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

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

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our results of operations are subject to seasonal fluctuations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Corporate Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Doing Business in China

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Global Offering

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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