfillment expenses, selling and marketing expenses, research and development expenses, general and administrative expenses and income tax expense). Items that do not meet the criteria above are not included in the historical financial information of the Group.

During the Track Record Period, our Remaining Listing Business were operated by certain subsidiaries and consolidated affiliated entities of JD Group, which had not been controlled by us. Accordingly, the sales and procurement contracts of the Remaining Listing Business were contracted under the name of entities of JD Group other than the entities controlled by us. Taken into consideration of (1) we were not legally entitled to collect or obligated to pay for the transactions in relation to our Remaining Listing Business operated by JD Group, but JD Group had such rights and obligations; (2) we did not maintain separate bank accounts in relation to the Remaining Listing Business since the treasury and cash disbursement functions of the Remaining Listing Business were centrally administrated under JD Group and the net cash flows generated by the Remaining Listing Business were kept in the bank accounts of JD Group; (3) we did not enter into any separation agreements with JD Group, the trade receivables and trade payables of JD Group attributable to our Remaining Listing Business were not recognized as our Group's financial assets and financial liabilities in accordance with IFRS 9 but recognized as net return to/contribution from JD Group or amount due from/to JD Group as further stated below. The non-IFRS trade receivables and non-IFRS trade payables are presented as if the trade receivables and trade payables of JD Group attributable to our Remaining Listing Business were included in our statement of financial position because we believe that the non-IFRS trade receivables and non-IFRS trade payables are more indicative of our financial position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they do to our management. For other financial assets and financial liabilities, such as other receivables and other payables, the consideration and basis aforementioned are also applicable. We expect that the Reorganization will be completed prior to the Listing and accordingly all of such non-IFRS trade receivables and non-IFRS trade payables will be reflected as our trade receivables and payables on our annual report subsequent to the Listing for the following reasons: (1) all of the Remaining Listing Business will have been transferred to the entities of our Group upon completion of Reorganization; (2) we will directly enter into business contracts with the counterparties relating to the Remaining Listing Business under the name of our entities instead of JD Group's therefore we will be legally entitled to collect or obligated to pay the respective amounts under such contracts; (3) we will conduct our business through bank accounts of the entities of our Group, such as the receipt and payment of the sales and purchase of products.

In May 2019, the Company entered into the Series A Share Subscription Agreement, in which certain related party transactions between our Group and JD Group, including logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and others, were established and priced based on the terms effective since the Closing Date. Furthermore, based on the terms stipulated in the Series A Share Subscription Agreement, the accumulated profits and funds generated/ utilized by our Remaining Listing Business since January 1, 2017 should be distributed from / attributable to JD Group.

Prior to the Closing Date of the Series A Preferred Shares financing, for our Remaining Listing Business which was operated by JD Group:

(1) the revenue, cost of revenue and expenses of such business were recorded in our combined statement of profit or loss based on the actual amounts incurred as those reflect our business results. However, as there were no arrangements between us and JD Group on the distribution of such profits to us, therefore, such profit legally belonged to JD Group and was recorded as "net return to JD Group" in our combined statement of changes in equity as the profit stayed in JD Group.

(2) the trade receivables and trade payables of such business were not recognized in our combined statements of financial position as our financial assets and liabilities since we did not have the right to receive from customers or obligation to pay to suppliers, instead these were the financial assets and liabilities of JD Group, as JD Group was the party entering into the contracts with the customers or suppliers and had the rights to receive from customers or obligation to pay to suppliers. Such trade receivables and trade payables were recorded as net return to/ contribution from JD Group as they did not meet the definition of financial assets or financial liabilities of our group in accordance with IFRS 9 taking into account the considerations disclosed on previous page. Regarding other financial assets and liabilities, especially the prepayments, other receivables and other assets, and accrued expenses and other payables, we did not recognize in our combined statements of financial positions because they did not meet the definition of financial assets or financial liabilities of our group in accordance with IFRS 9 based on the similar reasons on the treatment of trade receivable and payables as discussed above.

(3) the cash and cash equivalents generated/used by the Remaining Listing Business did not belong to us as such balances were included in JD Group's bank accounts and the treasury and cash disbursement functions were centrally managed under JD Group.

(4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, intangible assets, inventories and contract liabilities, the balances were recorded in our combined statements of financial position since these assets and liabilities have been allocated by JD Group to us through the Reorganization given that they are specifically identified within the Remaining Listing Business and separately managed and controlled by JD Group. We had neither right claims on nor obligation to any third parties, in contrast to financial assets and liabilities such as trade receivables involving the right to receive from customers or trade payables involving obligation to pay to suppliers. Therefore, there is no need for adjustments regarding the assets and liabilities other than financial assets and liabilities.

(5) there were no related party transactions since no arrangements existed between us and JD Group. Therefore, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to our Remaining Listing Business were carved out from JD Group as all of these transactions and activities were carried out by the Remaining JD Group. These transactions have been recorded in our combined statements of profit or loss based on the actual amounts recognized/incurred by the Remaining JD Group (other than certain expenses that were not able to be specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were our revenue and expenses.

After the Closing Date of Series A Preferred Shares financing, for our Remaining Listing business which was operated by JD Group:

(1) the revenue, cost of revenue and expenses of such business were recorded in our combined statements of profit or loss based on the related party transactions established in accordance with terms stipulated in the Series A Share Subscription Agreement. For revenue, cost of revenue and expenses that were not covered by the Series A Share Subscription Agreement, they were recorded following the same principle as prior to the Closing Date of Series A Preferred Shares financing. In addition, the profit generated from the Remaining Listing Business was recorded as amounts due from JD Group in our combined statement of financial position as we have the right to receive such profit based on Series A Share Subscription Agreement.

(2) the trade receivables and trade payables and other financial assets and liabilities were not recognized in our combined statements of financial position as financial assets and liabilities since it was still JD Group that entered into the contracts with customers or suppliers. Such trade receivables and trade payables and other financial assets and liabilities, especially the prepayments, other receivables and other assets, and accrued expenses and other payables, were recorded as amounts due from/to JD Group in our combined statements of financial position, which is different from the treatment prior to the Closing Date of the Series A Preferred Shares financing as discussed on previous page, which were recorded as net return to/ contribution from JD Group. This is mainly because upon the Closing Date of Series A Preferred Shares, we have established the arrangement with JD Group through which we have the right to receive from or obligation to pay JD Group on such trade receivables and trade payables and other financial assets and liabilities.

(3) the cash and cash equivalents generated/used by the Remaining Listing Business were also not recorded following the same method as prior to the Closing Date of Series A Preferred Shares financing.

(4) for assets and liabilities other than financial assets and liabilities, such as property and equipment, intangible assets, inventories and contract liabilities, these balances were recorded on our combined statements of financial position following the same method as prior to the Closing Date of Series A Preferred Shares financing.

(5) there were related party transactions as based on the Series A Share Subscription Agreement, where the terms between us and JD Group were established. Accordingly, the related party services were recorded based on the pricing policies stipulated in such agreements for the related expenses in our combined statements of profit or loss.

The net contribution from/(return to) JD Group we recognized on the items attributable to our Remaining Listing Business as discussed above for the years ended December 31, 2017, 2018 and 2019 were RMB12.7 million, RMB(161.8) million and RMB(561.9) million, respectively.

Our Directors believe that the method of recognition or allocation of the above items form a reasonable basis of presenting the operating results and financial position of our business for the Track Record Period.

The "carve-out" basis are disclosed in note 1.2 to the Accountants' Report in Appendix I to this document. The Reporting Accountants' opinion on the Historical Financial Information for the Track Record Period as a whole is set out on I-2 of Appendix I to this document.

Adoption of IFRS 9, IFRS 15 and IFRS 16

The historical financial information of our Company has been prepared in accordance with IFRSs, which consist of all standards and interpretations approved by the International Accounting Standards Board (the "IASB"). For the purpose of preparing and presenting the historical financial information of our Company for the Track Record Period, we, throughout the Track Record Period, consistently applied IFRSs, amendments to IFRSs and the related interpretations issued by the IASB, including IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments*.

Neither have we prepared, nor the reporting accountants have audited or reviewed, our combined financial statements for the Track Record Period prepared under IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 18 *Revenue* and IAS 17 *Leases*.

For the purpose of providing additional information to our investors, our Directors have used our best efforts to assess the respective impact on our combined financial information of the adoption of IFRS 9, IFRS 15 and IFRS 16.

Save as disclosed below, our Directors consider that the adoption of IFRS 9, IFRS 15 and IFRS 16 has no significant impact on our financial position and performance when compared to that of IAS 39, IAS 18 and IAS 17, respectively.

IFRS 9

Based on our internal assessments, the adoption of IFRS 9 has no significant impact on our financial position and performance as compared with IAS 39.

IFRS 15

Based on our internal assessments, the adoption of IFRS 15 has no significant impact on our financial position and performance as compared with IAS 18, except that contract liabilities amounted to RMB31.2 million, RMB40.5 million, RMB87.7 million and RMB189.3 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively, would have been reclassified to "accrued expenses and other payables" had IAS 18 been applied during the Track Record Period. The reclassification has no significant impact on our key financial ratios, such as gearing ratio, current ratio and quick ratio as of December 31, 2017, 2018 and 2019 and June 30, 2020.

IFRS 16

Under IAS 17, operating lease payments are charged to the combined statements of profit or loss on a straight-line basis over the period of the lease, and operating lease commitments are disclosed separately in a note to the combined financial statements and are recognized outside of the combined statements of financial position. Under IFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognized in the form of assets (being the right-of-use assets in our financial statements) and financial liabilities (being the lease liabilities in our financial statements) on our combined statements of financial position at the commencement of respective leases.

Based on our internal assessment, except for the increases in total assets and total liabilities of RMB3.0 million and RMB3.3 million as of December 31, 2017, RMB3.0 million and RMB3.1 million as of December 31, 2018, RMB10.6 million and RMB11.3 million as of December 31, 2019 and RMB60.0 million and RMB53.6 million as of June 30, 2020, respectively, as a result of further recognition of right-of-use assets and relevant lease liabilities under IFRS 16, the adoption of IFRS 16 has no significant impact on our financial position and performance as compared with IAS 17. In addition, the adoption of IFRS 16 has no significant impact on our key financial ratios, such as gearing ratio, current ratio and quick ratio as of December 31, 2017, 2018 and 2019 and June 30, 2020.

The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of the historical financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 3 to the Accountants' Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition are affected by general factors driving China's healthcare industry, in particular, the retail pharmacy industry and online healthcare services industry in China.

Our business expansion and revenue growth have been and will continue to be affected by the development of the healthcare industry in China, which is in turn driven by an aging population, increasing disposable income, rising prevalence of chronic diseases and growing health awareness. Unfavorable changes in any of these general industry conditions could negatively affect demand for products and services at our platform and adversely and materially affect our results of operations.

In addition, we are affected by government policies and regulations that address all aspects of our operations, including qualifications and licensing requirements for online sales of pharmaceutical and healthcare products, online healthcare services and smart solutions. See "Risk Factors—Risks Related to Our Business and Industry—We are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may materially and adversely affect our business and prospects." We have benefited from certain recent favorable regulatory and policy changes in China, especially various policy initiatives that have promoted the sales of pharmaceutical and healthcare products.

While our business is influenced by general factors affecting the general healthcare industry in China, we believe our results of operations are more directly affected by company-specific factors, including the following major factors:

- our ability to increase active user accounts and drive additional purchases for our retail pharmacy business;
- our ability to further increase and leverage our scale of business;
- our ability to create value for third-party merchants and healthcare service providers;
- our ability to manage our mix of product and service offerings;
- our ability to enhance operating leverage;
- our ability to promote our brand effectively and efficiently; and
- our ability to effectively invest in technology.

Our Ability to Increase Active User Accounts and Drive Additional Purchases for Our Retail Pharmacy Business

Our retail pharmacy business operates through three models: direct sales, online marketplace and omnichannel initiative. During the Track Record Period, our retail pharmacy business had experienced significant growth. Such growth was primarily driven by our success in creating new active user accounts and driving additional purchases from existing user accounts. We have a growing active user base. In 2017, 2018 and 2019 and for the twelve months ended June 30, 2020, we had 43.9 million, 50.5 million, 56.1 million and 72.5 million annual active user accounts, respectively. We expect to achieve continued growth in our retail pharmacy business in the foreseeable future as we attract more users to our platform. We define "annual active user accounts" as user accounts that made at least one purchase during the past trailing twelve months ended on the applicable date, primarily through *JD Pharmacy*, online marketplace and omnichannel initiative.

We are committed to providing superior user experience and services. In particular, our platform offers a wide selection of pharmaceutical and healthcare products at competitive prices, and we also provide timely and reliable delivery, convenient payment options and superior customer services. The number of products available on our platform has grown rapidly, which enables us to serve a large user base, expand our reach and coverage and in turn drive additional purchases. As of June 30, 2020, there were more than 10 million SKUs on our platform. In addition, we have utilized and will continue to utilize our and JD Group's big data analytics capabilities to better understand our users so that we could better serve their evolving needs and demands.

Our Ability to Further Increase and Leverage Our Scale of Business

Our results of operations are directly affected by our ability to further increase and leverage our scale of business, particularly our retail pharmacy business. As our business further grows in scale, we expect to obtain more favorable terms from suppliers, including pricing terms, credit period and volume-based rebates. In addition, we aim to create value for our suppliers by providing an effective and transparent channel for selling large volumes of their products online and by offering them valuable insights on market demand, customer preferences and supply chain information based on our vast user base. We believe these value propositions will also help us deepen our relationships with, and obtain favorable terms from, suppliers and reduce our procurement costs.

Our Ability to Create Value for Third-Party Merchants and Healthcare Service Providers

Our results of operations also depend on our ability to create value for third-party merchants and healthcare service providers. Our online marketplace and omnichannel initiative allow third-party merchants to directly offer products to users through our platform. In addition, we are experimenting with an online drugs wholesale platform that connects upstream pharmaceutical companies and healthcare product suppliers and distributors with downstream pharmacies. We strive to improve the efficiency of the whole healthcare value chain through digitalizing the overall process. Furthermore, we provide hospitals with a holistic smart solution to improve their daily operating efficiency and help them better serve patients. Our smart solution partnerships with hospitals provide us with a variety of business opportunities, including medical devices orders, patient referral, and other value-added services. We empower doctors on our online healthcare platform with effective tools and resources for patient management and academic and clinical research. Our platform also assists them to further enhance their professional expertise and build their reputation and branding for sustainable long-term career development. The high-quality medical professionals on our platform improve our user experience, hence increasing user stickiness and improving product sales on our platform, creating a mutually beneficial relation between us and medical professionals. See "Business—Our Value Propositions" for details of our value propositions to third-party merchants and healthcare service providers.

We may be able to expand our product and service offering as we create value for third-party merchants and healthcare service providers. Users are in turn drawn to our platform because we offer comprehensive products and services. We may be also able to lower the cost of user acquisition by accessing users of other healthcare value chain participants and create monetization opportunities for our retail pharmacy business and online healthcare services.

Our Ability to Manage Our Mix of Product and Service Offerings

Our results of operations, in particular our gross margin, are affected by the mix of products and services we offer. We currently derive our revenue substantially from sales of pharmaceutical and healthcare products to users. For 2017, 2018, 2019 and the six months ended June 30, 2020, the product sales contributed to 88.4%, 88.8%, 87.0% and 87.6% of our total revenue, respectively. We also earn commission fees and platform usage fees from third-party merchants on our online marketplace, and digital marketing service fees from third-party merchants and suppliers. We also earn fees from online healthcare services provided to users and smart healthcare solutions to hospitals. The mix of our product and service offerings affects our gross margin. For example, the online marketplace services we offer to third-party merchants and the online healthcare services we offer to our users generally have higher gross margins than product sales. Therefore, the mix of our product and service offerings would have a major impact on our gross margin.

Our Ability to Enhance Operating Leverage

We leverage JD Group's experience and expertise in operation and management and integrate them with our own experience in the healthcare industry to constantly improve our operating efficiency.

Our fulfillment expenses are the largest component of our operating expenses, and they primarily consist of logistics and warehouse expenses, employee benefits of fulfillment personnel and order processing expenses. In 2017, 2018 and 2019, fulfillment expenses accounted for 11.5%, 11.4% and 10.8% of our total revenue, respectively. For the six months ended June 30, 2019 and 2020, fulfillment expenses accounted for 10.4% and 10.4% of our total revenue, respectively. We expect our fulfillment expenses to increase in absolute amounts in the near future as we continue to grow our business.

We continuously seek to streamline our operations and improve our supply chain, fulfillment and inventory management. Controlling operating expenses to achieve optimal operating efficiency is important to our success. As our business grows in scale, we expect to have significant operating leverage and realize structural cost savings.

Our Ability to Promote Our Brand Effectively and Efficiently

Our platform has network effects that can promote our brand effectively and enhance our marketing efficiency. More product and service categories offered and more third-party merchants and healthcare service providers on our platform increase the choices available to users, and more users on our platform increase the potential transactions for merchants and healthcare service providers, forming a virtuous cycle. The self-reinforcing network effects of our platform and associated operating leverage allow us to promote our brand and compete effectively by enjoying low user acquisition cost and growing user lifetime value. In addition, we believe JD Group's established brand also improves our branding and marketing efficiency. Accordingly, we believe our massive scale, coupled with the network effects of our own and JD Group, will allow us to promote our brand and acquire users and merchants more cost-effectively and benefit from substantial economies of scale as our business further grows.

As we operate in intensely competitive markets, we need to provide incentives to attract users, merchants and healthcare service providers, and conduct promotion and advertising activities to enhance our brand awareness. Our selling and marketing expenses are a significant component of our operating expenses, and they primarily consist of (i) promotion and advertising expenses, (ii) expenses of technology and traffic support services allocated/provided by JD Group, (iii) expenses related to other support services allocated by JD Group, and (iv) payroll and related expenses for employees involved in marketing and business development activities. In 2017, 2018 and 2019, selling and marketing expenses accounted for 4.6%, 4.8% and 6.9% of our total revenue, respectively. For the six months ended June 30, 2019 and 2020, selling and marketing expenses accounted for 5.2% and 6.2% of our total revenue, respectively. Our selling and marketing expenses increased by 90.4% from RMB391.8 million in 2018 to RMB746.0 million in 2019 primarily due to our increased marketing efforts to promote our retail pharmacy business, online healthcare services and our experimental online drugs wholesale platform. We expect our selling and marketing expenses to remain substantial in absolute amounts while we further expand our business.

Our Ability to Effectively Invest in Technology

Our results of operations depend in part on our ability to invest in technology to cost-effectively meet the demands of our anticipated growth. Our ability to engage users and empower third-party merchants and healthcare service providers is affected by the breadth and depth of our user insights, such as the accuracy of our targeted marketing services, our technology capabilities and infrastructure to develop our online healthcare platform, and our continued ability to timely adapt to the rapidly evolving industry trends and user preferences. We have made, and will continue to make, significant investments in our technology infrastructure to attract users, merchants and other participants, enhance user experience and expand the capabilities and scale of our platform, in particular, our online healthcare platform. We plan to continue to invest in improving and expanding our online healthcare platform, talent recruitment and training in the fields of AI, big data and cloud computing to strengthen our technological advantage. We believe the investment will deliver overall long-term growth, while increasing our operating efficiency.

IMPACT OF COVID-19 ON OUR OPERATIONS

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

In response to intensifying efforts to contain the spread of COVID-19, the Chinese government has taken a number of actions, which included compulsory quarantining arrangement, travel restrictions, remote work arrangement and public activities restrictions, among others. COVID-19 also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have also taken a series of measures in response to the outbreak, including, among others, remote working arrangements for some of our employees. These measures have temporarily reduced the capacity and efficiency of our operations and have negatively impacted our procurement of products, which negatively affected our results of operations.

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

As of June 30, 2020, we had cash and cash equivalents of RMB3.2 billion and term deposit of RMB2.8 billion. In August 2020, we raised approximately US$914 million by issuing Series B Preference Shares to investors. We believe our liquidity is sufficient to successfully navigate an extended period of uncertainty.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and results of operations. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Set forth below are discussions of the accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Other significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in notes 2 and 3 to the Accountants' Report in Appendix I to this document.

Significant Accounting Policies

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;
- our performance creates or enhances an asset that the customer controls as we perform; or
- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

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

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

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

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

Product Revenue

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

Service Revenue

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

We provide online marketing services to advertisers primarily consisting of third-party merchants on our and JD Group's various website channels and third-party marketing affiliates' websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which advertisers are charged based on display per thousand impressions or per effective click on their products or service listings. Our third-party merchants, when joining our marketplace, have the options to open an advertising account through which they could elect to advertise their products on our or JD Group's platforms, as well as third-party platforms. For each of the three years ended December 31, 2017, 2018 and 2019, and for the six months ended June 30, 2020, more than 50% of our third-party merchants used our advertising services.

When the online marketing services are rendered using our resources and/or platforms, we act as the Principal and recognize the gross amounts of services provided because (1) we own and control the digital marketing resources and can determine the transfer of the services to the customers; (2) we have full discretion in determining the pricing for digital marketing services delivery; and (3) we retain the inventory risks that the digital marketing resources are not sold out.

When the online marketing services are rendered using JD Group's resources and/or platforms or using resources outside both our Group and JD Group's platforms, we act as the agent and recognize the revenue for the shared marketing services fees from JD Group since we do not satisfy the criteria mentioned above. See "Connected Transactions—6. Marketing Services Framework Agreement" for more details on the marketing services fee sharing arrangement between our Group and JD Group.

We recognize revenue from pay for performance marketing services at point of time when each effective click is generated. We recognize revenue from advertising placements ratably over time as the customer simultaneously receives and consumes the benefits throughout the period during which the digital marketing services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions.

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

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

Contract balances

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration from the customer.

Unearned revenue consists of payments received or awards to customers related to unsatisfied performance obligations at the end of the period, included in contract liabilities in our combined statements of financial position.

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

For online retail business with return conditions, we estimate the possibility of return based on the historical experience. Changes in judgements on these assumptions and estimates could materially impact the amount of revenue recognized, liabilities and assets estimated for return allowances. Liabilities for return allowances are included in "Accrued expenses and other payables". The estimated return of product sold associated with our liabilities for return allowances are our assets, which are included in "Prepayments, other receivables and other assets".

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

Share-based payments

Shared-based awards our employees are granted under a share incentive plan of JD Group ("JD Group Share Incentive Plan"). The combined financial statements include allocation of the expenses recorded at JD Group based on our employees participating under JD Group Share Incentive Plan. JD Group grants its service-based restricted share units ("RSUs") and share options to our eligible employees, which are treated as deemed contribution from JD Group and recorded in other reserves in our combined statements of financial position.

Equity-settled share-based payment transactions

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

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

When share options are exercised, the amount previously recognized in other reserves will continue to be held in other reserves. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in other reserves will continue to be held in other reserves.

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

Taxation

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

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

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

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

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

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

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

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

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

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

Current and deferred tax are recognized in profit or loss.

Inventories

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

Convertible preferred shares

Series A Preference Shares issued by us are convertible at the option of the holders of Series A Preference Shares or automatically converted under certain events. Series A Preference Shares are not redeemable, but we are required to pay dividends to the holders of Series A Preference Shares up to the purchase price of Series A Preference Shares when certain conditions are met.

Each Series A Preference Shares shall be convertible, at the option of the holder of the Series A Preference Shares, at any time after the date of issuance of such Series A Preference Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preference Shares purchase price by the conversion price then applicable to such Series A Preference Shares. The conversion price is subject to adjustments when any equity securities of us are issued at a price per share lower than the purchase price of Series A Preference Shares.

The convertible preferred shares include contractual obligation to deliver dividend up to the purchase price to holders of Series A Preference Shares, and when the convertible preferred shares are converted to our fully paid and non-assessable ordinary shares, the number of ordinary shares to be converted is not fixed due to the potential adjustments aforementioned to the conversion price under certain circumstances. The convertible preferred shares are initially recognized at fair value. We do not account for the embedded derivatives separately from the host contract and designate the entire convertible preferred shares as financial liabilities at FVTPL with fair value change recognized in “fair value changes of convertible preferred shares” in profit or loss. Any directly attributable transaction costs are recognized as finance costs in profit or loss.

Critical Accounting Estimates and Judgements

The preparation of the combined financial statements requires our Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenue and expenses during the reported period in the combined financial statements and accompanying notes.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to our financial position and results of operation are addressed below:

Consolidation of Affiliated Entities

We obtained control over a PRC domestic company, Suqian Tianning, by entering into a series of Contractual Arrangements with the PRC domestic company and its shareholders. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing our Company with direct control over the PRC domestic company and uncertainties presented by the PRC legal system could impede our Company's beneficiary rights of the results, assets and liabilities of the PRC domestic company. The Directors of our Company, based on the advice of our PRC Legal Adviser, consider that the Contractual Arrangements among our WFOE, Suqian Tianning and its shareholders are in compliance with the relevant PRC laws and are legally enforceable.

Impairment of Inventories

Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment.

Rebates and Subsidies

Rebates are earned upon reaching minimum purchase thresholds for a specified period. When volume rebates can be reasonably estimated based on our past experiences and current forecasts, a portion of the rebates is recognized as we make progress towards the purchase threshold. Subsidies are calculated based on the volume of products sold through us and are recorded as a reduction of cost of revenue when the sales have been completed and the amount is determinable.

Estimation of the Fair Value of the Convertible Preferred Shares

The convertible preferred shares issued by us are not traded in an active market and the respective fair value is determined by using valuation techniques. We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions and key inputs, such as the timing of the liquidation or initial public offering event as well as the probability of the various scenarios were based on our best estimates.

Estimation of the Fair Value of the Call Option and Put Option

The fair value of the call option and put option associated with the investment in our joint venture, in the absence of an active market, are estimated by using appropriate valuation techniques. We applied the Black-Scholes model to determine the fair value of the options. Key assumptions and key inputs, such as risk-free interest rate and volatility, were based on our best estimates and subject to uncertainty and might materially differ from the actual results.

In relation to the valuation of our level 3 financial assets and liabilities, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted valuation on the investments in privately held companies and financial instruments without readily determinable fair value; (ii) engaged independent competent third-party valuer to appraise the fair value of certain investments that are significant; (iii) reviewed and agreed on the valuation approaches adopted and key assumptions used, based on the knowledge and understanding of the industrial data statistics and development, and the commercial strategies of the investee business; and (iv) approved the results if the procedures were deemed satisfactory. Based on the above procedures, our Directors are of the view that the valuation analysis performed by us is fair and reasonable, and the fair value measurements of level 3 financial assets and liabilities in our financial statements are properly prepared.

Details of the fair value measurement of level 3 financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, and reconciliation of level 3 measurements are disclosed in Note 30.4 to the Historical Financial Information for the Track Record Period as set out in the Accountants' Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on I-2 of Appendix I.

In relation to the fair value assessment of the financial liabilities and assets requiring level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewing relevant notes and disclosure in the Accountant's Report as contained in Appendix I to this document; (ii) discussing with the Company and the Reporting Accountants the valuation methodology, and the key basis and assumptions for the valuation of the financial liabilities and assets; (iii) obtaining and reviewing the credentials of the valuer involved in the valuation; and (iv) reviewing the valuation basis and methodologies adopted by the valuer on a sampled basis. Having considered the work done by the Company's management, the Directors and the Reporting Accountants, and the above due diligence work conducted by the Joint Sponsors, nothing material has come to the Joint Sponsors' attention that indicates that the Directors have not undertaken independent and sufficient investigation and due diligence, or that the Directors' reliance on the work products of the independent valuer is unreasonable or excessive.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

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

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

Note:

(1) See "—Non-IFRS Measure: Non-IFRS Profit For the Year/Period."

Revenue

During the Track Record Period, we generated revenue from (i) sales of pharmaceutical and healthcare products and (ii) online marketplace, digital marketing and other services. Revenue from sales of pharmaceutical and healthcare products accounted for a substantial majority of our total revenue in each of 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020.

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

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

We record revenue net of discounts, return allowances and value-added taxes.

Product revenue

Product revenue is generated from our direct sales of pharmaceutical and healthcare products. We primarily carry out such direct sales through *JD Pharmacy*. The pharmaceutical and healthcare products we sell primarily consist of drugs, health and wellness products, and medical devices and supplies. Our product revenue has grown significantly during the Track Record Period and we expect that it will continue to grow and be a material contributor to our total revenue in the foreseeable future as we attract more users to our platform.

Service revenue

Service revenue is mainly generated from provision of online marketplace and digital marketing services, for which we primarily charge (i) commissions and platform usage fees from third-party merchants on our online marketplace; and (ii) digital marketing services fees from suppliers and third-party merchants. For the third-party merchants who sell products on our online marketplace, we charge them a fixed rate commission fee based on the sales amount. We also render platform services through our platform to the merchants, including product tracking, and provision of recall and enforcement information. The platform usage fee collected from merchants shall be recognized as revenue over the service period. In addition, we provide digital marketing services to suppliers and third-party merchants and charge them digital marketing service fees. We recognize revenue from advertising placements ratably over the period during which the digital marketing services are provided, and recognize revenue from pay-for-performance marketing services based on display per thousand impression or per effective clicks.

Furthermore, we generate service revenue from providing online healthcare services to users and smart solutions to hospitals. See "Business—Online Healthcare Services" and "Business—Smart Healthcare Solutions and Other New Initiatives" for a detailed description of these services. During the Track Record Period, revenue from these services only accounted for a minimal portion of our service revenue.

Our service revenue increased significantly during the Track Record Period. We expect our service revenue, although currently not a material contribution to our total revenue, to grow in absolute amounts as we expand our online marketplace, omnichannel initiative, online healthcare services and smart solutions.

Cost of Revenue

Our cost of revenue primarily consists of cost of purchasing pharmaceutical and healthcare products that we sell directly through *JD Pharmacy* and the related inbound logistics charges and inventory write-downs. The rebates and subsidies we receive from suppliers are treated as a reduction in the purchase price and are recorded as a reduction in cost of revenue when recognized in our combined statements of profit or loss. The subsidies we receive from suppliers are calculated based on the volume of products sold through our platform and are recorded as a reduction of cost of revenue when the sales have been completed and the amount is determinable. Our cost of revenue does not include other direct costs related to costs of product sales such as logistics and handling expense and depreciation expenses. Therefore, our cost of revenue may not be comparable to that of other companies, which include such expenses in their costs of revenue.

We expect our cost of revenue to continue to increase in absolute amounts due to the expected growth of product revenue in the foreseeable future.

Fulfillment Expenses

Our fulfillment expenses consist of (i) logistics and warehousing services expenses, (ii) employee benefit expenses for employees involved in fulfillment activities, (iii) expenses related to other support services allocated by JD Group, (iv) payment services expenses and (v) others, including customer service expenses.

Our fulfillment expenses increased significantly during the Track Record Period in line with our business expansion. We expect our fulfillment expenses to increase in absolute amount in the foreseeable future to meet our anticipated growth in sales volume and ensure satisfactory customer experience. We plan to continue to strengthen our supply chain capabilities and to extend delivery services of omnichannel initiative to more cities in China.

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

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(Unaudited)			
Logistics and warehousing services expenses*	472,941	74.3	660,943	71.2	818,932	70.0	372,091	71.4	591,328	64.9
Employee benefit expenses	40,645	6.4	76,085	8.2	121,182	10.4	42,042	8.1	127,546	14.0
Expenses related to other support services allocated by JD Group	32,810	5.2	32,459	3.5	5,791	0.5	5,791	1.1	—	—
Payment services expenses*	51,355	8.1	86,881	9.4	133,045	11.4	58,104	11.1	94,918	10.4
Others	38,399	6.0	71,509	7.7	90,704	7.7	43,142	8.3	97,216	10.7
Total	**636,150**	**100.0**	**927,877**	**100.0**	**1,169,654**	**100.0**	**521,170**	**100.0**	**911,008**	**100.0**

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See "—Material Related Party Transactions" for more details.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses, (ii) expenses of technology and traffic support services allocated/provided by JD Group, (iii) expenses related to other support services allocated by JD Group, and (iv) employee benefit expenses for employees involved in marketing and business development activities.

Our selling and marketing expenses increased significantly during the Track Record Period. We expect our selling and marketing expenses to remain substantial in absolute amounts as we implement new business initiatives, such as deploying additional sales personnel to promote our online healthcare services, smart solutions and other value-added services. We plan to continue to conduct brand promotion and marketing activities to enhance our brand recognition and attract more purchases from new and existing customers.

The following table sets forth a breakdown of our selling and marketing expenses both in absolute amount and as a percentage of our total selling and marketing expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(Unaudited)			
Promotion and advertising expenses	63,191	24.5	140,570	35.9	456,681	61.2	135,834	52.7	319,751	58.7
Expenses of technology and traffic support services allocated/ provided by JD Group*	116,489	45.2	164,075	41.9	265,404	35.6	113,068	43.9	201,751	37.1
Expenses related to other support services allocated by JD Group	78,181	30.3	86,763	22.1	8,114	1.1	8,114	3.2	—	—
Employee benefit expenses	118	0.0	414	0.1	14,903	2.0	529	0.2	20,256	3.7
Others	—	—	—	—	912	0.1	—	—	2,617	0.5
Total	**257,979**	**100.0**	**391,822**	**100.0**	**746,014**	**100.0**	**257,545**	**100.0**	**544,375**	**100.0**

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See "—Material Related Party Transactions" for more details.

Research and Development Expenses

Our research and development expenses primarily consist of (i) expenses of technology and traffic support services allocated/provided by JD Group, (ii) employee benefit expenses for our research and development personnel, (iii) expenses related to other support services allocated by JD Group, and (iv) others, primarily consisting of technology infrastructure related costs, including servers and other equipment depreciation, bandwidth and data center costs, rent, utilities and other expenses necessary to support our business operations.

Our research and development expenses increased significantly during the Track Record Period. We expect our research and development expenses to grow in absolute amounts as we expand our technology team, enhance our data analytics capabilities and develop new features and applications to better serve various participants in the healthcare ecosystem. In addition to leveraging JD Group's technologies and technology infrastructure, we plan to continue to invest in our own technology and innovation to enhance user experience and expand value-added services to participants on our platform.

The following table sets forth a breakdown of our research and development expenses both in absolute amount and as a percentage of our total research and development expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(Unaudited)			
Expenses of technology and traffic support services allocated/provided by JD Group*	99,119	80.8	183,508	84.1	194,971	57.6	92,115	61.0	171,766	61.7
Employee benefit expenses	609	0.5	4,310	2.0	89,000	26.3	21,689	14.4	80,603	29.0
Expenses related to other support services allocated by JD Group	20,055	16.3	25,156	11.5	40,505	12.0	31,758	21.1	9,459	3.4
Others	2,884	2.4	5,308	2.4	13,763	4.1	5,335	3.5	16,347	5.9
Total	**122,667**	**100.0**	**218,282**	**100.0**	**338,239**	**100.0**	**150,897**	**100.0**	**278,175**	**100.0**

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See "—Material Related Party Transactions" for more details.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) expenses of technology and traffic support services allocated/provided by JD Group, (ii) employee benefit expenses for employees of general corporate functions, including accounting, finance and human resources, and (iii) expenses related to other support services allocated by JD Group.

Our general and administrative expenses increased during the Track Record Period. We expect our general and administrative expenses to continue to increase in absolute amounts in the foreseeable future, but to decrease as a percentage of our total revenue in the long run as we leverage the scale of our business. We plan to continue to hire additional qualified employees for our general corporate functions to support our business operations and planned expansion.

The following table sets forth a breakdown of our general and administrative expenses both in absolute amount and as a percentage of our total general and administrative expenses for the years/periods indicated:

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2017		2018		2019		2019		2020	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(Unaudited)			
Expenses of technology and traffic support services allocated/provided by JD Group*	60,875	56.7	77,288	57.7	67,779	54.3	34,693	52.3	50,607	59.8
Employee benefit expenses	28,714	26.7	32,604	24.4	46,943	37.6	22,384	33.8	25,663	30.3
Expenses related to other support services allocated by JD Group	17,828	16.6	23,955	17.9	8,415	6.7	8,415	12.7	—	—
Others	—	—	8	0.0	1,785	1.4	819	1.2	8,378	9.9
Total	**107,417**	**100.0**	**133,855**	**100.0**	**124,922**	**100.0**	**66,311**	**100.0**	**84,648**	**100.0**

Note:

* In May 2019, we entered into the Series A Share Subscription Agreement for the Series A Preference Shares financing with certain Pre-IPO Investors. Based on the terms stipulated in the Series A Share Subscription Agreement, pricing policies of certain related party transactions between us and JD Group were established and became effective since the end of June 2019, which include logistics and warehousing services, technology and traffic support services, marketing services, loyalty program services, payment services, shared services and other services. See "—Material Related Party Transactions" for more details.

Finance Income

Our finance income primarily consists of interest income on bank balance and term deposits. Our term deposits usually have original maturities over three months and are redeemable on maturity.

Fair Value Changes of Convertible Preferred Shares

We adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares issued by us. Please refer to note 23 to the Accountants' Report included in Appendix I to this document for the key assumptions in determining the fair value of the convertible preferred shares.

Discount rate was estimated by weighted average cost of capital as of each valuation date. We estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date plus country risk spread. The discount for lack of marketability was estimated based on the option-pricing method. Under the option pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before respective valuation date and with similar span as time to expiration. In addition to the assumptions adopted above, our projections of future performance were also factored into the determination of the fair value of the Series A Preference Shares on each valuation date. Upon the completion of the Global Offering, the preferred shares will be automatically converted to our ordinary shares.

Taxation

Cayman Islands

Under the current laws of the Cayman Islands, our Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in the British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

PRC

Under the PRC Enterprise Income Tax Law (the "EIT Law"), the standard enterprise income tax rate for PRC operating entities is 25%.

Certain enterprises will benefit from a preferential tax rate of 15% under the EIT Law if they are located in applicable PRC regions as specified in the catalog of encouraged industries in western regions (initially effective through the end of 2010 and further extended to 2030) ("Western Regions Catalog"), subject to certain general restrictions described in the EIT Law and the related regulations. During the Track Record Period, our online marketing service business that is subject to the spin-off from JD Group was operated by the entities qualified as the enterprises within the Western Regions Catalog and enjoyed 15% preferential income tax rate. Therefore, the enterprise income tax (the "EIT") of such online marketing service business was estimated by treating as separate tax payer using the tax rate of 15%.

Withholding tax on undistributed dividends

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a foreign investment enterprise ("FIE") to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). Our Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during the Track Record Period. Therefore our Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities.

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

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

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

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

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

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

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenue

Our revenue increased by 76.0% from RMB5.0 billion for the six months ended June 30, 2019 to RMB8.8 billion for the six months ended June 30, 2020. The increase in our total revenue was primarily due to the increase by 76.2% in product revenue from sales of pharmaceutical and healthcare products from RMB4.4 billion for the six months ended June 30, 2019 to RMB7.7 billion for the six months ended June 30, 2020, in line with the continuous growth of our direct sales GMV from RMB6.9 billion in the six months ended June 30, 2019 to RMB11.5 billion in the six months ended June 30, 2020. Such growth on both product revenue and GMV was primarily driven by the increase in the number of active user accounts and additional purchases from existing user accounts, partially due to the impact of COVID-19 in the first half of 2020, driven by the increasing online penetration of pharmaceutical and healthcare products sales, shift in user behaviors, and our rising brand awareness as we continue to invest in marketing activities. Our annual active user accounts increased from 53.5 million for the twelve months ended June 30, 2019 to 72.5 million for the twelve months ended June 30, 2020. Service revenue from online marketplace, digital marketing and other services increased by 73.9% from RMB623.4 million for the six months ended June 30, 2019 to RMB1,084.2 million for the six months ended June 30, 2020, primarily due to (i) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace, resulting in a growth of our online marketplace GMV from RMB12.9 billion in the six months ended June 30, 2019 to RMB22.4 billion in the six months ended June 30, 2020, and (ii) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth in our platform as reflected in the growth in GMV.

Cost of revenue

Our cost of revenue increased by 79.4% from RMB3.7 billion for the six months ended June 30, 2019 to RMB6.6 billion for the six months ended June 30, 2020. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business, driven by the increase in the number of active user accounts and additional purchases from existing user accounts, partially due to the impact of COVID-19 in the first half of 2020.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB1.3 billion for the six months ended June 30, 2019, representing a gross profit margin of 26.7%, and a gross profit of RMB2.2 billion for the six months ended June 30, 2020, representing a gross profit margin of 25.3%. The decrease in the gross profit margin was primarily due to increases in revenue from sales of pharmaceutical products and increased inventory impairment provision due to strategic stockpile in response to the COVID-19 outbreak.

Fulfillment expenses

Our fulfillment expenses increased by 74.8% from RMB521.2 million for the six months ended June 30, 2019 to RMB911.0 million for the six months ended June 30, 2020. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and increase in the number of warehouses leased, (ii) employee benefit expenses relating to fulfillment personnel, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, in line with the growth of our overall GMV and (iv) other fulfillment expenses, including customer service expenses, all of which were in line with the continued growth of our business. Fulfillment expenses as a percentage of revenue remained stable at 10.4% for the six months ended June 30, 2019 and for the six months ended June 30, 2020.

Selling and marketing expenses

Our selling and marketing expenses increased by 111.4% from RMB257.5 million for the six months ended June 30, 2019 to RMB544.4 million for the six months ended June 30, 2020. The increase was primarily due to (i) an increase in our promotion and advertising expenses from RMB135.8 million for the six months ended June 30, 2019 to RMB319.8 million for the six months ended June 30, 2020, which was primarily due to increased marketing efforts to promote our retail pharmacy business, online healthcare services and our experimental wholesale platform, and (ii) an increase in our expenses of technology and traffic support services allocated/provided by JD Group from RMB113.1 million for the six months ended June 30, 2019 to RMB201.8 million for the six months ended June 30, 2020. Selling and marketing expenses as a percentage of revenue increased from 5.2% for the six months ended June 30, 2019 to 6.2% for the six months ended June 30, 2020, primarily due to our increased efforts in promoting our brand.

Research and development expenses

Our research and development expenses increased by 84.3% from RMB150.9 million for the six months ended June 30, 2019 to RMB278.2 million for the six months ended June 30, 2020. The increase was primarily attributable to (i) an increase in expenses of technology and traffic support services allocated/provided by JD Group due to the increase in the value of fulfilled orders, and (ii) an increase in research and development headcount as we continued to invest in research and development personnel, who continuously contributed to the development of technology capabilities and new features of our platform. Research and development expenses as a percentage of revenue increased slightly from 3.0% for the six months ended June 30, 2019 to 3.2% for the six months ended June 30, 2020.

General and administrative expenses

Our general and administrative expenses increased by 27.7% from RMB66.3 million for the six months ended June 30, 2019 to RMB84.6 million for the six months ended June 30, 2020, primarily attributable to (i) an increase in expenses of technology and traffic support services allocated/provided by JD Group due to the increase in the value of fulfilled orders, and (ii) an increase in employee benefit expenses for employees of general corporate functions, including accounting, finance and human resources, as a result of our business expansion. General and administrative expenses as a percentage of revenue decreased slightly from 1.3% for the six months ended June 30, 2019 to 1.0% for the six months ended June 30, 2020.

Finance income

Our finance income increased significantly to RMB60.3 million for the six months ended June 30, 2020, primarily due to increased interest earnings from bank balances and term deposits.

Fair value change of convertible preferred shares

We recorded a loss on fair value change of convertible preferred shares of RMB5.7 billion for the six months ended June 30, 2020. The change was primarily due to an increase in the fair value of Series A Preference Shares during the six months ended June 30, 2020, as a result of an increase in our Company's equity value.

Income tax expense

Our income tax expense increased by 4.9% from RMB98.7 million for the six months ended June 30, 2019 to RMB103.6 million for the six months ended June 30, 2020, primarily due to the increase in taxable income.

Profit/(loss) for the period

As a result of the foregoing, we generated a profit of RMB236.3 million for the six months ended June 30, 2019 and incurred a loss of RMB5.4 billion for the six months ended June 30, 2020, primarily due to a loss of RMB5.7 billion on fair value changes of convertible preferred shares for the six months ended June 30, 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 32.7% from RMB8.2 billion in 2018 to RMB10.8 billion in 2019. The increase in our total revenue was primarily due to the increase by 30.1% in product revenue from sales of pharmaceutical and healthcare products from RMB7.3 billion in 2018 to RMB9.4 billion in 2019, in line with the continuous growth of our direct sales GMV from RMB11.7 billion in 2018 to RMB14.7 billion in 2019. Such growth on products revenue and direct sales GMV was primarily driven by (i) our success in attracting new active user accounts and additional purchases from existing user accounts, resulting in an increase in our annual active user accounts from 50.5 million in 2018 to 56.1 million in 2019, and (ii) increase in average revenue per user (ARPU) from RMB143.8 in 2018 to RMB168.3 in 2019. Service revenue from online marketplace, digital marketing and other services increased by 53.9% from RMB914.5 million in 2018 to RMB1,407.2 million in 2019. The increase in our service revenue was primarily due to (i) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace, resulting in a growth of our online marketplace GMV from RMB18.0 billion in 2018 to RMB28.5 billion in 2019, and (ii) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth in our platform as reflected in the growth in GMV.

Cost of revenue

Our cost of revenue increased by 29.7% from RMB6.2 billion in 2018 to RMB8.0 billion in 2019. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB2.0 billion in 2018, representing a gross profit margin of 24.2%, and a gross profit of RMB2.8 billion in 2019, representing a gross profit margin of 25.9%. The increase in the gross profit margin was primarily due to an increase in our service revenue as a percentage of total revenue from 11.2% of total revenue in 2018 to 13.0% in 2019, which tends to have a relatively higher gross margin.

Fulfillment expenses

Our fulfillment expenses increased by 26.1% from RMB927.9 million in 2018 to RMB1.2 billion in 2019. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and the increase in the number of warehouses leased, (ii) employee benefit expenses for employees involved in fulfillment activities, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, in line with the growth of our overall GMV, and (iv) other fulfillment expenses, including customer service expenses, all of which were in line with the continued growth of our business. Fulfillment expenses as a percentage of revenue decreased from 11.4% in 2018 to 10.8% in 2019.

Selling and marketing expenses

Our selling and marketing expenses increased by 90.4% from RMB391.8 million in 2018 to RMB746.0 million in 2019. The increase was primarily due to (i) an increase in our promotion and advertising expenses from RMB140.6 million in 2018 to RMB456.7 million in 2019 which was primarily due to increased marketing efforts to promote our retail pharmacy business, online healthcare services and our experimental wholesale platform, and (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group from RMB164.1 million in 2018 to RMB265.4 million in 2019. Selling and marketing expenses as a percentage of revenue increased from 4.8% in 2018 to 6.9% in 2019 in line with our business expansion and our increased marketing efforts.

Research and development expenses

Our research and development expenses increased by 55.0% from RMB218.3 million in 2018 to RMB338.2 million in 2019. The increase was primarily attributable to (i) an increase in research and development headcount as we continued to invest in research and development personnel due to the continuous development of our online healthcare services and other new features of our platform, (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group, as a result of our continuously increasing fulfilled orders and (iii) an increase in expenses related to other support services allocated by JD Group due to our business expansion. Research and development expenses as a percentage of revenue increased from 2.7% in 2018 to 3.1% in 2019.

General and administrative expenses

Our general and administrative expenses decreased by 6.7% from RMB133.9 million in 2018 to RMB124.9 million in 2019, as a result of increased operational efficiency attributable to the Reorganization mainly caused by streamlining of functions in relation to our business. General and administrative expenses as a percentage of revenue decreased from 1.6% in 2018 to 1.2% in 2019.

Finance income

Our finance income increased significantly to RMB31.8 million in 2019, primarily due to increased interest earnings from bank balances and term deposits.

Finance cost

We recorded a finance cost of RMB35.5 million in 2019 due to the transactions costs we incurred in connection with the issuance of the Series A Preference Shares in 2019.

Fair value change of convertible preferred shares

Our fair value change of convertible preferred shares was nil in 2018. We recorded a loss of RMB1,263.1 million of fair value change of convertible preferred shares in 2019. The change was primarily due to an increase in the per share fair value of the Series A Preference Shares, as a result of an increase in our Company's equity value.

Income tax expense

Our income tax expense increased by 50.2% from RMB91.3 million in 2018 to RMB137.1 million in 2019, primarily due to the increase in taxable income.

Profit/(loss) for the year

As a result of the foregoing, we generated a profit of RMB214.9 million in 2018 and incurred a loss of RMB971.8 million in 2019, primarily due to a loss of RMB1.3 billion on fair value changes of convertible preferred shares in 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased by 47.1% from RMB5.6 billion in 2017 to RMB8.2 billion in 2018. The increase in our total revenue was primarily due to the increase by 47.8% in product revenue from sales of pharmaceutical and healthcare products from RMB4.9 billion in 2017 to RMB7.3 billion in 2018, in line with the continuous growth of our direct sales GMV from RMB8.0 billion in 2017 to RMB11.7

billion in 2018. Such growth on products revenue and direct sales GMV was primarily driven by (i) our success in attracting new active user accounts and additional purchases from existing user accounts, resulting in an increase in our annual active user accounts from 43.9 million in 2017 to 50.5 million in 2018, and (ii) the increase in average revenue per user (ARPU) from RMB111.7 in 2017 to RMB143.8 in 2018. Service revenue from online marketplace, digital marketing and other services increased by 41.6% from RMB645.9 million in 2017 to RMB914.5 million in 2018. The increase in our service revenue was primarily due to (i) an increase in commission fees and platform usage fees primarily attributable to an increase in the sales volume and the number of third-party merchants on our online marketplace, resulting in a growth of our online marketplace GMV from RMB12.4 billion in 2017 to RMB18.0 billion in 2018, and (ii) an increase in digital marketing service fees primarily attributable to an increase in the number of advertisers on our platform, in line with the continuous growth in our platform as reflected in the growth in GMV.

Cost of revenue

Our cost of revenue increased by 48.4% from RMB4.2 billion in 2017 to RMB6.2 billion in 2018. The increase was primarily due to an increase in the sales volume of our pharmaceutical and healthcare products through *JD Pharmacy*, which was in line with the growth of our retail pharmacy business.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of RMB1.4 billion in 2017, representing a gross profit margin of 24.9%, and a gross profit of RMB2.0 billion in 2018, representing a gross profit margin of 24.2%. The decrease in the gross profit margin was primarily due to the decrease in our service revenue as a percentage of total revenue from 11.6% in 2017 to 11.2% in 2018, which tends to have a relatively higher gross margin.

Fulfillment expenses

Our fulfillment expenses increased by 45.9% from RMB636.2 million in 2017 to RMB927.9 million in 2018. The increase was primarily due to an increase in (i) logistics and warehousing services expenses, due to the increase in the usage of logistics services along with more products sales and the number of warehouses leased, (ii) employee benefit expenses for employees involved in fulfillment activities, due to the increase in employee headcount of fulfillment activities, (iii) payment services expenses, in line with the growth of our overall GMV, and (iv) other fulfillment expenses, including customer service expenses. The increase was in line with the growth of our sales volume. Fulfillment expenses as a percentage of revenue decreased slightly from 11.5% in 2017 to 11.4% in 2018.

Selling and marketing expenses

Our selling and marketing expenses increased by 51.9% from RMB258.0 million in 2017 to RMB391.8 million in 2018. The increase was primarily due to (i) an increase in our promotion and advertising expenses from RMB63.2 million in 2017 to RMB140.6 million in 2018, which was primarily due to our increased marketing efforts, and (ii) an increase in expenses of technology and traffic support services allocated/provided by JD Group from RMB116.5 million in 2017 to RMB164.1 million in 2018. Selling and marketing expenses as a percentage of revenue increased from 4.6% in 2017 to 4.8% in 2018.

Research and development expenses

Our research and development expenses increased by 77.9% from RMB122.7 million in 2017 to RMB218.3 million in 2018, primarily attributable to an increase in expenses of technology and traffic support services allocated/provided by JD Group, mainly in relation to the development of our online healthcare services business. Research and development expenses as a percentage of revenue increased from 2.2% in 2017 to 2.7% in 2018.

General and administrative expenses

Our general and administrative expenses increased by 24.6% from RMB107.4 million in 2017 to RMB133.9 million in 2018 in line with our business expansion. General and administrative expenses as a percentage of revenue decreased from 1.9% in 2017 to and 1.6% in 2018.

Income tax expense

Our income tax expense increased by 17.9% from RMB77.4 million in 2017 to RMB91.3 million in 2018, primarily due to the increase in taxable income.

Profit for the year

As a result of the foregoing, we generated a profit of RMB178.5 million in 2017 and RMB214.9 million in 2018, respectively.

DISCUSSION OF CERTAIN KEY ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Current Assets/Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	(in thousands of RMB)				
Current assets:					
Inventories	884,047	1,115,295	1,278,339	1,999,886	1,866,719
Trade and note receivables	3,091	20,032	21,552	29,053	54,058
Prepayments, other receivables and other assets	6,606	10,933	957,749	1,410,765	1,220,160
Financial assets at fair value through profit or loss	—	—	—	1,012,396	3,820,038
Term deposits	—	—	1,395,240	2,831,800	2,724,040
Restricted cash	—	3,864	5,891	9,159	22,820
Cash and cash equivalents	7,401	16,213	4,965,272	3,200,320	9,722,252
Total current assets	**901,145**	**1,166,337**	**8,624,043**	**10,493,379**	**19,430,087**
Current liabilities:					
Trade payables	172,650	340,229	444,984	1,744,114	2,505,632
Contract liabilities	31,227	40,519	87,687	189,348	174,827
Lease liabilities	1,664	715	4,851	17,473	23,137
Financial liabilities at fair value through profit or loss	—	—	—	—	144,977
Accrued expenses and other payables	41,604	49,052	1,007,354	1,494,882	3,812,072
Total current liabilities	**247,145**	**430,515**	**1,544,876**	**3,445,817**	**6,660,645**
Net current assets	**654,000**	**735,822**	**7,079,167**	**7,047,562**	**12,769,442**

We had net current assets positions as of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020. Our net current assets positions as of each of these dates was primarily attributable to our large balance of inventories, prepayments, other receivables and other assets, and cash and cash equivalents, partially offset by our trade payables and accrued expenses and other payables. Cash and cash equivalents account for a substantial portion of our current assets. See "— Liquidity and Capital Resources" for further details on change of the balance of our cash and cash equivalents.

Our net current assets decreased slightly from RMB7.1 billion as of December 31, 2019 to RMB7.0 billion as of June 30, 2020.

Inventories

Our inventories represent products available for sale. The following table sets forth inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Inventories:				
Products	886,740	1,119,108	1,283,133	2,079,345
Less: impairment provision	(2,693)	(3,813)	(4,794)	(79,459)
Total	**884,047**	**1,115,295**	**1,278,339**	**1,999,886**

Our inventories increased by 56.4% from RMB1.3 billion as of December 31, 2019 to RMB2.0 billion as of June 30, 2020. Our inventories increased by 14.6% from RMB1.1 billion as of December 31, 2018 to RMB1.3 billion as of December 31, 2019. Our inventories increased by 26.2% from RMB884.0 million as of December 31, 2017 to RMB1.1 billion as of December 31, 2018. The increases in inventories as of the dates presented were primarily due to growth of our product sales volume, partially offset by impairment provision for inventories. The impairment provision for inventories increased from RMB4.8 million as of December 31, 2019 to RMB79.5 million as of June 30, 2020, primarily due to our strategic stockpile in response to the COVID-19 outbreak.

The following table sets forth the turnover days of our inventory for the years/period indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
Inventory turnover days(1)	61.8	58.1	53.7	45.0

Note:

(1) Inventory turnover days for a period equals the average of the opening and closing inventory balance divided by cost of revenue for the relevant period and multiplied by 180 days or 360 days, as applicable.

Our inventory turnover days decreased from 61.8 days in 2017 to 58.1 days in 2018, and further decreased to 53.7 days in 2019. Our inventory turnover days further decreased to 45.0 days for the six months ended June 30, 2020. The decreases in inventory turnover days during the periods presented were primarily due to enhanced inventory turnover control and more efficient supply chain management.

As of September 30, 2020, RMB1,580.6 million, or 79.0%, of our inventory balance as of June 30, 2020 had been sold or utilized.

Trade and Note Receivables

Our trade and note receivables consist of outstanding amounts payable by third parties. The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade receivables	3,098	17,472	27,080	30,713
Less: allowance for expected credit loss	(7)	(4,393)	(6,252)	(5,775)
Note receivables	—	6,953	724	4,115
Total	**3,091**	**20,032**	**21,552**	**29,053**

Our trade and note receivables increased by 34.8% from RMB21.6 million as of December 31, 2019 to RMB29.1 million as of June 30, 2020. Our trade and note receivables increased by 7.6% from RMB20.0 million as of December 31, 2018 to RMB21.6 million as of December 31, 2019 and increased from RMB3.1 million as of December 31, 2017 to RMB20.0 million as of December 31, 2018.

Our trading terms with some of our customers are on credit. We primarily allow a credit period of 30 days. Trade receivables are generally settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade receivables:				
Within three months	3,098	7,815	13,921	21,503
Three to six months	—	2,858	3,799	2,480
Six months to one year	—	6,799	8,791	3,623
Over one year	—	—	569	3,107
	3,098	17,472	27,080	30,713
Less: loss allowance	(7)	(4,393)	(6,252)	(5,775)
Total	**3,091**	**13,079**	**20,828**	**24,938**

During the Track Record Period, we use non-IFRS trade receivables as an additional financial measure, which is not required by, or presented in accordance with, IFRSs, to measure the size of trade receivables attributable to our business and evaluate how effectively we manage these receivables. We define non-IFRS trade receivables as the sum of (i) our trade receivables, net of allowance for expected credit loss, and (ii) trade receivables of JD Group that are attributable to our business. We believe non-IFRS trade receivables are more indicative of our trade receivables position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS trade receivables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS trade receivables as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is trade receivables, net of allowance for expected credit loss, as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of trade receivables to non-IFRS trade receivables:				
Trade receivables, net of allowance for expected credit loss	3,091	13,079	20,828	24,938
Trade receivables of JD Group attributable to our business	7,165	12,564	17,136	18,753
Non-IFRS trade receivables	10,256	25,643	37,964	43,691

The following table sets forth the turnover days of our trade receivables, net of allowance for expected credit loss, and our non-IFRS trade receivables for the years/period indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
Trade receivables turnover days(1)	0.1	0.4	0.6	0.5
Non-IFRS trade receivables turnover days(2)	0.3	0.8	1.1	0.8

Notes:

(1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables balance divided by total revenue during the relevant period and multiplied by 180 days or 360 days, as applicable.

(2) Non-IFRS trade receivables turnover days for a period equals the average of the opening and closing non-IFRS trade receivables balance divided by total revenue during the relevant period and multiplied by 180 days or 360 days, as applicable.

Our trade receivables turnover days were 0.1 days in 2017, 0.4 days in 2018, 0.6 days in 2019, and 0.5 days in the six months ended June 30, 2020.

Our non-IFRS trade receivables turnover days were 0.3 days in 2017, 0.8 days in 2018, 1.1 days in 2019, and 0.8 days in the six months ended June 30, 2020.

As of September 30, 2020, approximately RMB24.1 million, or 82.8%, of our trade and note receivables as of June 30, 2020 had been settled.

Prepayments, Other Receivables and Other Assets

Our current prepayments, other receivables and other assets primarily consist of amounts due from related parties, advance to our suppliers, recoverable value-added tax and estimated return of products sold. The majority of the amounts due from JD Group will be settled prior to the Listing.

The following table sets forth our current prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Current prepayments, other receivables and other assets:				
Amounts due from related parties	34	307	929,665	1,175,379
Advance to suppliers	531	515	11,140	70,914
Receivable from cancellation of investments	—	—	—	102,803
Prepaid expense	978	394	822	2,403
Recoverable value-added tax	2,036	6,676	5,905	10,192
Estimated return of products sold	2,945	2,962	2,396	3,272
Interest receivable	—	17	7,721	45,058
Others	82	62	100	744
Total	**6,606**	**10,933**	**957,749**	**1,410,765**

Our current prepayments, other receivables and other assets increased by 47.3% from RMB957.7 million as of December 31, 2019 to RMB1,410.8 million as of June 30, 2020, primarily due to the increase in amounts due from related parties and in receivable from cancellation of investments, which represents the amount to be received from a third party we planned to invest in previously. The receivable from cancellation of investments was settled in September 2020. Our current prepayments, other receivables and other assets increased significantly from RMB10.9 million as of December 31, 2018 to RMB957.7 million as of December 31, 2019, primarily due to an increase in amounts due from related parties. Our current prepayments, other receivable and other assets increased by 65.5% from RMB6.6 million as of December 31, 2017 to RMB10.9 million as of December 31, 2018, primary due to an increase in recoverable value-added tax.

During the Track Record Period, we use non-IFRS current prepayments, other receivables and other assets as additional financial measures, which is not required by, or presented in accordance with, IFRSs, to measure the size of current prepayments, other receivables and other assets attributable to our business and evaluate how effectively we manage these current prepayments, other receivables and other assets. We define non-IFRS current prepayments, other receivables and other assets as the sum of (i) our current prepayments, other receivables and other assets and (ii) current employee loans of JD Group that are attributable to our business. We believe non-IFRS current prepayments, other receivables and other assets are more indicative of our position in current prepayments, other receivables and other assets during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS current prepayments, other receivables and other assets has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS current prepayments, other receivables and other assets as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are current prepayments, other receivables and other assets as of the year/period:

	As of December 31,			As of June 30,
	2017	**2018**	**2019**	**2020**
	(in thousands of RMB)			
Reconciliation of current prepayments, other receivables and other assets to non-IFRS current prepayments, other receivables and other assets:				
Current prepayments, other receivables and other assets	6,606	10,933	957,749	1,410,765
Current employee loans of JD Group attributable to our business	1,224	6,102	12,896	10,439
Non-IFRS current prepayments, other receivables and other assets	7,830	17,035	970,645	1,421,204

Financial Assets at Fair Value Through Profit or Loss

Our current financial assets at fair value through profit or loss primarily consist of the wealth management products. The wealth management products we purchased are structured products with the expected rates of return indexed to foreign exchange rate or interest rate ranging from 3.00% to 3.65% for the six months ended June 30, 2020. We managed and evaluated the performance of investments on a fair value basis in accordance with our risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

In assessing a proposal to invest in wealth management products, a number of criteria must be met, including, but not limited to: (i) investment in high risk products are prohibited; (ii) the primary objectives of investment activities are safety, liquidity and reasonable yield; (iii) the proposed investment must not interfere with our business operations or capital expenditures; and (iv) the wealth management products should be issued by a reputable bank.

The following table sets forth our current financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Current financial assets at fair value through profit or loss:				
Wealth management products	—	—	—	1,012,396
Total	**—**	**—**	**—**	**1,012,396**

Our current financial assets at fair value through profit or loss was nil as of December 31, 2017, 2018 and 2019. We had current financial assets at fair value through profit or loss of RMB1,012.4 million as of June 30, 2020 due to purchase of wealth management products.

Term Deposits

Our term deposits represent bank deposits with original maturities over three months and redeemable on maturity. The following table sets forth our term deposits by currencies as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
USD term deposits	—	—	1,395,240	2,831,800

We had term deposits of RMB1.4 billion and RMB2.8 billion denominated in U.S. dollars as of December 31, 2019 and June 30, 2020, respectively. We deposited our previous equity financing proceeds with banks and the weighted-average interest rates of such term deposits were 2.70% and 2.65% per annum for the year ended December 31, 2019 and the six months ended June 30, 2020, respectively. We had no term deposits denominated in other currencies during the Track Record Period.

Trade Payables

Trade payables primarily consist of payables to our suppliers. The following table sets forth our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade Payables	172,650	340,229	444,984	1,744,114

Our trade payables increased by 291.9% from RMB445.0 million as of December 31, 2019 to RMB1,744.1 million as of June 30, 2020. Our trade payables increased by 30.8% from RMB340.2 million as of December 31, 2018 to RMB445.0 million as of December 31, 2019 and increased by 97.1% from RMB172.7 million as of December 31, 2017 to RMB340.2 million as of December 31, 2018. The increases in trade payables as of the dates presented were primarily due to the increase in the outstanding amounts payable to our suppliers as a result of our overall business expansion. In particular, the significant increase in trade payables was primarily due to our business growth and replacement of counterparty of business contracts with suppliers to us.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Trade payables:				
Within three months	172,650	340,229	444,984	1,744,114
Total	**172,650**	**340,229**	**444,984**	**1,744,114**

During the Track Record Period, we use non-IFRS trade payables as an additional financial measure, which is not required by, or presented in accordance with, IFRSs, to measure the size of trade payables attributable to our business and evaluate how effectively we manage these trade payables. We define non-IFRS trade payables as the sum of (i) our trade payables and (ii) trade payables of JD Group that are attributable to our business. We believe non-IFRS trade payables are more indicative of our trade payables position during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS trade payables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS trade payables as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which is trade payables as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of trade payables to non-IFRS trade payables:				
Trade payables	172,650	340,229	444,984	1,744,114
Trade payables of JD Group attributable to our business	917,163	1,401,920	1,387,190	846,098
Non-IFRS trade payables	1,089,813	1,742,149	1,832,174	2,590,212

Our non-IFRS trade payables increased by 41.4% from RMB1,832.2 million as of December 31, 2019 to RMB2,590.2 million as of June 30, 2020, primarily due to growth of our product procurement as a result of the expansion of our overall business.

The following table sets forth the turnover days of our trade payables and our non-IFRS trade payables for the years/period indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,
	2017	2018	2019	2020
Trade payables turnover days[(1)]	8.9	14.9	17.6	30.0
Non-IFRS trade payables turnover days[(2)]	79.9	82.3	80.1	60.7

Notes:

(1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of revenue for the relevant period and multiplied by 180 days or 360 days, as applicable.

(2) Non-IFRS trade payables turnover days for a period equals the average of the opening and closing non-IFRS trade payables balance divided by cost of revenue for the relevant period and multiplied by 180 days or 360 days, as applicable.

Our trade payables turnover days increased from 8.9 days in 2017 to 14.9 days in 2018 and increased to 17.6 days in 2019. Our trade payables turnover days further increased from 17.6 days in 2019 to 30.0 days for the six months ended June 30, 2020.

Our non-IFRS trade payables turnover days increased from 79.9 days in 2017 to 82.3 days in 2018 and decreased to 80.1 days in 2019. Our non-IFRS trade payables turnover days further decreased from 80.1 days in 2019 to 60.7 days for the six months ended June 30, 2020. The decrease in non-IFRS trade payables turnover days in the first half of 2020 was primarily due to accelerated settlements of trade payables since the outbreak of COVID-19.

As of September 30, 2020, approximately RMB1,259.4 million, or 72.2%, of our trade payables as of June 30, 2020 had been settled.

During the Track Record Period, we did not have any material default on our trade payables.

Contract Liabilities

Contract liabilities represent our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Our contract liabilities increased by 115.9% from RMB87.7 million as of December 31, 2019 to RMB189.3 million as of June 30, 2020, primarily due to an increase in payments received in advance from our users and third-party merchants, which was in line with our business growth. Our contract liabilities increased by 116.4% from RMB40.5 million as of December 31, 2018 to RMB87.7 million as of December 31, 2019 and increased by 29.8% from RMB31.2 million as of December 31, 2017 to RMB40.5 million as of December 31, 2018, primarily due to increase in payments received in advance from our users and third-party merchants, which was in line with our business growth.

Accrued Expenses and Other Payables

Accrued expenses and other payables primarily consist of amounts due to a related party, deposits from third-party merchants, salary and welfare, tax payable and deposits to be returned to former investor. The following table sets forth our accrued expenses and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Accrued expenses and other payables:				
Amounts due to a related party	15,653	14,676	925,850	1,238,610
Deposits received	5,160	8,480	11,378	19,123
Deposits to be returned to former investor	—	—	—	83,270
Salary and welfare payables	8,223	11,388	53,931	74,901
Liabilities for return allowances	2,624	3,109	2,295	3,392
Tax payable	2,352	2,778	3,344	59,135
Others	7,592	8,621	10,556	16,451
Total	**41,604**	**49,052**	**1,007,354**	**1,494,882**

Our accrued expenses and other payables increased by 48.4% from RMB1,007.4 million as of December 31, 2019 to RMB1,494.9 million as of June 30, 2020, primarily due to the increase in amounts due to a related party and deposits to be returned to former investor. Deposits to be returned to former investor represents the amount to be paid to a third party with which we established an investment holding company for future investment. However, such investment arrangement was terminated and we obtained the ownership of the investment holding company and are obligated to return the investment deposits received from the third party. The deposits was returned to the former investor in September 2020. Our accrued expenses and other payables increased by 17.9% from

RMB41.6 million as of December 31, 2017 to RMB49.1 million as of December 31, 2018, and further increased significantly to RMB1,007.4 million as of December 31, 2019, primarily due to the increases in amounts due to a related party, deposits received and salary and welfare payables.

During the Track Record Period, we use non-IFRS accrued expenses and other payables as additional financial measures, which is not required by, or presented in accordance with, IFRSs, to measure the size of accrued expenses and other payables attributable to our business and evaluate how effectively we manage these accrued expenses and other payables. We define non-IFRS accrued expenses and other payables as the sum of (i) our accrued expenses and other payables; (ii) deposits received by JD Group that are attributable to our business and (iii) advances from customers of JD Group that are attributable to our business. We believe non-IFRS accrued expenses and other payables are more indicative of our position in accrued expenses and other payables during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS accrued expenses and other payables has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS accrued expenses and other payables as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are accrued expenses and other payables as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of accrued expenses and other payables to non-IFRS accrued expenses and other payables:				
Accrued expenses and other payables	41,604	49,052	1,007,354	1,494,882
Deposits received of JD Group attributable to our business	387,685	498,175	629,012	733,116
Advances from customers of JD Group attributable to our business	13,663	51,821	93,129	131,293
Non-IFRS accrued expenses and other payables	442,952	599,048	1,729,495	2,359,291

Non-Current Assets/Liabilities

The following table sets forth our non-current assets and non-current liabilities as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Non-current assets:				
Intangible assets	5,720	2,760	600	804
Property and equipment	797	1,344	5,628	8,979
Investment in a joint venture	—	—	—	658,838
Financial assets at fair value through profit or loss	—	7,409	7,450	143,934
Right-of-use assets	2,965	3,025	10,567	59,905
Deferred tax assets	673	953	1,198	19,865
Prepayments, other receivables and other assets	63	319	27,191	9,220
Total non-current assets	**10,218**	**15,810**	**52,634**	**901,545**
Non-current liabilities:				
Convertible preferred shares	—	—	7,584,420	13,609,415
Financial liabilities at fair value through profit or loss	—	—	—	135,906
Lease liabilities	1,594	2,411	6,412	36,100
Total non-current liabilities	**1,594**	**2,411**	**7,590,832**	**13,781,421**

Investment in a Joint Venture

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

Financial Assets at Fair Value Through Profit or Loss

Our non-current financial assets at fair value through profit or loss consist of our equity investments in a private company (not Tangshan Hongci) and the call option granted to us associated with the investment in Tangshan Hongci.

The following table sets forth our non-current financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Non-current financial assets at fair value through profit or loss:				
Equity investments in a private company	—	7,409	7,450	7,569
Call option[(1)]	—	—	—	136,365
Total	**—**	**7,409**	**7,450**	**143,934**

Note:

(1) In connection with our equity investments in Tangshan Hongci, we are entitled to a call option to acquire an additional equity interest in Tangshan Hongci at a pre-determined schedule with the consideration calculated based on a pre-determined formula. Upon initial recognition, our call option was classified as a financial asset measured at fair value through profit or loss. See Note 14 to the Accountants' Report included in Appendix I of this document for how the fair value of the call option is estimated.

Our non-current financial assets at fair value through profit or loss increased from RMB7.5 million as of December 31, 2019 to RMB143.9 million as of June 30, 2020, primarily due to the call option granted to us in connection with our equity investments in Tangshan Hongci. Our non-current financial assets at fair value through profit or loss remained stable at RMB7.5 million as of December 31, 2019 and at RMB7.4 million as of December 31, 2018. We had nil non-current financial assets at fair value through profit or loss as of December 31, 2017.

Right-of-use Assets

Our right-of-use assets represent carrying amounts of leased properties. Our right-of-use assets increased significantly by 466.9% from RMB10.6 million as of December 31, 2019 to RMB59.9 million as of June 30, 2020, primarily due to the new leases in line with the expansion of our business. Our right-of-use assets increased significantly by 249.3% from RMB3.0 million as of December 31, 2018 to RMB10.6 million as of December 31, 2019, primarily due to the new leases in line with the expansion of our business. Our right-of-use assets remained stable at RMB3.0 million as of December 31, 2017 and 2018.

Prepayments, Other Receivables and Other Assets

Our non-current prepayments, other receivables and other assets primarily consist of prepayments for investments in equity investees. The following table sets forth our non-current prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
		(in thousands of RMB)		
Non-current prepayments, other receivables and other assets:				
Prepayments for investments in equity investees	—	—	26,760	8,000
Others	63	319	431	1,220
Total	**63**	**319**	**27,191**	**9,220**

Our non-current prepayments, other receivables and other assets decreased by 66.1% from RMB27.2 million as of December 31, 2019 to RMB9.2 million as of June 30, 2020, primarily due to a decrease in prepayments for investments in equity investees. Our non-current prepayments, other receivables and other assets increased significantly from RMB0.3 million as of December 31, 2018 to RMB27.2 million as of December 31, 2019, primarily due to an increase in prepayments for investment in equity investees for our new business initiatives. Our non-current prepayments, other receivables and other assets increased from RMB0.1 million as of December 31, 2017 to RMB0.3 million as of December 31, 2018.

During the Track Record Period, we use non-IFRS non-current prepayments, other receivables and other assets as additional financial measures, which is not required by, or presented in accordance with, IFRSs, to measure the size of non-current prepayments, other receivables and other assets attributable to our business and evaluate how effectively we manage these non-current prepayments, other receivables and other assets. We define non-IFRS non-current prepayments, other receivables and other assets as the sum of (i) our non-current prepayments, other receivables and other assets and (ii) non-current employee loans of JD Group that are attributable to our business. We believe non-IFRS non-current prepayments, other receivables and other assets are more indicative of our position in non-current prepayments, other receivables and other assets during the Track Record Period and provide useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as they help our management. However, the use of non-IFRS non-current prepayments, other receivables and other assets has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our non-IFRS non-current prepayments, other receivables and other assets as of the end of the periods presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs, which are non-current prepayments, other receivables and other assets as of the year/period:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Reconciliation of non-current prepayments, other receivables and other assets to non-IFRS non-current prepayments, other receivables and other assets:				
Non-current prepayments, other receivables and other assets	63	319	27,191	9,220
Non-current employee loans of JD Group attributable to our business	306	352	2,741	3,891
Non-IFRS non-current prepayments, other receivables and other assets	369	671	29,932	13,111

Convertible Preferred Shares

During the Track Record Period, we issued certain convertible preferred shares to our investors. See "History, Reorganization and Corporate Structure" of this document and note 23 to the Accountants' Report in Appendix I to this document for details of the convertible preferred shares. We applied the discounted cash flow method to determine the underlying equity value of our Company and adopted option pricing method and equity allocation model to determine the fair value of the convertible preferred shares. See note 23 to the Accountants' Report in Appendix I to this document for the key assumptions used to determine the fair value of the convertible preferred shares.

Financial Liabilities at Fair Value Through Profit or Loss

Our financial liabilities at fair value through profit or loss consist of the put option granted by us to the existing shareholder of Tangshan Hongci in connection with our equity investments in Tangshan Hongci. Pursuant to the put option, the existing shareholder of Tangshan Hongci has the right to request us to purchase the shares of Tangshan Hongci held by such shareholder at a pre-determined schedule with put price calculated based on a pre-determined formula when Tangshan Hongci achieves certain pre-determined operating targets. Upon initial recognition, the put option was classified as financial liability measured at fair value through profit or loss.

We had financial liabilities at fair value through profit or loss of nil as of December 31, 2017, 2018 and 2019 and had financial liabilities at fair value through profit or loss of RMB135.9 million as of June 30, 2020.

KEY FINANCIAL RATIOS

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

Note:

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

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we funded our cash requirements principally from cash generated from operating activities and capital contribution from shareholders and financing through issuances of convertible preferred shares in private placement transactions. Our cash and cash equivalents represents cash and bank balances. We had cash and cash equivalents of RMB7.4 million, RMB16.2 million, RMB5.0 billion and RMB3.2 billion as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

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

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

In August 2020, we raised approximately US$914 million by issuing Series B Preference Shares to investors. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any other plans for material additional external financing.

Net Cash Generated from Operating Activities

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

For the six months ended June 30, 2020, net cash generated from operating activities was RMB359.7 million, which was primarily attributable to our loss of RMB5,360.9 million, as adjusted by (i) non-cash and non-operating items, which primarily consisted of fair value changes of convertible preferred shares of RMB5,705.3 million, impairment provision for inventories of RMB74.7 million and share-based payment expenses of RMB26.5 million; and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB1,292.7 million and an increase in contract liabilities of RMB101.7 million, partially offset by an increase in inventories of RMB782.4 million, a decrease in accrued expenses and other payables of RMB359.0 million and an increase in prepayments, other receivables and other assets of RMB299.8 million.

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

In 2018, net cash generated from operating activities was RMB187.2 million. Our cash generated from operations was primarily attributable to our profit of RMB214.9 million, as adjusted by (i) non-cash and non-operating items, which primarily comprised share-based payment expenses of RMB33.5 million; and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB167.6 million, partially offset by an increase in inventories of RMB232.4 million.

In 2017, net cash generated from operating activities was RMB36.1 million. Our cash generated from operations was primarily attributable to our profit of RMB178.5 million, as adjusted by (i) non-cash and non-operating items, which primarily comprised share-based payment expenses of RMB30.4 million; and (ii) changes in working capital, which primarily resulted from an increase in trade payables of RMB138.1 million and an increase of accrued expenses and other payables of RMB19.0 million, partially offset by an increase in inventories of RMB337.9 million.

See "—Discussion of Certain Key Items of Combined Statements of Financial Position" for primary reasons relating to the underlying causes for our operating cash flow changes.

Net Cash Used in Investing Activities

For the six months ended June 30, 2020, net cash used in investing activities was RMB3.1 billion, which was primarily attributable to purchase of term deposits of RMB1.4 billion, payments for wealth management products classified as financial assets at fair value through profit or loss of RMB1.0 billion and payments for acquisition of investments in a joint venture of RMB667.9 million.

In 2019, net cash used in investing activities was RMB1.4 billion, which was primarily attributable to purchase of term deposits of RMB1.4 billion, purchase of property and equipment of RMB5.2 million and prepayments to investments in equity investees of RMB26.7 million.

In 2018, net cash used in investing activities was RMB13.7 million, which was primarily attributable to placement of restricted cash of RMB12.9 million.

In 2017, net cash used in investing activities was RMB8.6 million, which was primarily attributable to purchase of intangible assets of RMB7.1 million.

Net Cash (Used in)/Generated from Financing Activities

For the six months ended June 30, 2020, net cash generated from financing activities was RMB 907.7 million, which was primarily attributable to proceeds from issuance of convertible preferred shares of RMB168.9 million and advance from JD Group of RMB755.0 million.

In 2019, net cash generated from financing activities was RMB6.5 billion, which was primarily attributable to proceeds from issuance of convertible preferred shares of RMB6.3 billion and advance from JD Group of RMB202.2 million, partially offset by payments for lease liabilities of RMB1.8 million.

In 2018, net cash used in financing activities was RMB2.9 million, which primarily consisted of payments for lease liabilities.

In 2017, net cash used in financing activities was RMB33.3 million, which primarily consisted of payment to JD Group.

INDEBTEDNESS

Borrowings

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, we did not have any bank borrowings.

Amounts due to JD Group

As of September 30, 2020, we had unsecured and unguaranteed amounts due to JD Group of RMB2,772.3 million. The amounts due to JD Group primarily represent the funds utilized by the Remaining Listing Business in JD Group on behalf of us since January 1, 2017 or the funds support to our PRC Operating Entities provided by JD Group. These intra-group arrangements were non-trade in nature, unsecured, interest-free and repayable on demand. As of September 30, 2020, we also had amounts due from JD Group of RMB1,013.2 million, which primarily represent the profits generated by the Remaining Listing Business in JD Group on behalf of us. We plan to settle all these amounts with JD Group before the Listing.

Convertible Preferred Shares

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, our convertible preferred shares had fair values of nil, nil, RMB7.6 billion, RMB13.6 billion and RMB25.6

billion, respectively. For further information regarding the preferred shares, see note 23 to the Accountants' Report in Appendix I to this document. In August 2020, we issued 130,319,819 Series B Preference Shares for a cash consideration of approximately US$914 million (equivalent to RMB6,314 million). All of these convertible preferred shares are unsecured and unguaranteed.

Lease Liabilities

Our lease liabilities are in relation to properties that we lease primarily for our offline pharmacies, offices, warehouses and staff quarters, certain of which were secured by the rental deposits and all of which were unguaranteed. The following table sets forth the present value of our lease liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2017	2018	2019	2020	2020
	(in thousands of RMB)				
Current	1,664	715	4,851	17,473	23,137
Non-current	1,594	2,411	6,412	36,100	53,032
Total	**3,258**	**3,126**	**11,263**	**53,573**	**76,169**

The table below categorizes our lease liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Within one year	1,694	729	4,940	17,957
One to two years	253	1,672	3,454	14,562
Two to five years	1,530	958	3,477	26,194
Over five years	—	—	263	432
Total	**3,477**	**3,359**	**12,134**	**59,145**
Less: Amount due for settlement within 12 months shown under current liabilities	(1,694)	(729)	(4,940)	(17,957)
Amount due for settlement after 12 months shown under non-current labilities	1,783	2,630	7,194	41,188

Except as discussed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured as of September 30, 2020.

CONTINGENT LIABILITIES OR GUARANTEES

As of December 31, 2017, 2018 and 2019, June 30, 2020 and September 30, 2020, we did not have any material contingent liabilities or guarantees.

CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS

The following table sets forth our capital expenditures for the years/periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(in thousands of RMB)				
Payments for property and equipment	842	2,013	5,186	2,248	6,640
Payments for intangible assets	7,077	403	503	—	395
Investment in a joint venture	—	—	—	—	667,904
Total	**7,919**	**2,416**	**5,689**	**2,248**	**674,939**

Our capital expenditure in 2017 was RMB7.9 million, primarily attributable to purchase of intangible assets of RMB7.1 million. Our capital expenditure in 2018 was RMB2.4 million, primarily attributable to purchase of property and equipment of RMB2.0 million. Our capital expenditure in 2019 was RMB5.7 million, primarily attributable to purchase of property and equipment of RMB5.2 million. Our capital expenditure for the six months ended June 30, 2020 was RMB674.9 million, primarily attributable to our equity investments in Tangshan Hongci of RMB667.9 million and purchase of property and equipment of RMB6.6 million.

We expect that our capital expenditures in 2020 will primarily consist of purchase of property and equipment and intangible assets. We intend to fund our future capital expenditures and long-term investments with our existing cash balance, cash generated from operating activities, and proceeds from the Global Offering. See the section headed "Use of Proceeds" for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments based on our ongoing business needs.

CONTRACTUAL OBLIGATIONS

Capital Commitments

Except for the capital commitments to our joint venture as disclosed in note 13 to the Accountants' Report in Appendix I to this document, we had no other material capital commitments as of December 31, 2017, 2018 and 2019 and June 30, 2020.

Operating Lease Commitments

Our commitments primarily relate to the leases of warehouses and offline pharmacies under non-cancellable operating lease agreements. Our future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Within 1 year	1,694	729	4,940	17,957
Between 1 and 2 years	253	1,672	3,454	14,562
Between 2 and 5 years	1,530	958	3,477	26,194
Over 5 years	—	—	263	432

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to our Remaining Listing Business were carved out from the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Closing Date of Series A Preferred Shares financing, these transactions have been recorded in our combined statements of profit or loss based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to be specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were our revenue and expenses and therefore, the disclosure of significant transactions with related parties set out below have not included these transactions.

After the Closing Date of the Series A Preferred Share financing, based on the terms stipulated in the Series A Share Subscription Agreements, terms and pricing policies of these transactions entered into by JD Group for our Group or between JD Group and our Group were established.

We had the following transactions during the Track Record Period with JD Group, a related party of our Company:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2017	2018	2019	2019	2020
	(in thousands of RMB)				
				(Unaudited)	
Services provided to a related party:					
Marketing services provided to JD Group	—	—	59,707	—	98,099
Services and products received from a related party:					
Logistics and warehousing services received from JD Group	—	—	446,841	—	591,328
Technology and traffic support services received from JD Group	—	—	288,279	—	424,124
Payment services received from JD Group	—	—	74,941	—	94,918
Shared services received from JD Group	—	—	34,659	—	58,427
Share-based compensation received from JD Group to pay our employees for the services provided	30,420	33,471	52,728	17,713	26,466
Loyalty program services received from JD Group	—	—	14,205	—	24,033
Others	—	—	161	—	543

The historical amounts of related party transactions between us and JD Group were different with the amounts as set out in the section headed "Connected Transactions" for the reason that the historical amounts of relevant connected transactions which were allocated based on JD Group's respective expenses actually incurred before the Closing Date of Series A Preferred Shares financing were presented as if the arrangement of related party transactions between us and JD Group existed throughout the Track Record Period.

Services and Products Provided to a Related Party

We provide marketing services to JD Group. We charge JD Group marketing service fees calculated in accordance with the underlying standard marketing service agreements.

Services and Products Received from a Related Party

- JD Group provides various logistics services to us in exchange for service fees, including but not limited to warehouse operation and storage services, delivery services, standard and special packaging services and other value-added logistics services from time to time. The logistics service fees are determined after arm's length negotiations, and are charged based on a variety of factors including storage space taken and the weights and the delivery distances of the packages.
- JD Group provides us with technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding activities, operational support and advertisement access for our merchants and suppliers. JD Group charges commissions by applying a fixed rate on the fulfilled orders of healthcare products and services generated through JD Group's online platforms.
- We, through JD Group, use certain payment services through payment channels purchased by JD Group from third party payment service providers or self-owned channels to JD Group, and the related costs are first settled by JD Group and later settled in full (on a cost basis of JD Group) by us. This allows us to utilize the payment services to enable efficient, safe and prompt real-time payment for our online transactions.
- JD Group provides certain back-office administrative support services to us, including but not limited to cloud service, provision of servers, and maintenance and related customer services. We pay JD Group the actual costs incurred during the service process.
- JD Group grants its service-based RSUs and share options to our eligible employees under JD Group Share Incentive Plan.
- Given that our businesses are operated on JD Group's platforms, our customers participate in the customer loyalty programs of JD Group and use such loyalty points across the platforms of both JD Group and us for the purchase of products and services. We pay JD Group based on the amount of loyalty points that were generated through customers' purchases from our Company, and the unit cost incurred by JD Group for each loyalty point granted.

The below table sets forth the balances with the related party as of the dates indicated.

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(in thousands of RMB)			
Amounts due to JD Group	15,653	14,676	925,850	1,238,610
Amounts due from JD Group	—	—	928,098	1,163,629

Prior to the Closing Date of Series A Preference Shares financing, the amounts due to JD Group represents the funds support provided by JD Group to Yinchuan JD Online Hospital and Jingdong Shanyuan (Qingdao) E-commerce Co., Ltd, two wholly-owned domestic companies of JD Group, and their subsidiaries established in the PRC. After the Series A Preference Shares financing, the amounts due from/due to JD Group mainly represent the profits and funds generated/funds utilized by the portion of our business operated on behalf of our Company by certain subsidiaries and consolidated affiliated entities of JD Group since January 1, 2017.

The amounts due to/due from JD Group are non-trade in nature, unsecured, non-interest bearing and repayable on demand, which will be settled before the Listing.

Amounts due from other related parties included in prepayments, other receivables and other assets are trade in nature, unsecured and non-interest bearing, which will be settled before the Listing.

Our Directors believe that our transactions with the related party during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risks (such as foreign exchange risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Foreign Exchange Risk

The functional currency of our entities incorporated in the Cayman Islands, British Virgin Islands and Hong Kong is US$. Our PRC subsidiaries and Consolidated Affiliated Entities determined their functional currency to be RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of our entities.

During the Track Record Period, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant.

Interest Rate Risk

Our interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose our Company to cash flow interest rate risk, whereas fixed rate instruments expose our Company to fair value interest risk. Our Company's cash flow interest rate risk primarily arose from cash and cash equivalents and restricted cash, details of which have been disclosed in note 20 to the Accountants' Report in Appendix I to this document. Our Company's fair value interest risk primarily arose from term deposits and lease liabilities, details of which have been disclosed in notes 19 and 15 to the Accountants' Report in Appendix I to this document.

If the interest rate had been 50 basis points higher/lower, the profit/(loss) before income tax for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020 would have been approximately nil, nil, RMB9 million and RMB10 million higher/lower, respectively, mainly as a result of higher or lower interest income on floating-rate cash and cash equivalents and restricted cash.

Credit Risk

Our credit risk is mainly associated with cash and cash equivalents, restricted cash, term deposits, trade receivables and other receivables. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

Our cash and cash equivalents, restricted cash and term deposits are mainly deposited in state-owned or reputable financial institutions in Mainland China and reputable international financial institutions outside of Mainland China. There has been no recent history of default in relation to these financial institutions. We consider these financial assets having a low credit risk, as they have a low risk of default and each related counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. The identified credit losses are insignificant during the Track Record Period. We consider that there is no significant credit risk and would not generate any material losses due to the default of other parties.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet our liquidity requirements.

The table below analyzes our non-derivative financial liabilities into relevant maturity groups based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
			(in thousands of RMB)		
As of December 31, 2017					
Trade payables	172,650	—	—	—	172,650
Lease liabilities	1,694	253	1,530	—	3,477
Financial liabilities included in accrued expenses and other payables	26,805	—	—	—	26,805
	201,149	253	1,530	—	202,932
As of December 31, 2018					
Trade payables	340,229	—	—	—	340,229
Lease liabilities	729	1,672	958	—	3,359
Financial liabilities included in accrued expenses and other payables	31,777	—	—	—	31,777
	372,735	1,672	958	—	375,365
As of December 31, 2019					
Trade payables	444,984	—	—	—	444,984
Lease liabilities	4,940	3,454	3,477	263	12,134
Financial liabilities included in accrued expenses and other payables	947,787	—	—	—	947,787
Convertible preferred shares	—	—	—	6,313,002	6,313,002
	1,397,711	3,454	3,477	6,313,265	7,717,907
As of June 30, 2020					
Trade payables	1,744,114	—	—	—	1,744,114
Lease liabilities	17,957	14,562	26,194	432	59,145
Financial liabilities included in accrued expenses and other payables	1,357,328	—	—	—	1,357,328
Convertible preferred shares	—	—	—	6,481,864	6,481,864
	3,119,399	14,562	26,194	6,482,296	9,642,451

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

WORKING CAPITAL CONFIRMATION

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next twelve months from the date of this document. We had positive cash flows from operations during the Track Record Period. Our cash generated from operations was RMB114.2 million, RMB278.7 million, RMB522.7 million and RMB458.9 million, respectively, in 2017, 2018 and 2019 and for the six months ended June 30, 2020. Our Directors confirm that we had no material defaults in payment of trade and non-trade payables during the Track Record Period.

DISTRIBUTABLE RESERVES

As of June 30, 2020, we did not have any distributable reserves.

LISTING EXPENSE

Based on the mid-point Offer Price of HK$66.69, the total estimated listing expenses in relation to the Global Offering is approximately RMB402.2 million. No listing expense was incurred during the Track Record Period. We estimate that we will further incur listing expenses of RMB402.2 million, of which RMB73.6 million will be charged to our combined statements of profit or loss for 2020. The balance of approximately RMB328.6 million, which mainly includes underwriting commission, is expected to be accounted for as a deduction from equity upon the completion of the Global Offering.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS ATTRIBUTABLE TO OWNERS OF OUR COMPANY

The unaudited pro forma statement of our adjusted combined net tangible assets attributable to owners of our Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on our audited combined tangible assets less liabilities attributable to owners of our Company as of June 30, 2020, as if the Global Offering had taken place on that date.

The unaudited pro forma statement of our adjusted combined net tangible assets attributable to owners of our Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our combined net tangible assets, had the Global Offering been completed as of June 30, 2020 or at any future dates.

The following unaudited pro forma statement of our adjusted combined net tangible assets attributable to owners of our Company is prepared based on our audited combined tangible assets less liabilities attributable to owners of our Company as of June 30, 2020 as derived from the Accountants' Report in Appendix I to this document, and adjusted as described below.

	Audited combined tangible assets less liabilities of the Company attributable to owners of the Company as of June 30, 2020	Estimated net proceeds from Global Offering	Unaudited pro forma adjusted combined net tangible assets of the Company attributable to owners of the Company as of June 30, 2020	Unaudited pro forma adjusted combined net tangible assets of the Company attributable to owners of the Company as of June 30, 2020 per Share	Unaudited pro forma adjusted combined net tangible assets of the Company attributable to owners of the Company as of June 30, 2020 per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK$ (Note 4)
Based on an Offer Price of HK$62.80 per Offer Share.	(5,831,926)	19,908,567	14,076,641	5.56	6.57
Based on an Offer Price of HK$70.58 per Offer Share	(5,831,926)	22,384,523	16,552,597	6.54	7.73

Notes:

(1) Our audited combined tangible assets less liabilities attributable to owners of our Company as of June 30, 2020 is derived from the Accountants' Report in Appendix I to this, which is based on our audited combined net liabilities attributable to owners of our Company as of June 30, 2020 of RMB(5,831,926,000) with adjustments for intangible assets attributable to owners of our Company of RMB740,000.

(2) The estimated net proceeds from the Global Offering are based on 381,900,000 Offer Shares to be issued at the Offer Price of HK$62.80 and HK$70.58 per Offer Share, being the low-end and the high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated listing expenses and share issue costs (including underwriting fees and other related expenses) expected to be incurred by us subsequent to June 30, 2020 and does not take into account conversion of our convertible preferred shares, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into Renminbi was made at the exchange rate of HK$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of this document. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) Our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as of June 30, 2020 per Share is calculated based on 2,531,153,732 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account conversion of our convertible preferred shares, allotment and issuance of any Offer Shares upon the exercise of the Over-allotment Option and the Shares to be issued pursuant to the Pre-IPO ESOP, Post-IPO Share Option Scheme and Post-IPO Share Award Scheme.

(4) Our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company per Share is converted from RMB into Hong Kong dollars at the rate of HK$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of this document. No representation is made that the RMB have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(5) No adjustment has been made to our unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as of June 30, 2020 to reflect any operating result or other transactions of us entered into subsequent to June 30, 2020. In particular, the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as shown on the table above have not been adjusted to illustrate the effect of the issuance of Series B Preference Shares in August 2020 (the "Issuance") and the conversion of Series A Preference Shares and Series B Preference Shares into Shares upon the completion of the Global Offering (the "Conversion").

As of June 30, 2020, the carrying amount of 372,552,238 Series A Preference Shares of us was RMB13,609 million and recognized as financial liabilities. The Series A Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1.

In August 2020, we issued 130,319,819 Series B Preference Shares for a cash consideration of US$914 million (equivalent to RMB6,314 million). The Series B Preference Shares shall automatically be converted without the payment of any additional consideration into ordinary shares upon the completion of the Global Offering and based on initial conversion ratio of 1:1.

Had the Issuance and the Conversion been assumed to take place as at June 30, 2020, the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company as at June 30, 2020 per Share is calculated based on 3,034,025,789 Shares and the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company would be adjusted as described below.

	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as of June 30, 2020 per Share
	RMB'000	RMB	HK$
Based on an Offer Price of HK$62.80 per Offer Share	34,000,261	11.21	13.24
Based on an Offer Price of HK$70.58 per Offer Share	36,476,217	12.02	14.21

Note:

For the purpose of calculating the unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company per Share, the translation of Hong Kong dollars into Renminbi or Renminbi into Hong Kong dollars was made at the exchange rate of HK$1.00 to RMB0.8461 as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, would have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since June 30, 2020, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document, and there is no event since June 30, 2020 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.