The following is the text of a report set out on pages I-1 to I-84, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JD HEALTH INTERNATIONAL INC. AND MERRILL LYNCH FAR EAST LIMITED, HAITONG INTERNATIONAL CAPITAL LIMITED AND UBS SECURITIES HONG KONG LIMITED

Introduction

We report on the historical financial information of JD Health International Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-84, which comprises the combined statements of financial position of the Group as of December 31, 2017, 2018 and 2019 and June 30, 2020, the statements of financial position of the Company as of December 31, 2018 and 2019 and June 30, 2020, and the combined statements of profit or loss, the combined statements of comprehensive income/(loss), the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-84 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated November 26, 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as of December 31, 2017, 2018 and 2019 and June 30, 2020, of the Company's financial position as of December 31, 2018 and 2019 and June 30, 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board (the "IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1.2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 28 to the Historical Financial Information which states that no dividend was declared or paid by the Company or its subsidiaries in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
November 26, 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Group and the financial statements of the Remaining Listing Business as defined in the Note 1.2 to the Historical Financial Information for the Track Record Period (collectively the "Underlying Financial Statements"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") and were audited by us in accordance with International Standards on Auditing issued by the IAASB.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2019	Six months ended June 30, 2019	Six months ended June 30, 2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	5,553,128	8,169,057	10,842,140	4,988,537	8,777,490
Cost of revenue		(4,172,630)	(6,190,099)	(8,029,868)	(3,656,862)	(6,559,923)
Gross profit		1,380,498	1,978,958	2,812,272	1,331,675	2,217,567
Fulfillment expenses		(636,150)	(927,877)	(1,169,654)	(521,170)	(911,008)
Selling and marketing expenses		(257,979)	(391,822)	(746,014)	(257,545)	(544,375)
Research and development expenses		(122,667)	(218,282)	(338,239)	(150,897)	(278,175)
General and administrative expenses		(107,417)	(133,855)	(124,922)	(66,311)	(84,648)
Other (losses)/gains		(221)	3,562	565	229	(1,887)
Finance income	7	4	84	31,783	27	60,327
Finance costs		(82)	(150)	(35,502)	(81)	(1,745)
Fair value changes of convertible preferred shares	23	—	—	(1,263,130)	—	(5,705,251)
Impairment losses under expected credit loss model, net of reversal		(7)	(4,386)	(1,859)	(938)	477
Share of results of a joint venture		—	—	—	—	(8,607)
Profit/(loss) before income tax	6	255,979	306,232	(834,700)	334,989	(5,257,325)
Income tax expense	11	(77,445)	(91,305)	(137,105)	(98,735)	(103,590)
Profit/(loss) for the year/period		178,534	214,927	(971,805)	236,254	(5,360,915)
Profit/(loss) for the year/period attributable to:						
Owners of the Company		178,534	214,927	(971,805)	236,254	(5,358,752)
Non-controlling interests		—	—	—	—	(2,163)
		178,534	214,927	(971,805)	236,254	(5,360,915)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) for the year/period	178,534	214,927	(971,805)	236,254	(5,360,915)
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	33,584	(35,617)	(9,809)	9,835	1,686
Items that may not be reclassified subsequently to profit or loss:					
Exchange differences on translation from functional currency to reporting currency	(33,584)	35,617	34,920	(9,835)	(41,555)
Other comprehensive income/(loss) for the year/period	—	—	25,111	—	(39,869)
Total comprehensive income/(loss) for the year/period	178,534	214,927	(946,694)	236,254	(5,400,784)
Total comprehensive income/(loss) for the year/period attributable to:					
Owners of the Company	178,534	214,927	(946,694)	236,254	(5,398,621)
Non-controlling interests	—	—	—	—	(2,163)
	178,534	214,927	(946,694)	236,254	(5,400,784)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of June 30, 2020
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Intangible assets		5,720	2,760	600	804
Property and equipment		797	1,344	5,628	8,979
Investment in a joint venture	13	—	—	—	658,838
Financial assets at fair value through profit or loss	14	—	7,409	7,450	143,934
Right-of-use assets	15	2,965	3,025	10,567	59,905
Deferred tax assets	11	673	953	1,198	19,865
Prepayments, other receivables and other assets	16	63	319	27,191	9,220
Total non-current assets		10,218	15,810	52,634	901,545
Current assets					
Inventories	17	884,047	1,115,295	1,278,339	1,999,886
Trade and note receivables	18	3,091	20,032	21,552	29,053
Prepayments, other receivables and other assets	16	6,606	10,933	957,749	1,410,765
Financial assets at fair value through profit or loss	14	—	—	—	1,012,396
Term deposits	19	—	—	1,395,240	2,831,800
Restricted cash	20	—	3,864	5,891	9,159
Cash and cash equivalents	20	7,401	16,213	4,965,272	3,200,320
Total current assets		901,145	1,166,337	8,624,043	10,493,379
Total assets		911,363	1,182,147	8,676,677	11,394,924
Equity					
Paid-in capital/share capital	25	2,000	2,000	7	7
Reserves		714,669	841,991	909,753	896,350
Accumulated losses		(54,045)	(94,770)	(1,368,791)	(6,727,543)
Equity attributable to owners of the Company		662,624	749,221	(459,031)	(5,831,186)
Non-controlling interests		—	—	—	(1,128)
Total equity		662,624	749,221	(459,031)	(5,832,314)
Liabilities					
Non-current liabilities					
Convertible preferred shares	23	—	—	7,584,420	13,609,415
Financial liabilities at fair value through profit or loss	24	—	—	—	135,906
Lease liabilities	15	1,594	2,411	6,412	36,100
Total non-current liabilities		1,594	2,411	7,590,832	13,781,421
Current liabilities					
Trade payables	21	172,650	340,229	444,984	1,744,114
Contract liabilities	5	31,227	40,519	87,687	189,348
Lease liabilities	15	1,664	715	4,851	17,473
Accrued expenses and other payables	22	41,604	49,052	1,007,354	1,494,882
Total current liabilities		247,145	430,515	1,544,876	3,445,817
Total liabilities		248,739	432,926	9,135,708	17,227,238
Total equity and liabilities		911,363	1,182,147	8,676,677	11,394,924

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As of December 31, 2018	As of December 31, 2019	As of June 30, 2020
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Investment in a subsidiary		—*	—*	—*
Total non-current assets		—*	—*	—*
Current assets				
Prepayments, other receivables and other assets	16	—*	787,594	1,499,741
Term deposits	19	—	1,395,240	2,831,800
Cash and cash equivalents	20	—	4,961,023	3,151,829
Total current assets		—*	7,143,857	7,483,370
Total assets		—*	7,143,857	7,483,370
Equity				
Share capital	25	—*	7	7
Reserves	26	2,166	811,802	771,887
Accumulated losses		(2,166)	(1,252,372)	(6,902,008)
Total equity		—*	(440,563)	(6,130,114)
Liabilities				
Non-current liabilities				
Convertible preferred shares	23	—	7,584,420	13,609,415
Total non-current liabilities		—	7,584,420	13,609,415
Current liabilities				
Accrued expenses and other payables		—*	—	4,069
Total current liabilities		—*	—	4,069
Total liabilities		—*	7,584,420	13,613,484
Total equity and liabilities		—*	7,143,857	7,483,370

* less than RMB1,000.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to owners of the Company						
		Paid-in capital/ share capital	Contribution reserves	Other reserves **	Accumulated losses	Sub-total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of January 1, 2017		2,000	461,442	—	(22,424)	441,018	—	441,018
Profit for the year		—	—	—	178,534	178,534	—	178,534
Total comprehensive income for the year		—	—	—	178,534	178,534	—	178,534
Share-based payments expenses	27	—	—	30,420	—	30,420	—	30,420
Net contribution from/(return to) JD Group***		—	222,807	—	(210,155)	12,652	—	12,652
As of December 31, 2017		2,000	684,249	30,420	(54,045)	662,624	—	662,624
Profit for the year		—	—	—	214,927	214,927	—	214,927
Total comprehensive income for the year		—	—	—	214,927	214,927	—	214,927
Issuance of ordinary shares by the Company	25	—*	—	—	—	—*	—	—*
Share-based payments expenses	27	—	—	33,471	—	33,471	—	33,471
Net contribution from/(return to) JD Group***		—	93,851	—	(255,652)	(161,801)	—	(161,801)
As of December 31, 2018		2,000	778,100	63,891	(94,770)	749,221	—	749,221
Loss for the year		—	—	—	(971,805)	(971,805)	—	(971,805)
Other comprehensive income for the year		—	—	25,111	—	25,111	—	25,111
Total comprehensive income/(loss) for the year		—	—	25,111	(971,805)	(946,694)	—	(946,694)
Issuance of ordinary shares by the Company	25	7	—	—	—	7	—	7
Share-based payments expenses	27	—	—	52,728	—	52,728	—	52,728
Net return to JD Group***		—	(259,671)	—	(302,216)	(561,887)	—	(561,887)
Effect arising from reorganization	25	(2,000)	—	—	—	(2,000)	—	(2,000)
Effect arising from Series A Preferred Shares financing****		—	249,594	—	—	249,594	—	249,594
As of December 31, 2019		7	768,023	141,730	(1,368,791)	(459,031)	—	(459,031)
As of January 1, 2020		7	768,023	141,730	(1,368,791)	(459,031)	—	(459,031)
Loss for the period		—	—	—	(5,358,752)	(5,358,752)	(2,163)	(5,360,915)
Other comprehensive loss for the period		—	—	(39,869)	—	(39,869)	—	(39,869)
Total comprehensive loss for the period		—	—	(39,869)	(5,358,752)	(5,398,621)	(2,163)	(5,400,784)
Share-based payments expenses	27	—	—	26,466	—	26,466	—	26,466
Acquisition of a non-wholly owned subsidiary		—	—	—	—	—	1,035	1,035
As of June 30, 2020		7	768,023	128,327	(6,727,543)	(5,831,186)	(1,128)	(5,832,314)
(Unaudited)								
As of January 1, 2019		2,000	778,100	63,891	(94,770)	749,221	—	749,221
Profit for the period		—	—	—	236,254	236,254	—	236,254
Total comprehensive income for the period		—	—	—	236,254	236,254	—	236,254
Issuance of ordinary shares by the Company	25	7	—	—	—	7	—	7
Share-based payments expenses	27	—	—	17,713	—	17,713	—	17,713
Net return to JD Group***		—	(259,671)	—	(302,216)	(561,887)	—	(561,887)
Effect arising from Series A Preferred Shares financing****		—	249,594	—	—	249,594	—	249,594
As of June 30, 2019		2,007	768,023	81,604	(160,732)	690,902	—	690,902

* less than RMB1,000.

** Other reserves consist of share-based payment expenses from the deemed contribution of JD.com, Inc. and exchange differences on foreign currency translation recognized in other comprehensive income/(loss).

COMBINED STATEMENTS OF CHANGES IN EQUITY—continued

*** The net contribution from/(return to) JD Group represents the funding and assets provided by JD Group or the retained profits returned to JD Group arising from the Listing Business prior to the Closing Date of Series A Preferred Shares financing (as defined in Note 1.2).

**** The effect arising from Series A Preferred Shares financing represents the profits generated/funds utilized by the Remaining Listing Business as defined in Note 1.2 in JD Group and was recognized as the amounts due from/due to related parties after the Closing Date of Series A Preferred Shares financing.

COMBINED STATEMENTS OF CASH FLOWS

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

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

		Year ended December 31,			Six months ended June 30,	
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Operating activities						
Cash generated from operations	31	114,230	278,744	522,741	559,273	458,934
Interest received		4	67	24,079	35	22,990
Income tax paid		(78,118)	(91,585)	(137,350)	(98,936)	(122,257)
Net cash generated from operating activities		36,116	187,226	409,470	460,372	359,667
Investing activities						
Withdrawal of restricted cash		—	9,055	7,275	5,205	6,772
Placement of restricted cash		—	(12,919)	(9,302)	(3,411)	(10,040)
Placement of term deposits		—	—	(1,414,160)	—	(1,401,880)
Purchase of financial assets at fair value through profit or loss		—	(7,409)	—	—	(1,012,220)
Payments for investment in a joint venture		—	—	—	—	(667,904)
Prepayments for investments in equity investees		—	—	(26,747)	—	(773)
Net cash outflow on acquisition of a non-wholly owned subsidiary		—	—	—	—	(3,501)
Purchases of property and equipment		(842)	(2,013)	(5,186)	(2,248)	(6,640)
Purchases of intangible assets		(7,077)	(403)	(503)	—	(395)
Payments for right-of-use assets		(704)	—	—	—	(482)
Net cash used in investing activities		(8,623)	(13,689)	(1,448,623)	(454)	(3,097,063)

COMBINED STATEMENTS OF CASH FLOWS—continued

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Financing activities					
Repayment for borrowings	—	—	—	—	(5,000)
Principal portion of lease payments	(290)	(1,797)	(1,530)	(548)	(10,488)
Interest paid	(82)	(150)	(243)	(81)	(686)
(Payment to)/advance from JD Group	(32,927)	(977)	202,234	90,760	754,963
Proceeds from issuance of ordinary shares	—	—	7	7	—
Net proceeds from issuance of convertible preferred shares	—	—	6,310,651	893,711	168,862
Payment for reorganization	—	—	(2,000)	—	—
Net cash (used in)/ generated from financing activities	(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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information, reorganization and basis of preparation and presentation of Historical Financial Information

1.1 General information

The Company was incorporated in the Cayman Islands in November 2018 as an exempted company registered under the laws of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are stated in the section "Corporate Information" of the prospectus. The Company acts as an investment holding company and its subsidiaries, as set out in Note 33 (collectively the "Group"), engage in a comprehensive "Internet + healthcare" ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management, intelligent healthcare solutions to the customers, and a variety of marketing services to the business partners (collectively the "Listing Business"). The Group's principal operations and geographic markets are in the People's Republic of China (the "PRC").

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

1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information

The Historical Financial Information has been prepared based on the accounting policies set out in Note 2, which conform with IFRSs issued by the IASB and the conventions applicable for the Reorganization (details are set out below).

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

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

On November 30, 2018, the Company was incorporated in the Cayman Islands with an authorized share capital of United States dollars ("USD") 50,000 divided into 50,000 shares at USD1.00 each, of which 1 share was allotted to and subscribed by JD Jiankang Limited.

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued

1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued

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

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

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

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

The Company is in the process of a spin-off for the Remaining Listing Business, which includes the transfer of relevant management and employees, operating assets and liabilities, retained profits, as well as the replacement of the business contracts of counter parties to the Group (the "Spin-off"). Upon the completion of the Spin-off, the entire Listing Business will be operated and controlled by the Group.

Prior to the completion of Reorganization, the Company and those companies newly set up during the Reorganization do not involve in any other business and the Reorganization has not resulted in any change of economic substance and their operations do not meet the definition of a business. The Reorganization are merely the recapitalization of the PRC Operating Entities with no change in management of such business and its ultimate owners. The Group resulting from the Reorganization and the Spin-off is regarded as a continuation of the Listing Business under JD Group. The Historical Financial Information has been prepared on the basis as if the Company had always been the holding company of the Listing Business. For the purpose of this report, the Historical Financial Information has been prepared and presented using the carrying value of the Listing Business for all periods presented as if the Reorganization had been completed before the Track Record Period.

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued

1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued

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

Throughout the Spin-off, to the extent the assets, liabilities, income and expenses that are specifically identified to the Listing Business, such items are included in the Historical Financial Information throughout the Track Record Period. To the extent the assets, liabilities, income and expenses that are impracticable to identify specifically, these items are allocated to the Listing Business on the basis set out below (such items include certain fulfillment expenses, selling and marketing expenses, research and development expenses, general and administrative expenses and income tax expense). Items that do not meet the criteria above are not included in the Historical Financial Information of the Group.

Where the balances with JD Group do not meet the definition of financial assets or financial liabilities with the Remaining JD Group under the IFRSs, they are classified as an equity component and presented in the manner of equity, typically aggregated with the retained profits of the Remaining Listing Business, as "net contribution from/(return to) JD Group".

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued

1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued

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

The directors of the Company believe that the method of the allocation and the recognition of the above expense items form a reasonable basis of presenting the operating results of the Listing Business on a stand-alone basis for the Track Record Period. Other than those items mentioned above, all other items of assets and liabilities, income and expenses of the Listing Business are specifically identified.

No financial statements have been prepared for the Company since the Company is incorporated in a jurisdiction where there is no statutory audit requirement.

Contractual Arrangements

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1. General information, reorganization and basis of preparation and presentation of Historical Financial Information—continued

1.2 History, reorganization and basis of preparation and presentation of Historical Financial Information—continued

- Obtaining a pledge over the entire equity interests of Suqian Jingdong Tianning from its Nominee Shareholders as collateral security for all of Suqian Jingdong Tianning's payments due to Beijing Jingdong Jiankang and to secure performance of Suqian Jingdong Tianning's obligation under the Contractual Arrangements.

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

As of June 30, 2020, the Group had net liabilities of RMB5,832.3 million and accumulated loss of RMB6,727.5 million, primarily due to the significant fair value changes of convertible preferred shares. The convertible preferred shares can be automatically converted into ordinary shares upon the initial public offering. The details of these convertible preferred shares are set out in Note 23. Under any circumstances, no significant cash flow impact is expected in the next twelve months from the date of the report for the convertible preferred shares. In addition, the Group has performed a working capital forecast for the next twelve months. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital in the next twelve months from the date of the report. The directors of the Company consider that it is appropriate that the Historical Financial Information is prepared on a going concern basis.

2. Summary of significant accounting policies

2.1 Application of IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with the International Accounting Standards ("IASs"), the IFRSs, amendments to IFRSs and the related interpretations issued by the IASB, including IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments*, throughout the Track Record Period, except that the Group has early adopted the amendment to IFRS 16 *COVID-19—Related Rental Concessions* on January 1, 2020.

The application of amendment to IFRS 16 *COVID-19—Related Rental Concessions* from January 1, 2020 has had no material impact on the Group's financial positions and performances during the Track Record Period or on the disclosures set out in the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.1 Application of IFRSs—continued

New and amended standards not yet adopted by the Group

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

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

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

The Historical Financial Information has been prepared in accordance with accounting policies which conform with IFRSs issued by IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.1 Application of IFRSs—continued

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

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

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

The principal accounting policies are set out below.

2.2 Basis of Combination

The Historical Financial Information incorporates the financial statements of the Company and entities (including affiliated entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.2 Basis of Combination—continued

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

2.3 Merger accounting for business combination involving business under common control

The Historical Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.3 Merger accounting for business combination involving business under common control—continued

The combined statements of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

2.4 Investments in subsidiaries

Investments in subsidiaries are stated in the statements of financial position of the Company at cost less identified impairment loss, if any.

2.5 Investment in a joint venture

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

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

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

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.5 Investment in a joint venture—continued

its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

2.6 Revenue from contracts with customers

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

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

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

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

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

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

The Group evaluates whether it is appropriate to record the gross amounts of product sales or services provided and related costs, or the net amount earned as commissions. When the Group is a

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.6 Revenue from contracts with customers—continued

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

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

Product Revenue

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

Service Revenue

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

The Group provides online marketing services to advertisers including third-party merchants and suppliers on its and JD Group's various website channels and third-party marketing affiliate's websites, including but not limited to advertising placements such as banners, links, logos and buttons, and pay for performance marketing services on which third-party merchants and suppliers are charged based on display per thousand impressions or per effective click on their products or service listings. The Group recognizes revenue from pay for performance marketing services at point of time when each effective click is generated. The Group recognizes revenue from advertising placements ratably

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.6 Revenue from contracts with customers—continued

over time as the customer simultaneously receives and consumes the benefits throughout the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions.

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

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

2.7 Contract balances

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

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

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.8 Cost of revenue

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

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

2.9 Fulfillment expenses

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

2.10 Research and development expenses

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2017, 2018 and 2019 and June 30, 2020.

2.11 Leases

Definition of a lease

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.11 Leases—continued

The Group as a lessee

Allocation of consideration to components of a contract

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents right-of-use assets as a separate line item on the combined statements of financial position.

Lease liabilities

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.11 Leases—continued

The lease payments include:

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

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

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

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

The Group presents lease liabilities as a separate line item on the combined statements of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.12 Foreign currency translation

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

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

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

2.13 Employee benefits

Employee leave entitlement

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

Pension obligations and other social welfare benefits

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.13 Employee benefits—continued

Bonus plan

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

Short-term employee benefits

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

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

2.14 Share-based payments

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

Equity-settled share-based payment transactions

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.14 Share-based payments—continued

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

2.15 Taxation

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

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

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

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

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

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.15 Taxation—continued

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

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

Current and deferred tax are recognized in profit or loss.

2.16 Property and equipment

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

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

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

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

2.17 Intangible assets

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.17 Intangible assets—continued

The estimated useful lives of intangible assets are as follows:

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

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

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

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

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

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

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

2.19 Inventories

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost of inventory is determined using the weighted average method.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.19 Inventories—continued

Adjustments are recorded to write down the cost of inventory to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased, but has arrangements to return unsold goods with certain vendors. Write downs are recorded in cost of revenue in the combined statements of profit or loss.

2.20 Financial instruments

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

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

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

(a) Financial assets

Classification and subsequent measurement of financial assets

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.20 Financial instruments—continued

(a) Financial assets—continued

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

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

All other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

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

Financial assets at FVTPL

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

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

Impairment of financial assets

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.20 Financial instruments—continued

(a) Financial assets—continued

experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade and note receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

Significant increase in credit risk

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

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

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

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.20 Financial instruments—continued

(a) Financial assets—continued

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

Definition of default

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

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

Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

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

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.20 Financial instruments—continued

(a) Financial assets—continued

probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

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

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

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

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

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.20 Financial instruments—continued

(b) Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at amortized cost

Financial liabilities including trade payables and other payables are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(c) Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortized cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2. Summary of significant accounting policies—continued

2.20 Financial instruments—continued

(c) Derivative financial instruments—continued

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

(d) Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the combined statements of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(e) Convertible preferred shares

Series A Preferred Shares issued by the Company are convertible at the option of the holders of Series A Preferred Shares or automatically converted under certain events. Series A Preferred Shares are not redeemable, but the Company is required to pay dividends to the holders of Series A Preferred Shares up to the purchase price of Series A Preferred Shares when certain conditions are met. The details of these convertible preferred shares are set out in Note 23.

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

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

3. Critical accounting estimates and judgements

The preparation of the Historical Financial Information requires the directors of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and the reported revenue and expenses during the Track Record Period in the combined financial statements and accompanying notes.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Critical accounting estimates and judgements—continued

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

Consolidation of affiliated entities

The Group obtained control over a PRC domestic company, Suqian Jingdong Tianning, by entering into a series of the Contractual Arrangements with the PRC domestic company and its respective Nominee Shareholders. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the PRC domestic company and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC domestic company. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Beijing Jingdong Jiankang, Suqian Jingdong Tianning and its respective Nominee Shareholders are in compliance with the relevant PRC Laws and are legally enforceable.

Impairment of inventories

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

Rebates and subsidies

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

Estimation of the fair value of the convertible preferred shares

The convertible preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions and key inputs such as the timing of the liquidation, redemption or Initial Public Offerings ("IPO") event as well as the probability of the various scenarios were based on the Group's best estimates. Further details are included in Note 23.

Estimation of the fair value of the call option and put option

The fair value of the call option and put option associated with the investment in a joint venture of the Group, in the absence of an active market, is estimated by using appropriate valuation

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3. Critical accounting estimates and judgements—continued

techniques. The Group applied the Black-Scholes model to determine the fair value of the options. Key assumptions and key inputs such as the timing of expiration and volatility were based on the Group's best estimates and subject to uncertainty and might materially differ from the actual results. Further details are included in Note 14 and Note 24.

4. Segment information

The Group operates a comprehensive "Internet + healthcare" ecosystem, providing pharmaceutical and healthcare products, internet healthcare, health management and intelligent healthcare solutions to the customers. The Group does not distinguish revenue, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole.

The Group's chief operating decision maker, who has been identified as the Chief Executive Officer ("CEO"), reviews the combined results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reports. As the Group's non-current assets are all located in the PRC and most of all the Group's revenue are derived from the PRC, no geographical information is presented. During the Track Record Period, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue.

5. Revenue

(a) Disaggregation of revenue from contracts with customers:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Type of goods or services:					
Product revenue:					
Sales of pharmaceutical and healthcare products	4,907,244	7,254,582	9,434,984	4,365,153	7,693,261
Service revenue:					
Marketplace, advertising and other services	645,884	914,475	1,407,156	623,384	1,084,229
Total	5,553,128	8,169,057	10,842,140	4,988,537	8,777,490
Timing of revenue recognition:					
A point in time	5,405,314	8,020,266	10,673,558	4,901,825	8,682,679
Over time	147,814	148,791	168,582	86,712	94,811
Total	5,553,128	8,169,057	10,842,140	4,988,537	8,777,490

The Group applies the practical expedient of not disclosing the transaction price allocated to the remaining performance obligation as the original expected duration of all the contracts of the Group are within one year or less.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5. Revenue—continued

(b) Contract liabilities

The Group collected payments in advance from customers primarily for sales of pharmaceutical and healthcare products and marketplace service fees. The Group has recognized the following liabilities related to contracts with customers under "contract liabilities":

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities	31,227	40,519	87,687	189,348

As of January 1, 2017, contract liabilities amounted to RMB23 million.

The directors of the Company expect that all of the contract liabilities as of June 30, 2020 will be recognized as revenue within one year.

(c) Revenue recognized in relation to contract liabilities

The following table shows the amount of the revenue recognized during the Track Record Period relates to carried-forward contract liabilities:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year/period:	22,554	31,227	40,519	40,519	87,687

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

6. Profit/(loss) before income tax

Profit/(loss) before income tax has been arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	4,158,973	6,176,645	8,011,511	3,647,419	6,464,009
Provision for impairment of inventories	1,351	1,120	981	805	74,665
Expenses of logistics and warehousing services allocated/provided by JD Group*	472,941	660,943	818,932	372,091	591,328
Expenses of technology and traffic support services allocated/provided by JD Group*	276,483	424,871	528,154	239,876	424,124
Expenses related to other support services allocated by JD Group*	148,874	168,333	62,825	54,078	9,459
Promotion and advertising expenses	63,191	140,570	456,681	135,834	319,751
Employee benefit expenses (Note 8)	70,086	113,413	272,028	86,644	254,068
Expenses of payment services allocated/provided by JD Group*	51,355	86,881	133,045	58,104	94,918
Depreciation of property and equipment and right-of-use assets and amortization of intangible assets	3,087	6,266	7,423	3,491	8,591
Auditor's remuneration	—	—	708	—	—

* Prior to the Closing Date of Series A Preferred Shares financing, the expenses of logistics and warehousing services, the expenses of technology and traffic support services, the expenses related to other support services and expenses of payment services were allocated on the basis as set out in Note 1.2. After the Closing Date of Series A Preferred Shares financing, the expenses aforesaid were charged by JD Group in accordance with the terms and pricing policies of the related party transactions listed out in Series A Share Subscription Agreement and are set out in Note 32, except for the expenses related to other support services which are allocated on the basis as set out in Note 1.2.

7. Finance income

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income from term deposits and bank balances	4	84	31,783	27	60,327

8. Employee benefit expenses

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and bonuses	30,199	61,072	168,849	52,673	187,874
Share-based payments expenses (Note 27)	30,420	33,471	52,728	17,713	26,466
Welfare, medical and other benefits	9,467	18,870	50,451	16,258	39,728
Total	70,086	113,413	272,028	86,644	254,068

The employee benefit expenses include the remuneration of directors and the CEO during the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Directors' and the CEO's emoluments

Directors' and the CEO's remuneration for the Track Record Period, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

(a) The remuneration of directors and the CEO is set out below:

	For the year ended December 31, 2017				
Name	Salaries and bonuses	Share-based compensation expenses	Pension costs—defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
CEO:					
Lijun Xin[1]	1,398	23,258	51	267	24,974

	For the year ended December 31, 2018				
Name	Salaries and bonuses	Share-based compensation expenses	Pension costs—defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
CEO:					
Lijun Xin[1]	1,870	23,751	55	273	25,949
Non-executive director:					
Nani Wang[2/6]	—	—	—	—	—
	1,870	23,751	55	273	25,949

	For the year ended December 31, 2019				
Name	Salaries and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Lijun Xin[1]	2,594	16,421	51	279	19,345
Non-executive directors:					
Nani Wang[2/6]	—	—	—	—	—
Lei Xu[3/6]	—	—	—	—	—
Sidney Xuande Huang[3/6]	—	—	—	—	—
Jingyang Wu[4]	—	—	—	—	—
Guiyong Cui[5]	—	—	—	—	—
	2,594	16,421	51	279	19,345

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Directors' and the CEO's emoluments—continued

(a) The remuneration of directors and the CEO is set out below:—continued

Name	For the six months ended June 30, 2019 (unaudited)				
	Salaries and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Lijun Xin[1]	1,233	7,055	28	138	8,454
Non-executive directors:					
Nani Wang[2/6]	—	—	—	—	—
Lei Xu[3/6]	—	—	—	—	—
Sidney Xuande Huang[3/6]	—	—	—	—	—
	1,233	7,055	28	138	8,454

Name	For the six months ended June 30, 2020				
	Salaries and bonuses	Share-based compensation expenses	Pension costs – defined contribution plans	Welfare, medical and other benefits	Total
	RMB'000	RMB'000 (Note 27)	RMB'000	RMB'000	RMB'000
Executive director and CEO:					
Lijun Xin[1]	2,355	4,511	23	141	7,030
Non-executive directors:					
Lei Xu[3/6]	—	—	—	—	—
Sidney Xuande Huang[3/6]	—	—	—	—	—
Jingyang Wu[4]	—	—	—	—	—
Guiyong Cui[5]	—	—	—	—	—
	2,355	4,511	23	141	7,030

Notes:

1. Appointed as the person in charge of the Group (similar to the CEO) since January 2017, and appointed as executive director since June 2019 and CEO since July 2019.
2. Appointed as non-executive director since November 2018 and resigned in June 2019.
3. Appointed as non-executive director since June 2019.
4. Appointed as non-executive director since July 2019.
5. Appointed as non-executive director since October 2019.
6. These non-executive directors served as senior management in JD Group and their emoluments are borne and paid by JD Group.

No emoluments were paid or payable to the non-executive directors of the Company during the Track Record Period.

The emoluments of the executive director and the CEO shown above were mainly for his management services rendered to the Company and the Group.

(b) Benefits and interests of directors

Except for directors disclosed above, there is no other benefits offered to the other directors.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

9. Directors' and the CEO's emoluments—continued

(c) Directors' termination benefits

No director's termination benefit subsisted at the end of the period or at any time during the Track Record Period.

(d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the period or at any time during the Track Record Period.

(e) Information about loans, quasi-loans and other dealings in favor of directors, their controlled bodies and connected entities

No loans, quasi-loans and other dealings in favor of directors, their controlled bodies corporate and connected entities subsisted at the end of the period or at any time during the Track Record Period.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the Track Record Period.

10. Five highest paid employees

The five highest paid employees include one director whose remuneration is set out in Note 9 during the Track Record Period. The emoluments payable to the remaining four individuals, who are neither a director nor the CEO of the Company, during the Track Record Period, were as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and bonuses	2,463	3,281	4,714	2,308	3,821
Share-based payments expenses	4,258	6,803	13,239	5,730	7,627
Pension costs—defined contribution plans	184	204	182	105	94
Welfare, medical and other benefits	222	496	513	255	258
Total	7,127	10,784	18,648	8,398	11,800

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10. Five highest paid employees—continued

The number of the highest paid employees whose emoluments fell within the following bands:

	Number of individuals				
	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
				(Unaudited)	
Emolument bands (in Hong Kong dollars ("HKD"))					
Nil to HKD3,000,000	3	3	2	2	2
HKD3,000,001 to HKD6,000,000	1	—	—	2	2
HKD6,000,001 to HKD9,000,000	—	1	2	—	—
Total	4	4	4	4	4

During the Track Record Period, no emoluments were paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of office. None of directors, the CEO and employees waived or agreed to waive any emoluments during the Trach Record Period.

11. Income tax expense

Income tax

Cayman Islands

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

British Virgin Islands

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

Hong Kong

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HKD2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HKD2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HKD2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HKD2 million.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

PRC

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

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

Withholding tax on undistributed dividends

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a foreign investment enterprise ("FIE") to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The Company has not declared or paid, or planned to declare, any dividend to its shareholders from the profits generated during the Track Record Period. Therefore the Company has not recorded any withholding tax on any profits generated by the PRC Operation Entities.

The income tax expense of the Group is analyzed as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax:					
PRC EIT	78,118	91,585	137,350	98,936	122,257
Deferred income tax	(673)	(280)	(245)	(201)	(18,667)
Total	77,445	91,305	137,105	98,735	103,590

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

The income tax expense for the year/period can be reconciled to the profit/(loss) before income tax per the combined statements of profit or loss as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) before income tax	255,979	306,232	(834,700)	334,989	(5,257,325)
Tax calculated at PRC statutory income tax rate of 25%	63,995	76,558	(208,675)	83,747	(1,314,331)
Tax effects of:					
—Expenses that are not deductible in determining taxable profit	7,662	8,384	9,082	2,666	5,532
—Super deduction for research and development expenses	(44)	(553)	(10,767)	(2,651)	(10,984)
—Utilization of tax losses not previously recognized	(48)	(189)	(370)	(4)	(8,445)
—Different tax rates available to different jurisdictions	—	—	311,980	1,773	1,412,268
—Preferential income tax rates applicable to subsidiaries and consolidated affiliated entities	(1,807)	(1,994)	(7,517)	(3,166)	(3,876)
—Share of results of a joint venture	—	—	—	—	2,152
—Tax losses/deductible temporary differences not recognized	7,687	9,099	43,372	16,370	21,274
Total income tax expense	77,445	91,305	137,105	98,735	103,590

Deferred tax

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	673	953	1,198	19,865

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

11. Income tax expense—continued

The following is the deferred tax assets recognized and movements thereon during the Track Record Period:

	Provision for impairment of inventories
	RMB'000
As of January 1, 2017	—
Credited to profit or loss	673
As of December 31, 2017	673
Credited to profit or loss	280
As of December 31, 2018	953
Credited to profit or loss	245
As of December 31, 2019	1,198
Credited to profit or loss	18,667
As of June 30, 2020	19,865

As of December 31, 2017, 2018 and 2019 and June 30, 2020, the Group had deductible temporary differences of RMB7,000, RMB6,437,000, RMB7,311,000 and RMB6,834,000, respectively, from certain PRC entities. No deferred tax assets have been recognized in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, the Group had unused tax losses of RMB50 million, RMB79 million, RMB251 million and RMB303 million, respectively, from certain PRC entities. Due to the unpredictability of future profit streams, no deferred tax asset had been recognized for these unused tax losses. As of June 30, 2020, these unrecognized tax losses will expire from 2020 to 2025.

12. Earnings/(loss) per share

Earnings/(loss) per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Spin-off and the combined basis of presentation of Historical Financial Information of the Group as disclosed in Note 1.2.

13. Investment in a joint venture

	As of June 30, 2020
	RMB'000
At the beginning of the period	—
Cost of investment in an unlisted joint venture	667,445
Share of post-acquisition loss and other comprehensive income/(loss)	(8,607)
At the end of the period	658,838

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Investment in a joint venture—continued

In April 2020, the Group entered into a series of agreements with Tangshan Hongci Healthcare Management Co., Ltd.* ("Tangshan Hongci") (唐山弘慈醫療管理有限公司) and its shareholders, pursuant to which the Group injected approximately RMB668 million in cash to Tangshan Hongci for an equity interest of 49% on June 1, 2020. The Group accounts for the investee as a joint venture due to the veto rights that the Group entitled in making significant decisions in the board and shareholder meetings, which enable the Group to share the control with the existing shareholder of Tangshan Hongci. In addition, the Group entered into a loan agreement with Tangshan Hongci, pursuant to which the Group shall provide a three-year interest-bearing loan of approximately RMB227 million to Tangshan Hongci. As of June 30, 2020, the loan has not been paid by the Group.

Associated with the investment into Tangshan Hongci, the Group is entitled to a call option to acquire additional equity interest of 21% or above in Tangshan Hongci at a pre-determined schedule with the consideration calculated based on a pre-determined formula. Upon initial recognition, the Group's call option was classified as financial asset measured at FVTPL. Further details are set out in Note 14. The Group did not consider the call option may provide a potential voting power since it is not substantive as the option was out-of-the-money.

In addition, the Group has granted a put option to the existing shareholder of Tangshan Hongci, by which the existing shareholder shall have the right to request the Group to buy out their shares at a pre-determined schedule with put price calculated based on a pre-determined formula when the joint venture achieved certain pre-determined operating targets. Upon initial recognition, the put option granted by the Group was classified as financial liability measured at FVTPL. Further details are set out in Note 24.

The details of the investment in the joint venture as of June 30, 2020 are as follows:

Name of entity	Place of incorporation and principal place of operation	Principal activities	Percentage of equity interest	Percentage of voting rights
Tangshan Hongci	Mainland China	Healthcare enterprise management services	49%	49%

Set out below is the summarized financial information of the joint venture.

	As of June 30, 2020
	RMB'000
Summarized consolidated statement of financial position	
Non-current assets	2,831,311
Current assets	1,051,061
Non-current liabilities	2,123,895
Current liabilities	342,001
Equity attributable to owners of Tangshan Hongci	869,780
Non-controlling interest	546,696

* The English name of the joint venture is translated from its registered Chinese name for identification only.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13. Investment in a joint venture—continued

	As of June 30, 2020
	RMB'000
Reconciliation to carrying amount	
Equity attributable to owners of Tangshan Hongci	869,780
Proportion of the Group's ownership interest in Tangshan Hongci	49%
Adjustment:	
—Goodwill, intangible asset, revaluation of property and land use right and others	232,646
Carrying amount	658,838

Summarized consolidated statement of profit or loss and other comprehensive income/(loss)	For the period from June 1, 2020 to June 30, 2020
	RMB'000
Revenue for the period	21,725
Loss and total comprehensive loss for the period	(26,660)

There are no contingent liabilities relating to the Group's interests in the joint venture.

14. Financial assets at FVTPL

	As of December 31,		As of June 30,
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Non-current:			
Equity investments in a private company	7,409	7,450	7,569
Call option*	—	—	136,365
	7,409	7,450	143,934
Current:			
Wealth management products**	—	—	1,012,396
	7,409	7,450	1,156,330

* Details are set out in Note 13.

** The wealth management products purchased by the Group are structured products with the expected rates of return indexed to foreign exchange rate or interest rate ranging from 3.00% to 3.65% for the six months ended June 30, 2020. The Group managed and evaluated the performance of investments on a fair value basis in accordance with the Group's risk management and investment strategy. The fair values are based on cash flow discounted using the expected return based on observable market inputs and are within level 2 of the fair value hierarchy.

The fair value of call option was estimated as of the date of grant and June 30, 2020, using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

	As of the date of grant and June 30, 2020
Expected volatility	34.8%
Risk-free interest rate	2.04%

Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to expiration. The Group estimated the risk-free interest rate based on the yield of government bond with maturity

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14. Financial assets at FVTPL—continued

matching the time to expiration as of the valuation date. In addition to the assumptions adopted above, projections of future performance were also factored into the determination of the fair value of the call option on valuation date.

15. Leases

The Group leases certain of its offline pharmacies, offices, warehouses and staff quarters under operating lease arrangements, which are negotiated for terms ranging from 1 to 6 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Track Record Period are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of the year/period	2,140	2,965	3,025	10,567
Additions	1,779	1,665	9,667	53,280
Depreciation charge	(954)	(1,605)	(2,125)	(3,942)
Carrying amount at the end of the year/period	2,965	3,025	10,567	59,905

(b) Lease liabilities

The carrying amounts of the Group's lease liabilities and the movements during the Track Record Period are as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of the year/period	2,473	3,258	3,126	11,263
New leases	1,075	1,665	9,667	52,798
Accretion of interest recognized	82	150	243	643
Payments	(372)	(1,947)	(1,773)	(11,131)
Carrying amount at the end of the year/period	3,258	3,126	11,263	53,573
Analyzed as:				
Non-current	1,594	2,411	6,412	36,100
Current	1,664	715	4,851	17,473
	3,258	3,126	11,263	53,573

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

15. Leases—continued

(b) Lease liabilities—continued

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of lease liability				
—within one year	1,664	715	4,851	17,473
—between 1 and 2 years	234	1,574	3,206	13,457
—between 2 and 5 years	1,360	837	3,012	22,313
—over 5 years	—	—	194	330
	3,258	3,126	11,263	53,573

The lease liabilities were measured at the present value of the lease payments that are not yet paid using incremental borrowing rates. The weighted average incremental borrowing rates are set out in Note 30. All leases are entered at fixed rates.

The maturity analysis of lease liabilities at each reporting date and total cash outflow for leases during the Track Record Period are set out in Note 30 and Note 31, respectively.

The expenses relating to short-term leases are set out in Note 6.

16. Prepayments, other receivables and other assets

The Group

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current:				
Amounts due from related parties	34	307	929,665	1,175,379
Receivable from cancellation of investments*	—	—	—	102,803
Advance to suppliers	531	515	11,140	70,914
Interest receivable	—	17	7,721	45,058
Recoverable value-added tax	2,036	6,676	5,905	10,192
Estimated return of products sold	2,945	2,962	2,396	3,272
Prepaid expense	978	394	822	2,403
Others	82	62	100	744
	6,606	10,933	957,749	1,410,765
Non-current:				
Prepayments for investments in equity investees	—	—	26,760	8,000
Others	63	319	431	1,220
	63	319	27,191	9,220

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

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16. Prepayments, other receivables and other assets—continued

The Company

	As of December 31, 2019	As of June 30, 2020
	RMB'000	RMB'000
Current:		
Amounts due from related parties	779,885	1,454,756
Interest receivable	7,709	44,985
	787,594	1,499,741

17. Inventories

Inventories consist of the following:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Products	886,740	1,119,108	1,283,133	2,079,345
Less: impairment provision	(2,693)	(3,813)	(4,794)	(79,459)
	884,047	1,115,295	1,278,339	1,999,886

18. Trade and note receivables

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from third parties	3,098	17,472	27,080	30,713
Less: allowance for ECL	(7)	(4,393)	(6,252)	(5,775)
Note receivables	—	6,953	724	4,115
	3,091	20,032	21,552	29,053

The Group applies the simplified approach under by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

As of January 1, 2017, trade and note receivables amounted to RMB0.5 million.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

18. Trade and note receivables—continued

The Group's trading terms with some of its customers are on credit. The Group primarily allows a credit period of 30 days. Trade receivables are settled in accordance with the terms of the respective contracts. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	3,098	7,815	13,921	21,503
3 to 6 months	—	2,858	3,799	2,480
6 to 12 months	—	6,799	8,791	3,623
Over 12 months	—	—	569	3,107
	3,098	17,472	27,080	30,713
Less: allowance for ECL	(7)	(4,393)	(6,252)	(5,775)
	3,091	13,079	20,828	24,938

The Group held notes received for future settlement of trade receivables with insignificant amount. The Group continues to recognize their full carrying amounts at the end of each reporting period. All notes received by the Group are with a maturity period of less than one year.

As of December 31, 2017, 2018 and 2019 and June 30, 2020, included in the Group's trade receivables balance were debtors with aggregate carrying amount of nil, RMB9 million, RMB11 million and RMB7 million, respectively, which were past due but not impaired as of the reporting date. The Group has not provided an impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

19. Term deposits

The Group and the Company

	As of December 31,	As of June 30,
	2019	2020
	RMB'000	RMB'000
Term deposits in USD	1,395,240	2,831,800

The Group's term deposits are bank deposits with original maturities over three months and redeemable on maturity. The weight-average interest rates of the term deposits were 2.70% and 2.65% per annum for the years ended December 31, 2019 and the six months ended June 30, 2020, respectively.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20. Cash and cash equivalents and restricted cash

Cash and cash equivalents

The Group

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	7,401	16,213	4,965,272	3,200,320

The Company

	As of December 31,	As of June 30,
	2019	2020
	RMB'000	RMB'000
Cash and bank balances	4,961,023	3,151,829

Restricted cash

Restricted cash represents deposits held in designated bank accounts for issuance of bank acceptance. The Group held restricted cash of nil, RMB4 million, RMB6 million and RMB9 million as of December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

21. Trade payables

Trade payables primarily consist of payables to suppliers.

The credit period of trade payables is ranging from 30 to 60 days. An aging analysis of the trade payables based on the invoice date at the end of each reporting period is as follows:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	172,650	340,229	444,984	1,744,114

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22. Accrued expenses and other payables

Accrued expenses and other payables consists of the following:

The Group

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to a related party	15,653	14,676	925,850	1,238,610
Deposits to be returned to former investor**	—	—	—	83,270
Salary and welfare payables	8,223	11,388	53,931	74,901
Tax payable	2,352	2,778	3,344	59,135
Deposits received*	5,160	8,480	11,378	19,123
Liabilities for return allowances	2,624	3,109	2,295	3,392
Others	7,592	8,621	10,556	16,451
Total	41,604	49,052	1,007,354	1,494,882

* Mainly represents the deposits received from third-party merchants from the online marketplace business.

** Represents the amount to be paid to a third party with which the Group established an investment holding company for future investment. However, such investment arrangement was terminated and the Group obtained the ownership of the investment holding company and is obligated to return the investment deposits received from the third party.

23. Convertible preferred shares

In May 2019, the Company entered into Series A Share Subscription Agreement with a group of third-party investors. The Company issued 186,276,119 Series A Preferred Shares at USD5.00 (equivalent to RMB34.81) per share for a total cash proceed of approximately USD931 million (equivalent to RMB6,482 million), representing 13.5% of the ownership of the Company on a fully diluted basis. The Series A Preferred Shares are convertible at the option of the holders of Series A Preferred Shares or automatically converted under certain events.

In February 2020, the Company underwent a 1:2 share split, having 372,552,238 Series A Preferred Shares issued and outstanding with a par value of USD0.0000005 per share. All preferred shares and per share information were adjusted retrospectively for all periods presented to reflect the share split.

The rights, preferences and privileges of Series A Preferred Shares are as follows:

Dividend Rights

Dividends shall only be payable to the Series A Preferred Shares investors in cash on a pro rata basis for each Series A Preferred Share held by them at an annual simple rate ("Rate X") of series A purchase price if a qualified IPO has not occurred by the fifth anniversary after the Closing Date.

For the period from the fifth anniversary of the Closing Date till the end of the fiscal year of 2024, the Company shall accrue, declare and pay dividends to the Series A Preferred Shares investors in cash on a pro rata basis for each Series A Preferred Share held by them at an annual simple rate ("Rate Y") of series A purchase price, which is higher than the Rate X.

For each fiscal year from 2025 until the date of the earlier of the qualified IPO and all the dividends that have been accrued for a Series A Preferred Share has reached the purchase price of Series A Preferred Shares, the Company shall accrue, declare and pay dividends to holders of the

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

23. Convertible preferred shares—continued

Dividend Rights—continued

Series A Preferred Shares in cash on a pro rata basis for each Series A Preferred Share held by them at Rate Y of series A purchase price per annum, after that no further obligation for the Company to accrue, declare and pay preferred dividends to the holders of the Series A Preferred Shares.

Upon the qualified IPO by the end of the fiscal year during which the seventh anniversary of the Closing Date occurs, any and all preferred dividends that have been accrued or declared prior to the qualified IPO shall be automatically and immediately canceled and terminated, and each holder of Series A Preferred Shares shall duly and unconditionally pay the Company an amount equal to the total amount of all the preferred dividends that the Company has paid to such holder before the consummation of the qualified IPO, and the Company will have no obligation to pay any of such preferred dividends.

However, the maximum amount of the preferred dividends can be paid is limited to an amount determined by the accumulated profit and the working capital of the Company.

Voting Rights

Each Series A Preferred Share shall carry such number of votes as is equal to the number of votes of ordinary shares then issuable upon the conversion of such Series A Preferred Shares. The holders of the Series A Preferred Shares and the holders of ordinary shares shall vote together and not as a separate class.

Liquidation Rights

In case of any liquidation event, all assets and funds of the Company legally available for distribution to the holders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the holders of the Company as follows:

The Series A Preferred Shares shareholders shall be entitled to receive the amount equal to one hundred percent of the applicable purchase price of such Series A Preferred Shares plus interest on such purchase price at Rate X and minus all declared and paid dividends on such Series A Preferred Shares.

Conversion Rights

Each of the Series A Preferred Shares shall be convertible, at the option of the holders of the Series A Preferred Shares, at any time after the date of issuance of such Series A Preferred Shares, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Series A Preferred Shares purchase price by the conversion price then applicable to such Series A preferred share. The conversion price of each Series A Preferred Shares is the same as its original issuance price if no adjustments to conversion price have occurred. The conversion price is subject to adjustments when any equity securities of the Company are issued at a price per share lower than the purchase price of Series A Preferred Shares. As of June 30, 2020, each Series A Preferred Shares shall automatically be converted into ordinary shares at the conversion price then applicable to such Series A Preferred Shares, (i) upon the consummation of an IPO; or (ii) with respect to the Series A Preferred Shares, in the event that Series A Preferred Shares shareholders holding at least 70% of the Series A Preferred Shares in issue elect to convert the Series A Preferred Shares.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

23. Convertible preferred shares—continued

Conversion Rights—continued

The movements of the convertible preferred shares are set out as below:

	RMB'000
As of January 1, 2019	—
Issuance of Series A Preferred Shares	6,313,002
Change in fair value	1,263,130
Currency translation differences	8,288
As of December 31, 2019	7,584,420
Issuance of Series A Preferred Shares	168,862
Change in fair value	5,705,251
Currency translation differences	150,882
As of June 30, 2020	13,609,415

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions are set as below:

	As of December 31, 2019	As of June 30, 2020
Discount rate	15.0%	14.0%
Risk-free interest rate	2.28%	1.27%
Discount for lack of marketability ("DLOM")	20%	20%
Volatility	30%	32%

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

24. Financial liabilities at FVTPL

	As of June 30, 2020
	RMB'000
Put option*	135,906

* Details are set out in Note 13.

The fair value of put option was estimated as of the date of grant and June 30, 2020, using a Black-Scholes model, taking into account the terms and conditions upon which the option is granted.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24. Financial liabilities at FVTPL—continued

The following table lists the inputs to the model used:

	As of the date of grant and June 30, 2020
Expected volatility	37.8%
Risk-free interest rate	1.72%

Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as time to expiration. The Group estimated the risk-free interest rate based on the yield of government bond with maturity matching the time to expiration as of the valuation date. In addition to the assumptions adopted above, projections of future performance were also factored into the determination of the fair value of the put option on valuation date.

25. Paid-in capital/share capital

The Group

In July 2019, all the equity interests of PRC Operating Entities were transferred to Suqian Jingdong Tianning at an amount of RMB2,000,000. For the purpose of the presentation of the combined statements of financial position, the paid-in capital/share capital of the Group represents the paid-in capital of PRC Operating Entities as of December 31, 2017 prior to the incorporation of the Company, and the paid-in capital of PRC Operating Entities and the share capital of the Company as of December 31, 2018 prior to the transfer of the equity interest of PRC Operating Entities but post to the incorporation of the Company, and the share capital of the Company as of December 31, 2019 and June 30, 2020 upon completion of the transfer of equity interests of PRC Operating Entities.

The Company

Authorized

The Company was incorporated in the Cayman Islands as an exempted company registered under the laws of the Cayman Islands in November 2018 with an authorized share capital of USD50,000 divided into 50,000 shares of a par value of USD1.00 each. Upon incorporation of the Company, one share was issued at par value of USD1.00, equivalent to approximately RMB6.93.

In June 2019, each authorized and issued share at a par value of USD1.00 was subdivided into 1,000,000 shares at a par value of USD0.000001 each, such that the authorized shares of 50,000 of the Company was divided into 50,000,000,000 shares, out of which 49,781,223,881 shares were ordinary shares of a nominal or par value of USD0.000001 each and 218,776,119 shares were preferred shares at a nominal or par value of USD0.000001 each, of which 218,776,119 are designated as Series A Preferred Shares.

In February 2020, Company underwent another 1:2 share split to each authorized and issued shares, such that the share capital of the Company is USD50,000 divided into 99,562,447,762 Ordinary Shares of a nominal or par value of USD0.0000005 each and 437,552,238 preferred shares at a nominal or par value of USD0.0000005 each, of which 437,552,238 are designated as Series A Preferred Shares.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25. Paid-in capital/share capital—continued

The Company—continued

Issued

	Number of ordinary shares	Nominal value of ordinary shares	Nominal value of ordinary shares
		USD	RMB
As of January 1, 2018	—	—	—
Issuance of ordinary shares[1]	1	1	7
As of December 31, 2018	1	1	7
Split of shares[2]	999,999	—	—
Issuance of ordinary shares[2]	1,073,626,866	1,074	7,381
As of December 31, 2019	1,074,626,866	1,075	7,388
Split of shares[3]	1,074,626,866	—	—
As of June 30, 2020	2,149,253,732	1,075	7,388

	Number of ordinary shares	Nominal value of ordinary shares	Nominal value of ordinary shares
		USD	RMB
(Unaudited)			
As of January 1, 2019	1	1	7
Split of shares[2]	999,999	—	—
Issuance of ordinary shares[2]	1,073,626,866	1,074	7,381
As of June 30, 2019	1,074,626,866	1,075	7,388

	As of December 31,		As of June 30,
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
Presented as	—*	7	7

* less than RMB1,000.

Notes:

1. The Company was incorporated on November 30, 2018 with an authorized share capital of USD1.00, consisting of 1 ordinary shares of USD1.00 par value each, of which 1 share had been issued. The issued ordinary share was fully paid in April 2019.
2. In June 2019, the 1 ordinary share was subdivided by 1:1,000,000 and additional 1,073,626,866 new shares were issued at a par value of USD0.000001 per share to JD Jiankang Limited. The newly issued ordinary shares were fully paid in June 2019.
3. In February 2020, the Company underwent another 1:2 share split, having 2,149,253,732 ordinary shares issued and outstanding with a par value of USD0.0000005 per share.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

26. Reserves

The Company

	Reserves
	RMB'000
As of January 1, 2018	—
Share-based payments expenses	2,166
As of December 31, 2018	2,166
Contribution from the Remaining Listing Business	768,023
Share-based payments expenses	16,422
Currency translation differences	25,191
As of December 31, 2019	811,802
Share-based payments expenses	4,511
Currency translation differences	(44,426)
As of June 30, 2020	771,887

27. Share-based payments

During the Track Record Period, the Group did not have its own share incentive plan. The employees of the Group are eligible for JD Group Share Incentive Plan, which includes share options and RSUs. Accordingly, the Group accounted for such plans by measuring the services received from the grantees in accordance with the requirement applicable to equity-settled share-based payment transactions, and recognized a corresponding increase in equity as a deemed contribution from JD Group in accordance with IFRS 2.

The table below sets forth share-based payments expenses for RSUs and share options during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
RSUs	28,459	29,908	51,380	16,770	25,881
Share options	1,961	3,563	1,348	943	585
	30,420	33,471	52,728	17,713	26,466

JD Group Share Incentive Plan

JD Group granted share-based awards to eligible employees and non-employees pursuant to the share incentive plan, which was adopted on November 13, 2014 and governed the terms of the awards.

The RSUs and share options are generally service-based and scheduled to be vested over two to ten years. One-second, one-third, one-fourth, one-fifth, one-sixth, or one-tenth of the awards, depending on different vesting schedules of JD Group Share Incentive Plan, shall be vested upon the end of the calendar year in which the awards were granted or the first anniversary dates of the grants, and the remaining of the awards shall be vested on straight line basis at the end of the remaining calendar or the anniversary years.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

JD Group Share Incentive Plan—continued

The Group recognizes share-based payments expenses in its combined statements of profit or loss based on awards ultimately expected to vest, after considering estimated forfeitures of the Group. Forfeitures are estimated based on JD Group's historical experience and revised in the subsequent periods if actual forfeitures differ from those estimates. The impact of the revision of the original estimates, if any, is recognized in the profit and loss over the remaining vesting period, with a corresponding adjustment to other reserves.

Share options

A summary of activities of the service-based share options is presented as follows:

	Number of share options	Weighted average exercise price	Weighted average remaining contractual term
		USD	Year
Outstanding as of January 1, 2017	439,500	8.28	
Exercised	(133,748)	3.96	
Outstanding as of December 31, 2017	305,752	10.16	6.9
Exercised	(8,748)	3.96	
Outstanding as of December 31, 2018	297,004	10.35	6.0
Exercised	(17,756)	3.96	
Transfer*	14,250	3.96	
Outstanding as of December 31, 2019	293,498	10.42	5.0
Exercised	(12,000)	3.96	
Outstanding as of June 30, 2020	281,498	10.70	4.6
(Unaudited)			
Outstanding as of January 1, 2019	297,004	10.35	6.0
Exercised	(17,256)	3.96	
Transfer*	1,000	3.96	
Outstanding as of June 30, 2019	280,748	10.72	5.6

* The transfer represents the addition or deduction of share options that were previously granted to employees who transferred into or out of the Listing Business during the Track Record Period.

The number of exercisable share options as of December 31, 2017, 2018, 2019 and June 30, 2020 was 92,660, 161,500, 226,826 and 223,158, respectively.

The fair value of share options was estimated using the binominal option-pricing model. The determination of estimated fair value of share-based payment awards on the grant date is affected by the fair value of JD.com, Inc.'s ordinary shares as well as assumptions regarding a number of complex and subjective variables. These variables include the expected volatility of the shares of JD.com, Inc. over the expected term of the awards, actual and projected employee share option exercise behaviors, a risk-free interest rate and expected dividends, if any.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27. Share-based payments—continued

JD Group Share Incentive Plan—continued

RSUs

	Number of RSUs	Weighted-average grant-date fair value
		USD
Unvested as of January 1, 2017	1,571,067	12.53
Granted	113,000	15.76
Vested	(116,622)	11.17
Transfer*	(13,531)	12.02
Unvested as of December 31, 2017	1,553,914	12.87
Granted	270,900	19.56
Vested	(151,844)	11.89
Transfer*	(61,428)	14.48
Unvested as of December 31, 2018	1,611,542	14.03
Granted	454,140	14.67
Vested	(374,976)	13.65
Transfer*	1,485,538	14.61
Forfeited or canceled	(22,456)	16.06
Unvested as of December 31, 2019	3,153,788	14.43
Granted	394,410	19.80
Vested	(462,110)	14.85
Transfer*	(370,904)	11.03
Forfeited or canceled	(21,934)	17.34
Unvested as of June 30, 2020	2,693,250	15.59
(Unaudited)		
Unvested as of January 1, 2019	1,611,542	14.03
Granted	275,180	14.80
Vested	(243,576)	14.73
Transfer*	332,648	16.72
Unvested as of June 30, 2019	1,975,794	14.50

* The transfer represents the addition or deduction of RSUs that were previously granted to employees who transferred into or out of the Listing Business during the Track Record Period.

The estimated compensation cost of RSUs was based on the fair value of JD.com, Inc.'s ordinary shares on the date of the grant. The Group recognizes the compensation cost, net of estimated forfeitures, over the vesting term of the RSUs.

28. Dividends

No dividends had been paid or declared by the Company or its subsidiaries for the Track Record Period.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29. Commitments

Except for the commitment of loan to the Group's joint venture as disclosed in Note 13, the Group had no other material commitments as of December 31, 2017, 2018 and 2019 and June 30, 2020.

30. Financial instruments

30.1 Financial instruments by categories

The Group

	Notes	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of June 30, 2020
		RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets at fair value:					
Financial assets at FVTPL	14	—	7,409	7,450	1,156,330
Financial assets at amortized cost		10,671	40,814	7,325,872	7,395,536
Financial liabilities					
Financial liabilities at fair value:					
Convertible preferred shares	23	—	—	7,584,420	13,609,415
Financial liabilities at FVTPL	24	—	—	—	135,906
Financial liabilities at amortized cost		199,455	372,006	1,392,771	3,101,442

The Company

	Note	As of December 31, 2019	As of June 30, 2020
		RMB'000	RMB'000
Financial assets			
Financial assets at amortized cost		7,143,857	7,483,370
Financial liabilities			
Financial liabilities at fair value:			
Convertible preferred shares	23	7,584,420	13,609,415

30.2 Financial risk management

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the directors of the Company.

The Group's major financial instruments include financial assets at FVTPL, trade and note receivables and other receivables, term deposits, restricted cash, cash and cash equivalents, convertible preferred shares, lease liabilities, financial liabilities at FVTPL, trade payables and other payables. Details of the financial instruments are disclosed in respective notes. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(a) Market risk

Foreign exchange risk

The functional currency of the Group's entities incorporated in Cayman Islands, BVI and Hong Kong is USD. The Group's PRC subsidiaries and consolidated affiliated entities determined their functional currency to be RMB. Foreign exchange risk arises when future commercial transactions or recognized financial assets and liabilities are denominated in a currency that is not the respective functional currency of the Group's entities. In addition, the Company has intra-group balances with several subsidiaries denominated in foreign currency which also expose the Group to foreign currency risk.

During the Track Record Period, exchange gains and losses from those foreign currency transactions denominated in a currency other than the functional currency were insignificant. The directors of the Company consider that any reasonable changes in foreign exchange rates of other currencies against the two major functional currencies would not result in a significant change in the Group's results, as the net carrying amounts of financial assets and liabilities denominated in a currency other than the respective subsidiaries' functional currency are considered to be not significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest risk. The Group's cash flow interest rate risk primarily arose from cash and cash equivalents and restricted cash, details of which have been disclosed in Note 20. The Group's fair value interest risk primarily arises from term deposit and lease liabilities, details of which have been disclosed in Note 19 and Note 15.

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

Price risk

The Group is exposed to price risk in respect of its equity investments in a private company and call option measured as financial assets at FVTPL, wealth management products, convertible preferred shares and put option measured as financial liability at FVTPL. The above financial instruments are exposed to price risk because of changes in market prices, where changes are caused by factors specific to the individual financial instruments or their issuers, or factors affecting all similar financial instruments traded in the market.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(a) Market risk—continued

Sensitivity analysis

Fair value of convertible preferred shares are affected by changes in the Group's equity value, the sensitivity analysis of which has been disclosed in Note 30.4. The fair value change of call option, put option and equity investments in a private company is immaterial.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's credit risk is mainly associated with cash and cash equivalents, restricted cash, term deposits, trade and note receivables and other receivables. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

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

In order to minimize credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and note receivables and other receivables and to categorize exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(b) Credit risk—continued

The table below set forth how the Group defines the credit risk grading of its counterparties and its accounting policies for recognition of ECL:

Category	Group definition of category	Basis for recognition of ECL	
	Trade receivables and other receivables	Trade receivables	Other receivables
Performing	The Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	Lifetime ECL - not credit-impaired	12m ECL. Where the expected lifetime of an asset is less than 12 months, ECL are measured at its expected lifetime
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired	
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired	
Write-off	There is evidence indicating that debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Asset is written off	

The directors of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, internal credit ratings of trade debtors, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

On that basis, the loss allowance as of December 31, 2017, 2018 and 2019 and June 30, 2020 was determined as follows for trade receivables:

As of December 31, 2017

Provision on collective basis	Within 3 months	3 to 6 months	6 to 12 months	Total
Lifetime expected credit loss rate	0.23%	—	—	
Gross carrying amount	3,098	—	—	3,098
Loss allowance	(7)	—	—	(7)

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(b) Credit risk—continued

As of December 31, 2018

Provision on collective basis	Within 3 months	3 to 6 months	6 to 12 months	Total
Lifetime expected credit loss rate	0.29%	10.32%	59.94%	
Gross carrying amount	7,815	2,858	6,799	17,472
Loss allowance	(23)	(295)	(4,075)	(4,393)

As of December 31, 2019

Provision on collective basis	Within 3 months	3 to 6 months	6 to 12 months	Total
Lifetime expected credit loss rate	0.31%	9.61%	60.00%	
Gross carrying amount	13,921	3,799	8,791	26,511
Loss allowance	(43)	(365)	(5,275)	(5,683)

As of June 30, 2020

Provision on collective basis	Within 3 months	3 to 6 months	6 to 12 months	Total
Lifetime expected credit loss rate	0.38%	12.38%	62.90%	
Gross carrying amount	21,503	2,480	3,623	27,606
Loss allowance	(82)	(307)	(2,279)	(2,668)

The following table shows the movement in lifetime ECL that has been recognized for trade and note receivables under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As of January 1, 2017	—	—	—
Impairment losses recognized	7	—	7
As of December 31, 2017	7	—	7
Impairment losses recognized	4,386	—	4,386
As of December 31, 2018	4,393	—	4,393
Impairment losses recognized	1,290	569	1,859
As of December 31, 2019	5,683	569	6,252
Impairment losses (reversed)/recognized	(3,015)	2,538	(477)
As of June 30, 2020	2,668	3,107	5,775

No allowance has been provided for note receivables since the balances are all with the banks which have low credit risks during the Track Record Period.

For other receivables, the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience, qualitative information that is reasonable. The Group believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the Track Record Period, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognized.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(b) Credit risk—continued

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

(c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details remaining contractual maturity of the Group's financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities on the earliest date which the Group can be required to pay. The maturity dates are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

		The Group				
	Weighted average interest rate	Carrying amount	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2017						
Trade payables	—	172,650	172,650	—	—	172,650
Lease liabilities	4.75	3,258	1,694	253	1,530	3,477
Financial liabilities included in accrued expenses and other payables	—	26,805	26,805	—	—	26,805
		202,713	201,149	253	1,530	202,932
As of December 31, 2018						
Trade payables	—	340,229	340,229	—	—	340,229
Lease liabilities	4.75	3,126	729	1,672	958	3,359
Financial liabilities included in accrued expenses and other payables	—	31,777	31,777	—	—	31,777
		375,132	372,735	1,672	958	375,365

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.2 Financial risk management—continued

(c) Liquidity risk—continued

	Weighted average interest rate	The Group					
		Carrying amount	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2019							
Trade payables	—	444,984	444,984	—	—	—	444,984
Lease liabilities	4.71	11,263	4,940	3,454	3,477	263	12,134
Financial liabilities included in accrued expenses and other payables	—	947,787	947,787	—	—	—	947,787
Convertible preferred shares	—	7,584,420	—	—	—	6,313,002	6,313,002
		8,988,454	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	—	—	—	1,744,114
Lease liabilities	4.63	53,573	17,957	14,562	26,194	432	59,145
Financial liabilities included in accrued expenses and other payables	—	1,357,328	1,357,328	—	—	—	1,357,328
Convertible preferred shares	—	13,609,415	—	—	—	6,481,864	6,481,864
		16,764,430	3,119,399	14,562	26,194	6,482,296	9,642,451

As of December 31, 2018, 2019 and June 30, 2020, there were no financial liabilities of the Company except for the convertible preferred shares.

Details of the description of convertible preferred shares and financial liabilities at FVTPL are presented in Note 23 and Note 24, respectively.

30.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and other reserves, convertible preferred shares on an as if converted basis) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends to pay to shareholders, capital to return to shareholders, new shares to issue, shares of the Company to repurchase and debts to raise/repay. In the opinion of the directors of the Company, the Group's capital risk is low.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.4 Fair value measurement of financial instruments

Determination of fair value and fair value hierarchy

IFRS 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value.

The level of fair value calculation is determined by the lowest level input that is significant in the overall calculation. As such, the significance of the input should be considered from an overall perspective in the calculation of fair value.

For Level 2 financial instruments, valuations are generally obtained from third party pricing services for identical or comparable assets, or through the use of valuation methodologies using observable market inputs, or recent quoted market prices. Valuation service providers typically gather, analyze and interpret information related to market transactions and other key valuation model inputs from multiple sources, and through the use of widely accepted internal valuation models, provide a theoretical quote on various securities.

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measurement within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.4 Fair value measurement of financial instruments—continued

Determination of fair value and fair value hierarchy—continued

The following tables provide the fair value measurement hierarchy of the Group's financial assets and liabilities:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As of December 31, 2018				
Assets:				
Financial assets at FVTPL	—	—	7,409	7,409
As of December 31, 2019				
Assets:				
Financial assets at FVTPL	—	—	7,450	7,450
Liabilities:				
Convertible preferred shares	—	—	7,584,420	7,584,420
As of June 30, 2020				
Assets:				
Financial assets at FVTPL	—	1,012,396	143,934	1,156,330
Liabilities:				
Convertible preferred shares	—	—	13,609,415	13,609,415
Financial liabilities at FVTPL	—	—	135,906	135,906

As of December 31, 2018 and 2019 and June 30, 2020, there's no financial assets at FVTPL of the Company, and the financial liabilities with fair value measurement of the Company is convertible preferred shares in Level 3 fair value hierarchy.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. During the Track Record Period, there were no transfers among different levels of fair values measurement.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.4 Fair value measurement of financial instruments—continued

Determination of fair value and fair value hierarchy—continued

Reconciliation of Level 3 fair value measurements:

	Financial assets at FVTPL	Financial liabilities at FVTPL	Convertible preferred shares
	RMB'000	RMB'000	RMB'000
As of January 1, 2018	—	—	—
Purchases	7,409	—	—
As of December 31, 2018	7,409	—	—
Issuance	—	—	6,313,002
Changes in fair value			
— Fair value changes of equity investments in a private company measured as financial assets at FVTPL	41	—	—
— Fair value changes of convertible preferred shares	—	—	1,263,130
— Currency translation differences	—	—	8,288
As of December 31, 2019	7,450	—	7,584,420
Issuance	—	—	168,862
Addition	136,365	135,906	—
Changes in fair value			
— Fair value changes of equity investments in a private company measured as financial assets at FVTPL	119	—	—
— Fair value changes of convertible preferred shares	—	—	5,705,251
— Currency translation differences	—	—	150,882
As of June 30, 2020	143,934	135,906	13,609,415

Valuation techniques

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

As the investment in equity investments measured as financial assets at FVTPL are not traded in an active market, its fair values have been determined by using the market approach. The fair value change of the financial assets at FVTPL were not material for the years ended December 31, 2018 and 2019 and six months ended June 30, 2020.

During the Track Record Period, the fair value change arose from the financial assets at FVTPL and financial liabilities at FVTPL were insignificant. The directors of the Company consider that any

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

30. Financial instruments—continued

30.4 Fair value measurement of financial instruments—continued

Determination of fair value and fair value hierarchy—continued

reasonable changes in the key assumptions as disclosed in Note 14 and Note 24, respectively, would not result in a significant change in the Group's results. Accordingly, no sensitivity analysis is presented.

As the convertible preferred shares are not traded in an active market, the Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible preferred shares. Major assumptions used in the valuation for the convertible preferred shares are presented in Note 23.

Fair value of the convertible preferred shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the loss before income tax for the year ended December 31, 2019 and the six months ended June 30, 2020 would have been approximately RMB213 million and RMB1,100 million higher/lower, respectively.

The carrying amount of the Group's financial assets, including cash and cash equivalents, restricted cash, term deposits, trade and note receivables and other receivables and the Group's financial liabilities, including trade payables and accrued expenses and other payables, approximate their fair values.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. Note to combined statements of cash flows

(a) Reconciliation of profit/(loss) for the year/period to cash generated from operations:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) for the year/period	178,534	214,927	(971,805)	236,254	(5,360,915)
Adjustments for:					
Income tax expense	77,445	91,305	137,105	98,735	103,590
Depreciation and amortization	3,087	6,266	7,423	3,491	8,591
Share-based payments expenses	30,420	33,471	52,728	17,713	26,466
Fair value changes of convertible preferred shares	—	—	1,263,130	—	5,705,251
Fair value gains on financial assets at FVTPL	—	—	(41)	—	(296)
Finance income	(4)	(84)	(31,783)	(27)	(60,327)
Finance costs	82	150	35,502	81	1,745
Impairment losses under expected credit loss model, net of reversal	7	4,386	1,859	938	(477)
Impairment provision for inventories	1,351	1,120	981	805	74,665
Share of results of a joint venture	—	—	—	—	8,607
Changes in working capital:					
(Increase)/decrease in inventories	(337,858)	(232,368)	(164,025)	79,667	(782,406)
Increase in trade and note receivables	(2,631)	(21,327)	(3,379)	(1,002)	(1,082)
Increase in prepayments, other receivables and other assets	(2,030)	(4,400)	(160,080)	(5,590)	(299,751)
Increase in trade payables	138,148	167,579	104,755	66,833	1,292,655
Increase in contract liabilities	8,673	9,292	47,168	59,943	101,661
Increase/(decrease) in accrued expenses and other payables	19,006	8,427	203,203	1,432	(359,043)
Cash generated from operations	**114,230**	**278,744**	**522,741**	**559,273**	**458,934**

There were no material non-cash investing and financing activities for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020 except disclosed elsewhere in this report.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31. Note to combined statements of cash flows—continued

(b) Reconciliation of liabilities arising from financing activities

	Convertible preferred shares	Lease liabilities	Advance from/(payment to) JD Group	Total
	RMB'000	RMB'000 Note 15	RMB'000	RMB'000
Liabilities from financing activities as of January 1, 2017	—	2,473	48,580	51,053
Financing cash flows	—	(372)	(32,927)	(33,299)
New leases entered	—	1,075	—	1,075
Finance costs	—	82	—	82
Liabilities from financing activities as of December 31, 2017	—	3,258	15,653	18,911
Financing cash flows	—	(1,947)	(977)	(2,924)
New leases entered	—	1,665	—	1,665
Finance costs	—	150	—	150
Liabilities from financing activities as of December 31, 2018	—	3,126	14,676	17,802
Financing cash flows	6,313,002	(1,773)	202,234	6,513,463
Funds utilized by the Remaining Listing Business	—	—	727,940	727,940
Offset the amounts due from JD Group	—	—	(19,000)	(19,000)
New leases entered	—	9,667	—	9,667
Finance costs	—	243	—	243
Fair value changes of convertible preferred shares	1,263,130	—	—	1,263,130
Currency translation differences	8,288	—	—	8,288
Liabilities from financing activities as of December 31, 2019	7,584,420	11,263	925,850	8,521,533
Financing cash flows	168,862	(11,131)	754,963	912,694
Funds generated by the Remaining Listing Business	—	—	(435,120)	(435,120)
Offset the amounts due from JD Group	—	—	(7,083)	(7,083)
New leases entered	—	52,798	—	52,798
Finance costs	—	643	—	643
Fair value changes of convertible preferred shares	5,705,251	—	—	5,705,251
Currency translation differences	150,882	—	—	150,882
Liabilities from financing activities as of June 30, 2020	13,609,415	53,573	1,238,610	14,901,598
(Unaudited)				
Liabilities from financing activities as of January 1, 2019	—	3,126	14,676	17,802
Financing cash flows	893,711	(629)	90,760	983,842
Funds utilized by the Remaining Listing Business	—	—	518,436	518,436
Offset the amounts due from JD Group	—	—	(46)	(46)
New leases entered	—	3,453	—	3,453
Finance costs	—	81	—	81
Liabilities from financing activities as of June 30, 2019	893,711	6,031	623,826	1,523,568

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions

The following significant transactions are carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/ or balances with the Group during the Track Record Period.

Name of related parties	Relationship
JD.com, Inc.	Ultimate parent company of the Company
JD Jiankang Limited	Immediate parent company of the Company
JD Group	Controlled by JD.com, Inc.
Jingdong Digits Technology Holding Co., Ltd. and its subsidiaries ("JD Digits")	Controlled by Mr. Richard Qiangdong Liu, the controlling shareholder of JD.com, Inc.

(b) Significant transactions with related parties

During the Track Record Period, the marketing services revenue, logistics and warehousing services expenses, technology and traffic support services expenses, payment services expenses, shared service expenses, loyalty program services expenses attributable to the Remaining Listing Business were carved out from the JD Group as all of these transactions and activities were carried out by the Remaining JD Group. Prior to the Closing Date of Series A Preferred Shares financing, details of which are set out in Note 23, these transactions have been recorded in the Historical Financial Information based on the actual amounts recognized/incurred by Remaining JD Group (other than certain expenses that were not able to specifically identified, which were allocated on the method as disclosed in Note 1.2) as if they were the revenue and expenses of the Group and therefore, the disclosure of significant transactions with related parties set out below have not included these transactions.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions—continued

(b) Significant transactions with related parties—continued

After the Closing Date of the Series A Preferred Share financing, based on the terms stipulated in the Series A Share Subscription Agreements, terms and pricing policies of these transactions entered into by JD Group for the Group or between JD Group and the Group were established. Details of these transactions recorded with such terms and pricing polices since that date during the Track Record Period are separately shown as follows:

	Notes	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Services provided to a related party:						
Marketing services provided to JD Group		—	—	59,707	—	98,099
Services and products received from a related party:						
Logistics and warehousing services received from JD Group	i	—	—	446,841	—	591,328
Technology and traffic support services received from JD Group	ii	—	—	288,279	—	424,124
Payment services received from JD Group	iii	—	—	74,941	—	94,918
Shared services received from JD Group	iv	—	—	34,659	—	58,427
Share-based compensation received from JD.com, Inc. to pay the Group's employees for the services provided	v	30,420	33,471	52,728	17,713	26,466
Loyalty program services received from JD Group	vi	—	—	14,205	—	24,033
Others		—	—	161	—	543

Services provided to a related party

The Group provides marketing services to JD Group. The Group charges JD Group marketing service fees calculated in accordance with the underlying standard marketing service agreements.

Services and products received from a related party

i. JD Group provides various logistics services to the Group in exchange for service fees, including but not limited to warehouse operation and storage services, domestic and international delivery services, customs registration and clearance services, standard and special packaging services and other value-added logistics services from time to time. The logistics service fees are determined after arm's length negotiations, and are charged based on a variety of factors including storage space taken and the weights and the delivery distances of the packages.

ii. JD Group provides to the Group technology and traffic support services through its online platforms (e.g. www.jd.com). The technology and traffic support services primarily include user traffic support, branding activities, operational support and advertisement access for the Group's merchants and suppliers. JD Group charges commissions by applying a fixed rate on the fulfilled order volume of healthcare products and services generated through JD Group's online platforms.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions—continued

(b) Significant transactions with related parties—continued

Services and products received from a related party—continued

iii. The Group, through JD Group, uses certain payment services through payment channels provided by third-party payment service providers to JD Group on a cost basis, as the related costs are first settled by JD Group and later settled in full (on a cost basis) by the Group. This allows the Group to utilize the payment services to enable efficient, safe and prompt real-time payment for its online transactions.

iv. JD Group provides back-office administrative support services to the Group, including but not limited to cloud service, provision of servers, and maintenance and related customer services. The Group pays JD Group the actual costs incurred during the service process.

v. JD Group grants RSUs and share options to the Group's eligible employees under JD Group Share Incentive Plan.

vi. Given that the Group's businesses are operated on JD Group's platforms, the customers of the Group participate in the customer loyalty programs of JD Group and use such loyalty points across the platforms of both JD Group and the Group for the purchase of products and services. The Group pays JD Group based on the number of loyalty points it granted and unit cost.

(c) The Group had the following balances with the major related parties:

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to JD Group	15,653	14,676	925,850	1,238,610
Amounts due from JD Group	—	—	928,098	1,163,629
Amounts due from JD Digits	34	307	1,567	11,750

Prior to the Closing Date of Series A Preferred Shares financing, the amounts due to JD Group represents the funds support to the PRC Operating Entities provided by JD Group. After the Closing Date of Series A Preferred Shares financing, the amounts due from/due to JD Group mainly represent the profits generated/funds utilized by the Remaining Listing Business in JD Group on behalf of the Group since January 1, 2017.

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

The amounts due from JD Digits are trade in nature, unsecured and non-interest bearing, which will be settled before the Listing.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

32. Related party transactions—continued

(d) Key management personnel compensation

The remuneration of directors and other key management personnel is as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and bonuses	2,399	3,138	3,898	1,859	3,320
Share-based payments	25,910	28,705	21,463	9,262	6,803
Pension costs—defined contribution plans	101	111	102	56	45
Welfare, medical and other benefits	304	511	521	258	263
	28,714	32,465	25,984	11,435	10,431

33. Particulars of principal subsidiaries and consolidated affiliated entities

Details of the principal subsidiaries directly and indirectly held by the Company are set out below:

Name of subsidiaries**	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company					Principal activities
			December 31,			June 30,	As of the date of this report	
			2017	2018	2019	2020		
JD Health (HK) Limited	Hong Kong, China	HKD10,000	—	100%	100%	100%	100%	Worldwide online shopping
Beijing Jingdong Jiankang	Mainland China	RMB100,000,000	—	—	100%	100%	100%	Online retail of healthcare products
Guanghan Jingdong Hongjian Jiankang Co., Ltd.	Mainland China	RMB1,000,000	—	—	100%	100%	100%	Online retail of healthcare products
Beijing Jingdong Hongjian Jiankang Co., Ltd.	Mainland China	RMB1,000,000	—	—	100%	100%	100%	Procurement and online retail of healthcare products
Guangxi Jingdong Tuoxian E-commerce Co., Ltd.	Mainland China	RMB2,000,000	—	—	100%	100%	100%	Technical and advertising services
Shenyang Jingdong Hongjian Trade Co., Ltd.	Mainland China	RMB1,000,000	—	—	—	100%	100%	Online retail of healthcare products
Guangzhou Jingdong Hongjian Trade Co., Ltd.	Mainland China	RMB1,000,000	—	—	—	100%	100%	Online retail of healthcare products

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33. Particulars of principal subsidiaries and consolidated affiliated entities—continued

Details of the principal consolidated affiliated entities of the Company are set out below:

Name of affiliated entities*/**	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Proportion ownership interest attributable by the Company					Principal activities
			December 31,			June 30,	As of the date of this report	
			2017	2018	2019	2020		
Suqian Jingdong Tianning	Mainland China	RMB1,000,000	—	—	100%	100%	100%	Pharmaceutical products sales and healthcare services
Jingdong Pharmacy (Qingdao) Chain Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online retail of pharmaceutical products
Jingdong Pharmacy (Huizhou) Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online retail of pharmaceutical products
Jingdong Pharmacy Taizhou Chain Co., Ltd.	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online retail of pharmaceutical products
Yinchuan JD Online Hospital	Mainland China	RMB10,000,000	100%	100%	100%	100%	100%	Online hospital services

* As described in Note 1, the Company does not have directly or indirectly legal ownership in equity of these affiliated entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the equity holders of these affiliated entities, the Company and its legal owned subsidiaries have power over these affiliated entities, have rights to variable returns from its involvement with these affiliated entities and have the ability to affect those returns through their power over these affiliated entities and are considered to have control over these affiliated entities. Consequently, the Company regards these affiliated entities as its indirect subsidiaries.

** The English names of the subsidiaries and consolidated affiliated entities established in the PRC are translated from their registered Chinese names for identification only.

The above table lists the subsidiaries and consolidated affiliated entities of the Company that the directors of the Company believe to principally affect the results or assets of the Group. In the opinion of the directors of the Company, to give details of other subsidiaries would, result in particulars of excessive length.

The voting power of the subsidiaries and consolidated affiliated entities held by the Company are same with the ownership interest held by the Company.

No audited statutory financial statements have been prepared for the subsidiaries incorporated in the PRC listed above, since there are no statutory audit requirement. No audited statutory financial statements of JD Health (HK) Limited have been prepared, since it was incorporated in December 2018 and the statutory audit of the years ended December 31, 2018 and 2019 has not been completed.

None of the subsidiaries and consolidated affiliated entities had issued any debt securities during the Track Record Period.

34. Contingencies

The Group did not have any material contingent liabilities as of December 31, 2017, 2018 and 2019 and June 30, 2020.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35. Subsequent Events

In August 2020, the Company entered into a series of definitive agreements with Hillhouse Capital and certain investors of Series A Preferred Shares to issue non-redeemable series B preferred shares. The total amount raised from such issuance was approximately USD914 million.

On September 14, 2020, a pre-IPO employee share incentive plan (the "Pre-IPO ESOP") was conditionally approved and adopted by the board of the Company. The maximum aggregate number of underlying shares which may be issued pursuant to all awards under the Pre-IPO ESOP is 238,805,970 shares as of September 14, 2020 that are reserved under the Pre-IPO ESOP. The Pre-IPO ESOP commenced on September 14, 2020 and will expire on September 14, 2030. As of the date of this report, the Company has granted share options outstanding under the Pre-IPO ESOP to certain grantees to subscribe for an aggregate of 94,731,468 shares.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to June 30, 2020.